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July Retail Sales: Solid Details Beneath A Questionable Headline Number

- Retail sales **rose** by 1.2 percent in July after **rising** 8.4 percent in June (initially reported up 7.5 percent)
- Retail sales excluding autos **rose** by 1.9 percent in July after **rising** 8.3 percent in June (initially reported up 7.3 percent)
- Control retail sales (sales excluding motor vehicles, gasoline, restaurants, and building materials) **rose** by 1.4 percent in July

Total retail sales rose by 1.2 percent in July, with ex-auto sales up by 1.9 percent and control retail sales, a direct input into the GDP data on consumer spending, up by 1.4 percent. Our forecasts for total (up 2.8 percent), ex-auto (up 1.3 percent), and control (up 1.1 percent) retail sales were all above the consensus forecasts, and while the increases in the latter two categories topped our forecasts, growth in total retail sales came in below our forecast. This mainly reflects the puzzling decline reported for sales revenue at motor vehicle dealers; despite a double-digit increase in unit sales, reflecting sales to consumers rather than fleet sales, and hefty increases in prices for both new and used motor vehicles, Census reports sales revenue at motor vehicle dealers fell by 1.3 percent in July. Seriously, where is Joe Isuzu when you really need him.

As we noted in our weekly *Economic Preview*, we weren’t sure what to expect from the report on July retail sales, given the magnitude of the increases seen in May and June and with an unsure start to a still unsure school year weighing on the traditional start of back-to-school shopping. But, as evidenced by ex-auto and control sales beating our forecasts, our expectations for July retail sales were too low. Sales at electronics stores jumped 22.9 percent, after (revised) increases of 24.6 percent in May and 37.6 percent in June. This at least in part reflects the shift toward online instruction, but to the extent this is the case, gains on the order of those seen in the past three months are clearly not sustainable. Helped along by higher prices, gasoline station sales rose by 6.2 percent in July.

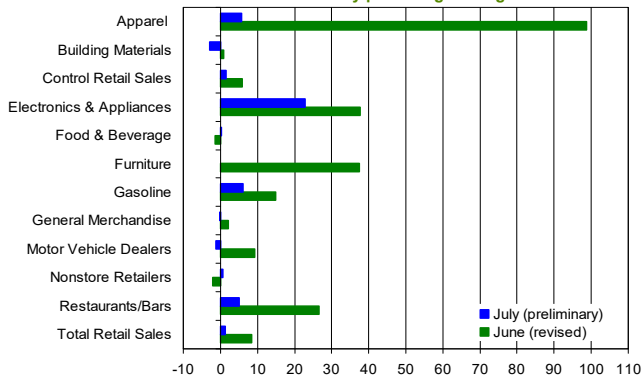
Restaurant sales were up by 5.0 percent in July, following an upwardly revised increase of 26.7 percent in June. We thought July restaurant sales to be somewhat of a toss-up; the upturn in COVID-19 cases led many state/local governments to impose restrictions on bars and restaurants, and while outdoor seating and take-out could compensate for some of the lost volume, there still figured to be a void. It could be that the gains reported in the retail sales data came earlier in the month, which is in line with some of the higher frequency data on consumer spending that shows activity tailed off as July wore on. This will obviously be something to

watch for in the August data. Sales at apparel stores were up 5.7 percent, a bit stronger than we expected after (revised) increases of 180.1 percent in May and 98.8 percent in June. Sales at nonstore retailers were up by 0.7 percent in July after having declined in June.

To the downside, sales at building materials stores fell by 2.9 percent in July, and sales at auto parts stores fell by 0.5 percent. As noted above, however, it is the reported decline in sales revenue at motor vehicle dealers that is more than a bit perplexing. Sure, sales revenue went up by 51.0 percent in May and by 9.3 percent in June, but both unit sales and prices were even higher in July. Even in normal times, the initial estimate of sales revenue at motor vehicle dealers is one of the categories in the retail sales data in which the revisions to the initial estimate are the largest, so we’ll wait for the August report to see if that is again the case.

Questionable headline number notwithstanding, the report on July retail sales is solid, all the more so in light of strong upward revisions to the initial estimate of June retail sales. That there were upward revisions to control retail sales for both May and June points to a smaller contraction in Q2 real consumer spending than reported in the BEA’s initial estimate of Q2 GDP. The headline sales number isn’t the only thing about the report on July retail sales that is questionable, as some of the early reactions we’ve seen are panning the report as a disappointment brought on by the surge in COVID-19 cases and high unemployment. Not to discount either of those factors, but July’s “paltry” increase in total retail sales comes off of increases of 18.3 percent in May and 8.4 percent in June. Sure, these increases are the flip side of the steep declines seen in March and April, but obviously the monthly percentage changes will normalize as does the level of sales. Speaking of which, as of July the dollar volume of total retail sales is above that of February. To be sure, the main question regarding consumer spending is when, or whether, spending on services will return to pre-pandemic levels, and our sense is that this is still some time off. There are clearly downside risks to consumer spending, but as of July spending on goods remained strong.

Retail Sales By Category
monthly percentage change



July 2020 Retail Sales By Category
% change from February 2020

