

Dutta's Economic Daily

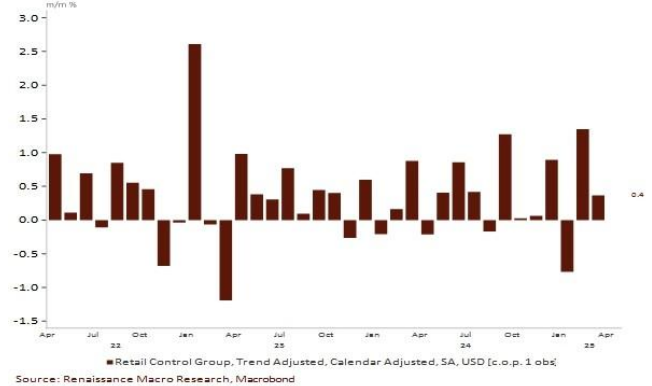
Tariff uncertainty clouds strong March retail sales

Neil Dutta

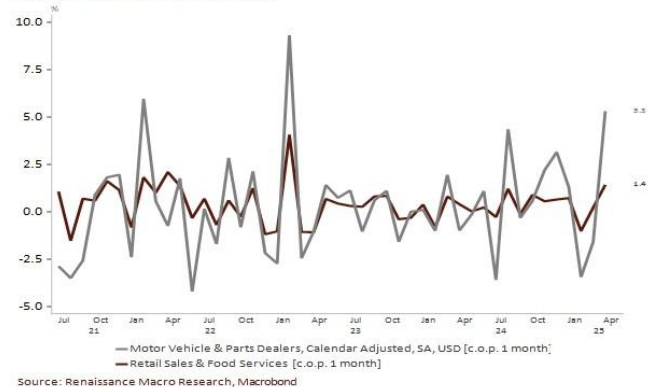
March retail sales increase masks Tariff-driven volatility

- Retail sales surged 1.4% in March, the strongest monthly gain since January 2023, following a revised 0.2% uptick in February. This robust performance, however, masks underlying complexities driven by consumer reactions to impending tariffs. While headline sales matched forecasts, the underlying strength is questionable. The control group, a key indicator for GDP and which excludes volatile categories, only rose 0.4%, falling short of the 0.6% expectation. While February's control group figure was revised upward to 1.3% from 1%, the March softness raises concerns. It's difficult to discern a clear signal given the distortions created by consumer behavior in anticipation of tariffs.
- Much of March's strength stemmed from a substantial 5.3% jump in auto sales, the highest since 2023, as consumers rushed to purchase vehicles before anticipated tariff-driven price hikes. This "frontrunning" behavior likely pulled forward demand, potentially leading to weaker sales in subsequent months. Similar dynamics appear to be at play in other categories like building materials (up 3.3%) and sporting goods (up 2.4%), where consumers stocked up on goods facing potential levies.
- Excluding autos and gas, sales still rose a respectable 0.8%, exceeding the 0.6% consensus. A welcome development was the 1.8% surge in restaurant spending, a likely rebound from earlier weatherrelated weakness and a sector less susceptible to tariff influences.

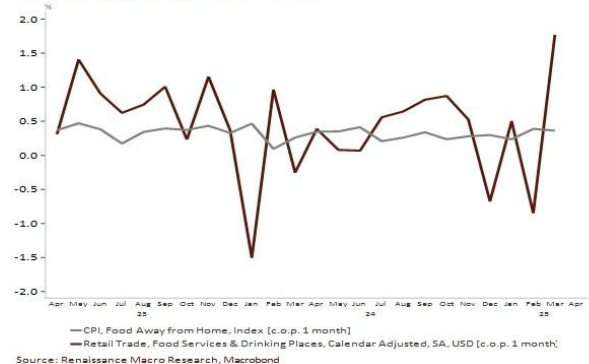
March control softens while previous month revised up



