

ECONOMIC UPDATE



REGIONS

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July Retail Sales: U.S. Consumers Tuning Out The Rest Of The World?

- Retail sales rose by 0.7 percent in July after rising by 0.3 percent in June (initially reported up 0.4 percent)
- Retail sales excluding autos rose by 1.0 percent in July after rising by 0.3 percent in June (initially reported up 0.4 percent)
- Control retail sales (sales excluding motor vehicles, gasoline, restaurants, and building materials) rose by 1.0 percent in July

If by some odd stroke of fortune you were able to avoid reading about, hearing about, and talking about the events of the world that led to sharp declines in equity prices and pushed market interest rates significantly lower, and then by chance you tuned in this morning right as the report on July retail sales was released, you'd think the U.S. economy was roaring. Total retail sales rose by 0.7 percent in July, breezing past our above-consensus forecast of a 0.4 percent gain, while ex-auto sales were up by 1.0 percent. More significantly, control retail sales, a direct input into the GDP data, were up by 1.0 percent in July, doubling our above-consensus forecast and following up on a 0.7 percent increase in June. We can't know whether U.S. consumers have managed to tune out the rest of the world or whether they just aren't letting the uncertainty over trade policy and the global unrest of recent months get them down. Either way, consumers continue to do the heavy lifting for the U.S. economy; July's hefty increase in control retail sales gets Q3 growth in consumer spending off to a stronger start than our forecast anticipated.

There were two main factors behind the report on July retail sales being much stronger than our forecast anticipated. First, sales at gasoline stations were up by 1.8 percent, a larger gain than we anticipated and one which reflects price effects. More significantly, sales at nonstore retailers were up by 2.8 percent in July, which likely reflects the impact of Amazon Prime day. Online sales are reported with a one-month lag relative to the rest of the retail sales data, but we do know that online sales account for about 88 percent of sales in the broader nonstore retailers category, so it is more than reasonable to assume the jump in sales by nonstore retailers in July was fueled by Amazon Prime Day. The 2.8 percent increase was much larger than our forecast anticipated, not because we were unaware of Amazon Prime Day – for the record we were enthusiastic participants – but because Census has had a lousy track record of picking up Amazon Prime Day in their data, and we had no reason to assume this year would be any different.

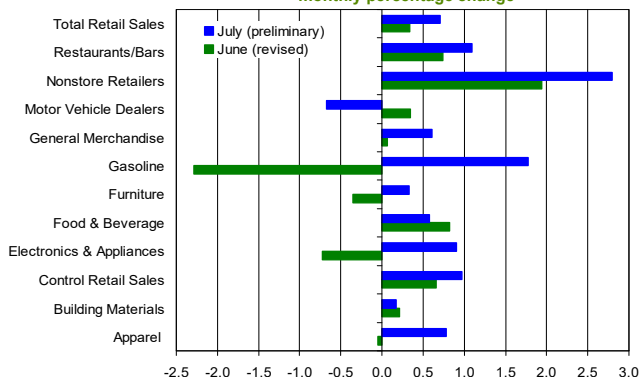
It was, and to the good, at least for the July retail sales report. That said,

there was more to July retail sales than Amazon Prime day. Sales were up in ten of the 13 broad categories for which sales are reported. Sales at restaurants were up by 1.1 percent in July, following up on a 0.7 percent increase in June. Sales at electronics/appliance stores were up 0.9 percent, sales at apparel stores were up by 0.8 percent, and sales at grocery stores were up by 0.6 percent. Sales at general merchandise stores were also up by 0.6 percent; keep in mind that this broad category includes warehouse/club stores, many of which sell gasoline, meaning the fortunes of the broader category are somewhat tied to gasoline sales.

Sales at motor vehicle dealers are reported to have fallen by 0.7 percent in July. Unit motor vehicle sales were down, but the reported decline in sales revenue at motor vehicle dealers is larger than we had anticipated based on unit sales, and this is one of the categories in the retail sales data in which the revisions to the initial estimate in any given month are typically amongst the largest.

We think it worth making a few broader points about the retail sales data. First, as we routinely note, the initial estimate of sales in any given month can be heavily revised, so a month from now we'll have a better sense of the strength of spending in July. That said, retail sales have been on a nice run and have rebounded strongly from the late-2018 debacle – retail sales fell by 0.1 percent in November and by 2.0 percent in December, numbers we still don't buy. Also, retail sales are reported on a nominal basis, i.e., they are not adjusted for changes in prices. The CPI data for June and July show rising core goods prices, which is counter to long-running declines and which could be biasing growth in control retail sales higher. To the extent tariffs are applied to a broader range of consumer goods over coming months and are passed on to consumers in the form of higher prices, retail sales will look stronger than is actually the case. For now, though, a healthy labor market, healthy income growth, low interest rates, and elevated consumer confidence mean consumer fundamentals remain sound and, as such, consumer spending remains a key support for the U.S. economy.

Retail Sales By Category
monthly percentage change



Sales Continue To Bounce Back From Late-2018 Debacle

