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Retail Sales

Retail sales fell a less-than-expected 0.2% in May (Consensus and DE: -0.5%), with the anticipated weakness concentrated in the auto sector, as a shortage of desired vehicles and weaker discounting impacted demand. The rest of the report supported a generally-soft tone in Q2, but nothing that signaled outright retrenchment of the consumer. High gasoline prices and a very gradual labor market upturn continue to be headwinds for household spending, and are weighing on discretionary spending.

Amid the details, motor vehicle and parts sales fell 2.9%, shaving 0.5 percentage points off of the headline result, while the ex-vehicles total rose 0.3%, the smallest gain since June 2010.

The core ex-vehicles, gas, and building materials total rose 0.3%, matching an April gain revised up by a tenth to 0.3%. The March reading there was also revised up by a tenth, the combination there marginally boosting the underlying tone heading into Q2 - albeit at a moderate pace.

Elsewhere, furniture (-0.7% m/m), electronics (-1.3%), and sporting goods stores (-0.4%) saw declines, as did general merchandise store (-0.1%), pointing to a slowdown in discretionary spending, also seen in the April results. Gasoline (+0.3%) and building materials (+1.2%) were among the categories that gained.

Taken together, the report corroborated notions of a still-cautious consumer, but leaves scope for improvement in coming months as the recent modest fall in gasoline prices should serve to free up some discretionary spending. And, a recovery from vehicle supply chain shocks will be reflected in auto demand.

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