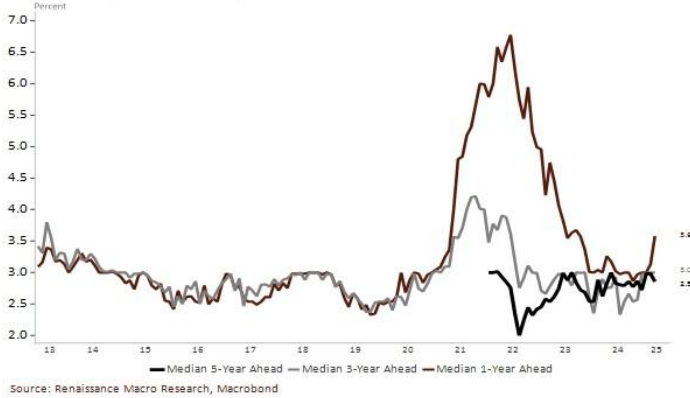
Auto sales drove March sales



Restaurant spending jumps in March



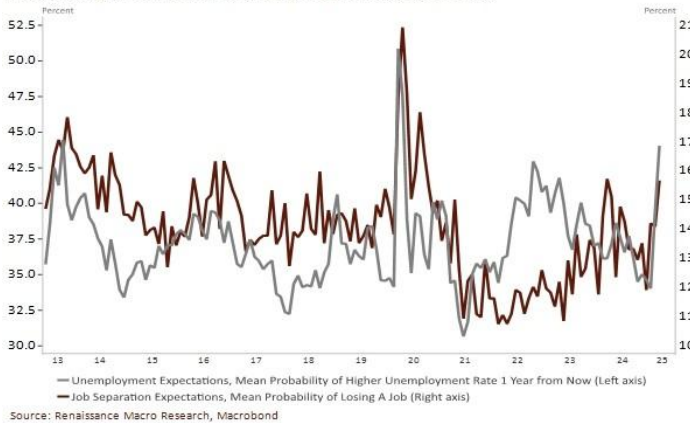
Short-term inflation outlook increased while medium and long-term stable
(NY Fed Survey of Consumer Expectations, Inflation, SA)



Inflation expectations rise amidst labor market concerns

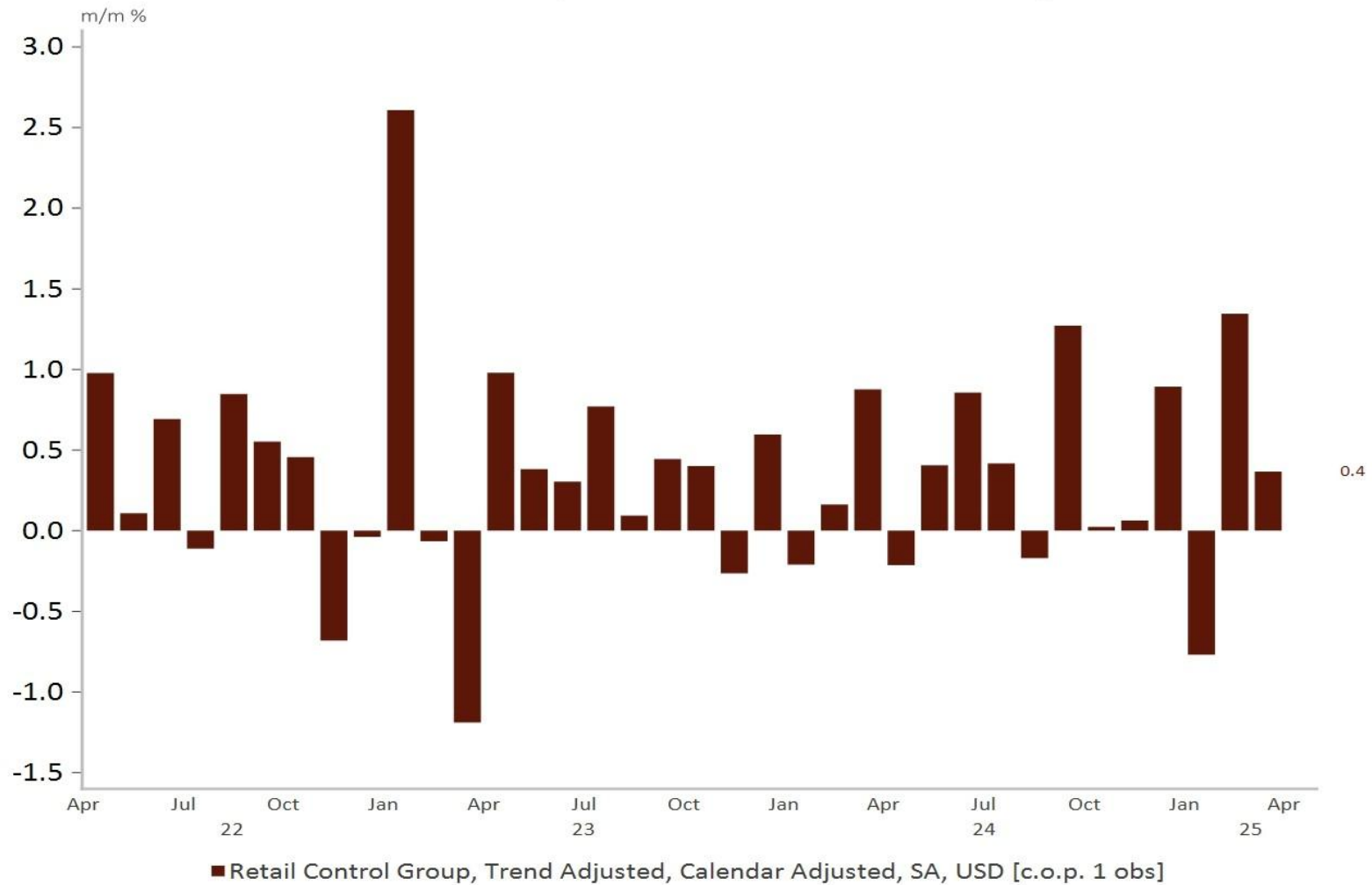
- The New York Fed's March Survey of Consumer Expectations reveals a notable jump in short-term inflation expectations, contrasting with the relatively stable readings observed in February. One-year ahead median inflation expectations rose by 0.5 percentage points to 3.6%, the most significant monthly increase in two years. Medium and longer-term inflation expectations remained anchored, with three-year expectations holding steady at 3% and five-year expectations edging down slightly to 2.9%. This stability in longer-term expectations is encouraging, echoing the Fed's emphasis on anchoring these measures.

Perceived job-loss risk and unemployment concerns rise



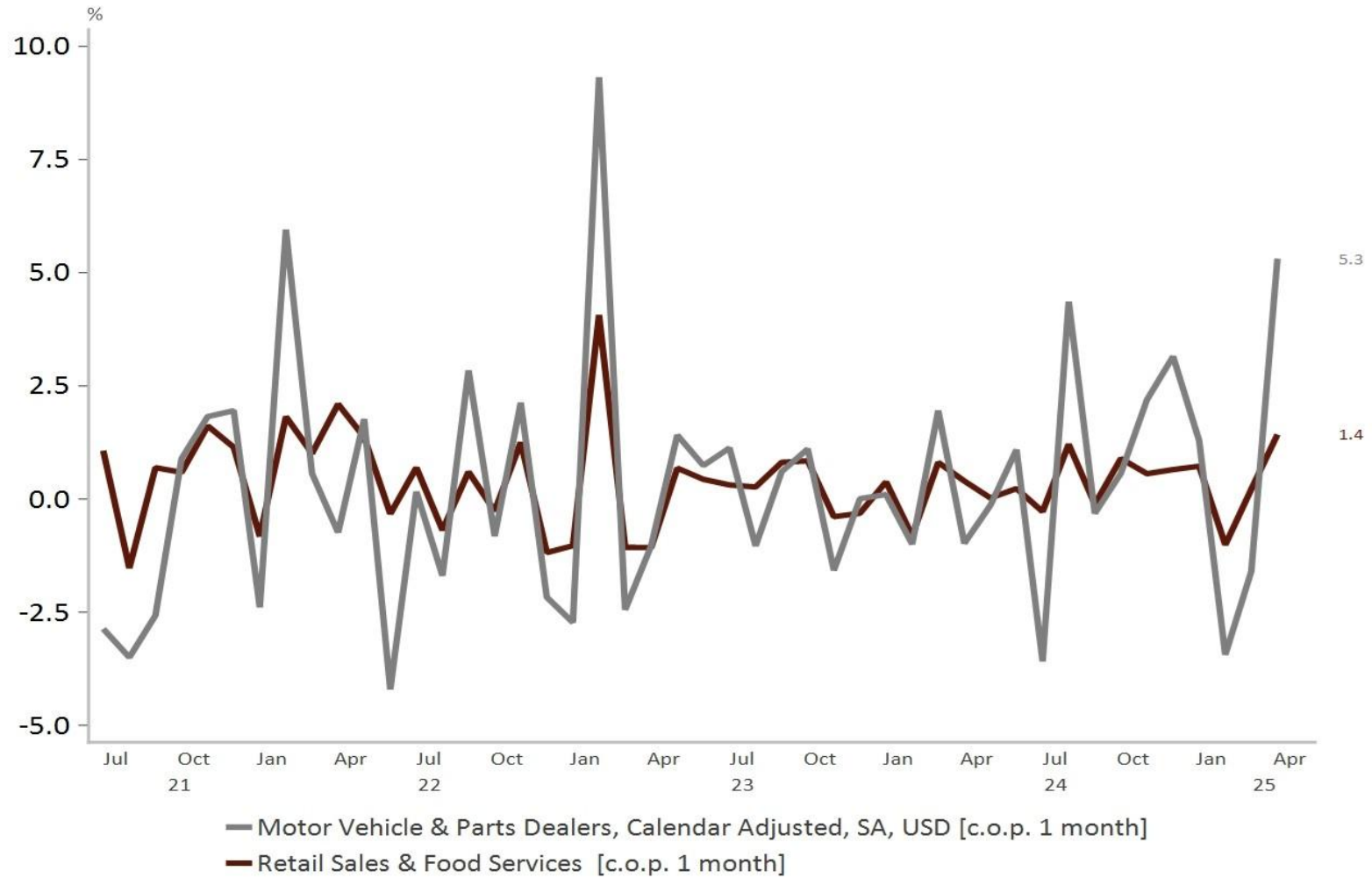
- Beyond inflation, the March survey highlights a cooling labor market and growing concerns about personal finances. The mean probability of unemployment jumped substantially, reaching 44%, its highest point since April 2020. This aligns with the rising share of households, now at 30%, anticipating a worsening financial situation in the year ahead, a level unseen since October 2023. Further reinforcing this trend, median expected household income growth dipped to 2.8%, while expected household spending growth also declined to 4.9%.

March control softens while previous month revised up



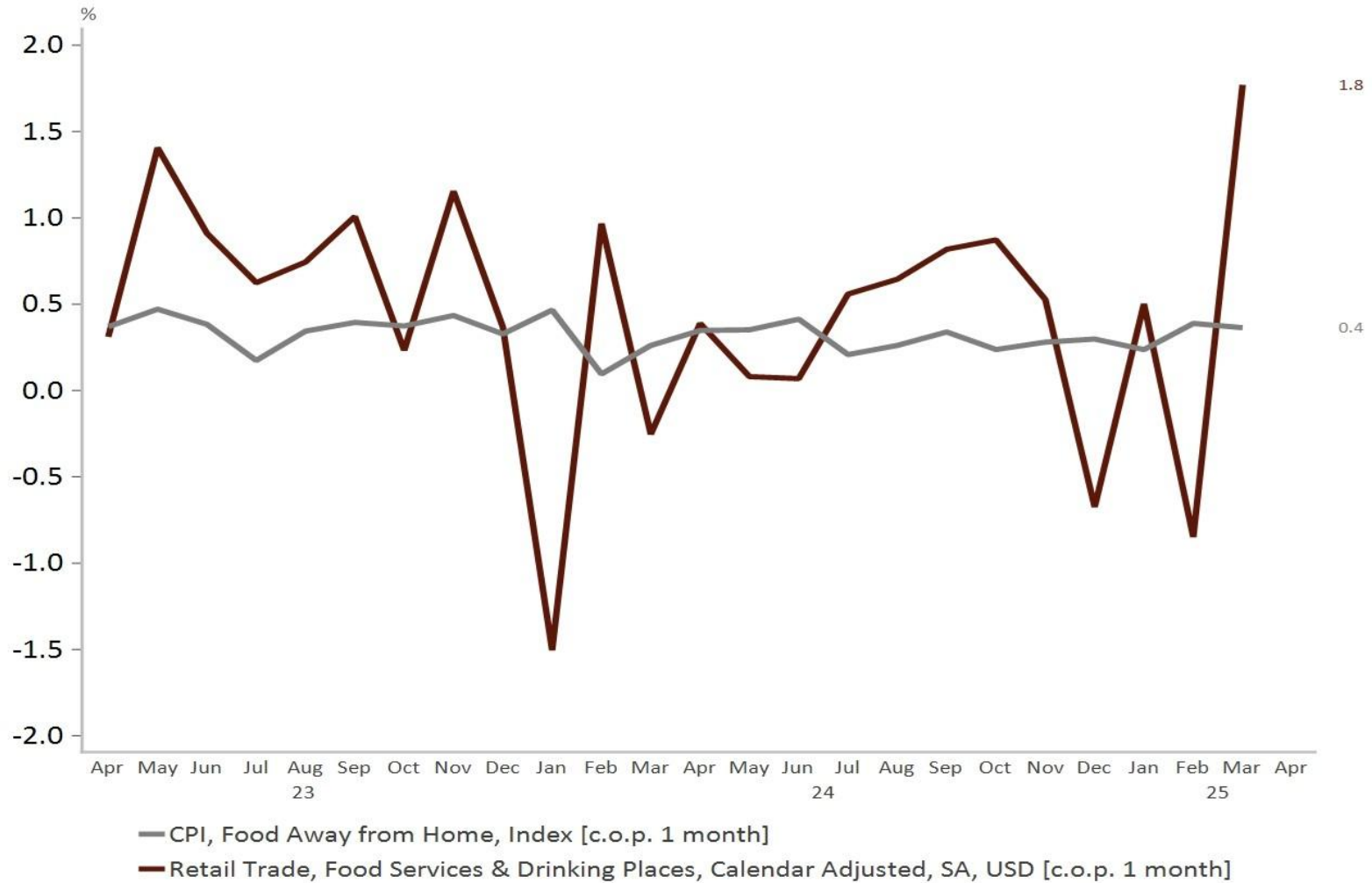
Source: Renaissance Macro Research, Macrobond

Auto sales drove March sales



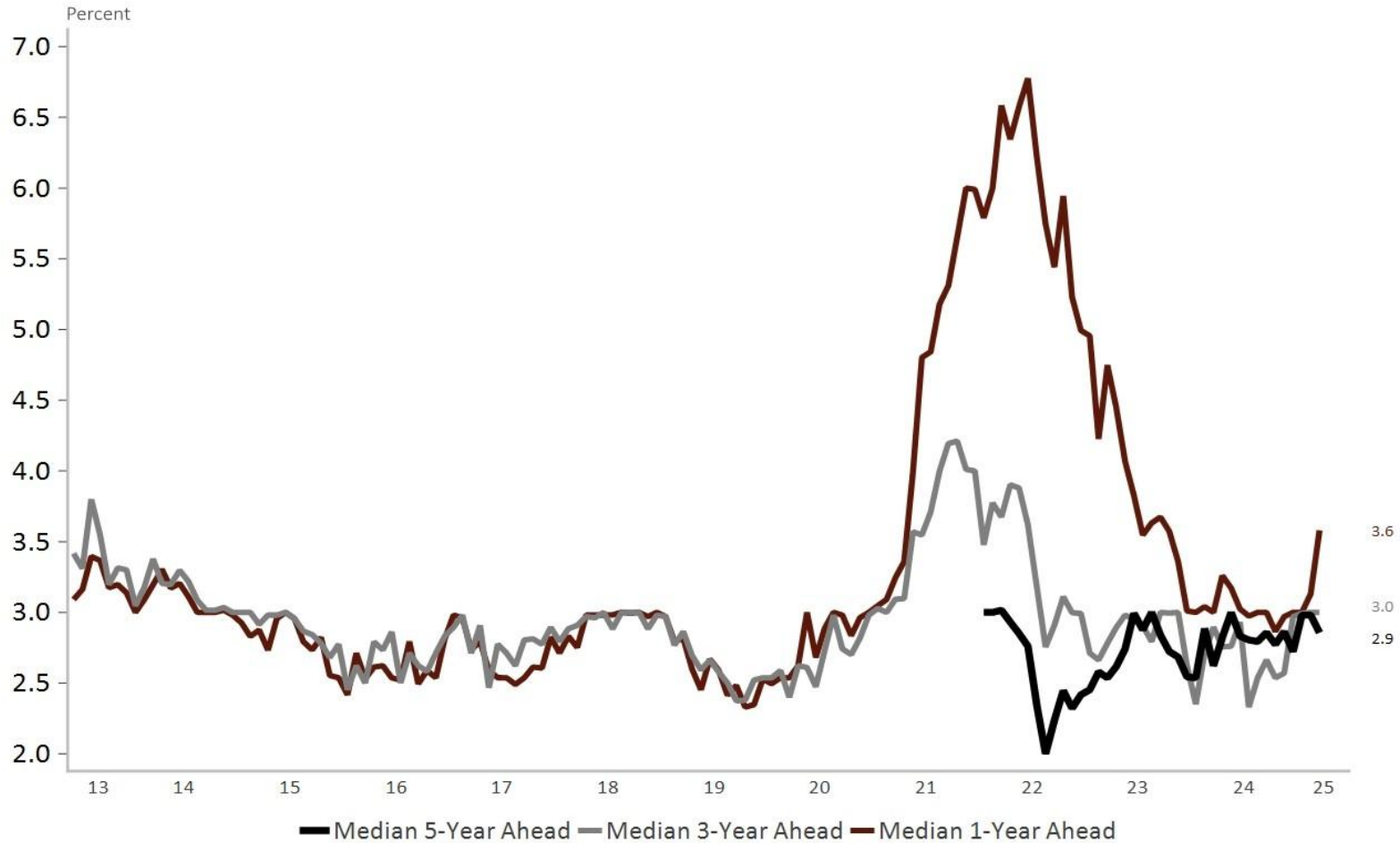
Source: Renaissance Macro Research, Macrobond

Restaurant spending jumps in March



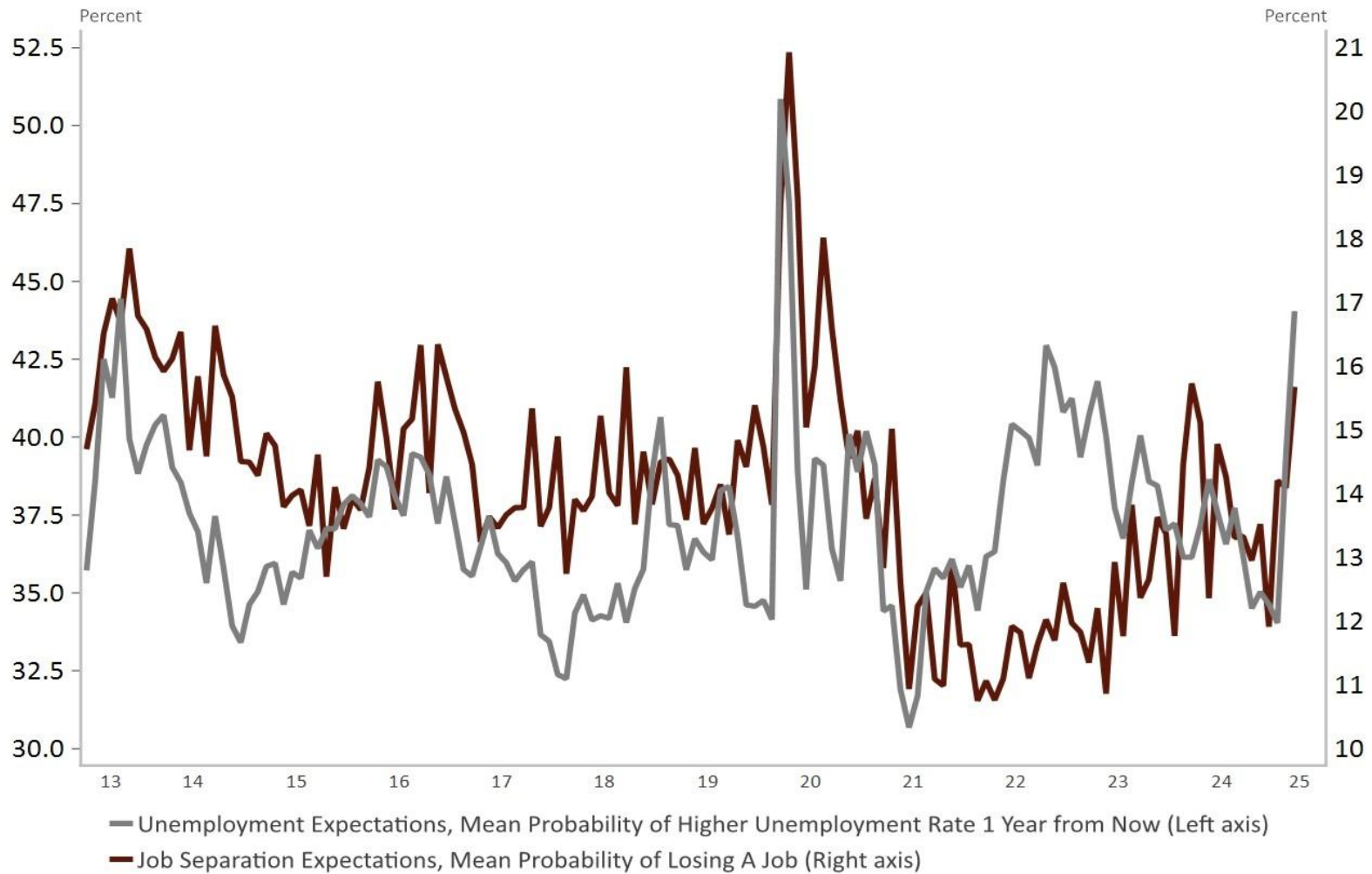
Source: Renaissance Macro Research, Macrobond

Short-term inflation outlook increased while medium and long-term stable (NY Fed Survey of Consumer Expectations, Inflation, SA)



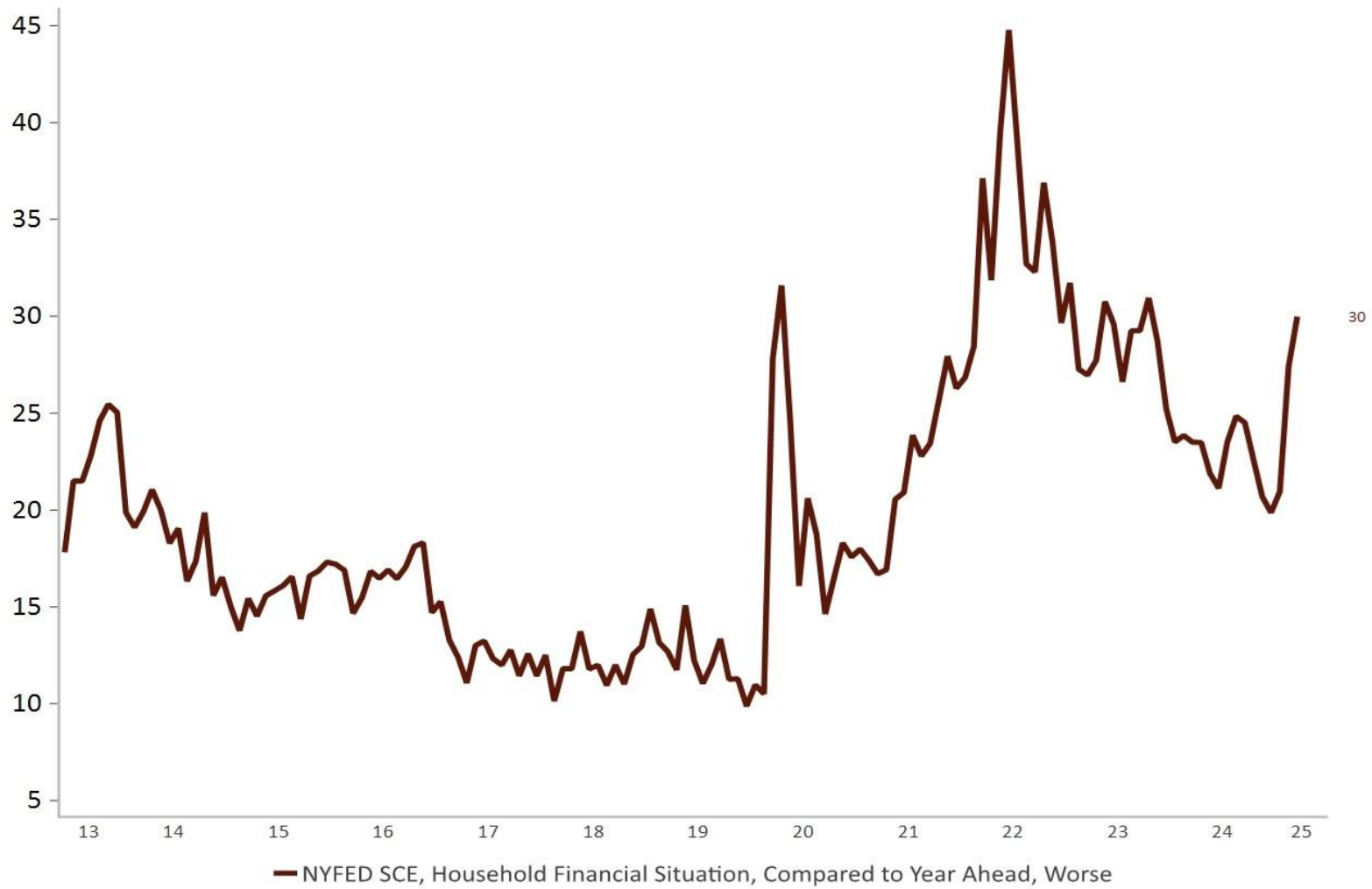
Source: Renaissance Macro Research, Macrobond

Perceived job-loss risk and unemployment concerns rise



Source: Renaissance Macro Research, Macrobond

Household financial outlook worsens



Source: Renaissance Macro Research, Macrobond

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