ECONOMIC UPDATE
REGIONS
July 16, 2021

June Retail Sales: Friendly Seasonal Adjustment, Higher Prices Behind June Increase

- Retail sales rose by 0.6 percent in June after falling 1.7 percent in May (initially reported down 1.3 percent)
- Retail sales excluding autos rose by 1.3 percent in June after falling 0.9 percent in May (initially reported down 0.7 percent)
- Control retail sales (sales excluding motor vehicles, gasoline, restaurants, and building materials) rose by 1.1 percent in June

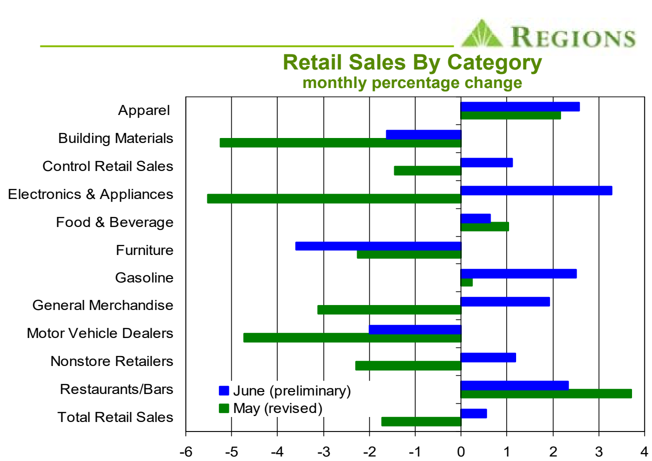
Total retail sales rose by 0.6 percent in June, contrary to the 0.3 percent decline we and the consensus expected, with ex-auto retail sales up 1.3 percent and control retail sales up 1.1 percent, topping our above consensus forecasts of 1.0 percent and 0.9 percent, respectively. Our miss on the headline sales number mostly reflects a much smaller than expected decline in sales revenue at motor vehicle dealers which, even allowing for higher vehicle prices, seems out of line with the decline in unit sales. On the topic of higher prices, keep in mind that the retail sales data are reported in nominal terms, i.e., the data are not adjusted for price changes. As such, taking into account the 0.9 percent increase in the core CPI in June leaves us with a much more modest increase in control retail sales. Additionally, the June data are flattered by seasonal adjustment; simply stated, on a not seasonally adjusted basis, retail sales typically decline in the month of June, and while that was indeed the case this June, the decline was smaller than is typical for the month, thus making the seasonally adjusted data look better. Okay, sure, it's easier to skip these pesky details and just run with the "stronger than expected retail sales show how solid U.S. consumers are" narrative making the rounds in the wake of the release of the report on June retail sales. To be sure, we don't have many concerns over the state of consumers, but we do think it odd to make sweeping pronouncements on the data without considering the clear upward bias from price effects. Additionally, we think the June retail sales data are masking the shift in spending patterns – spending being diverted away from goods toward services – that seems to have gathered pace in June. It is worth keeping in mind that services spending is not captured in the retail sales data, so it won't be until the BEA releases their report on June consumer spending (out on July 30) that we'll get a better sense for this, as the BEA data include spending on goods and services and are adjusted for price changes.

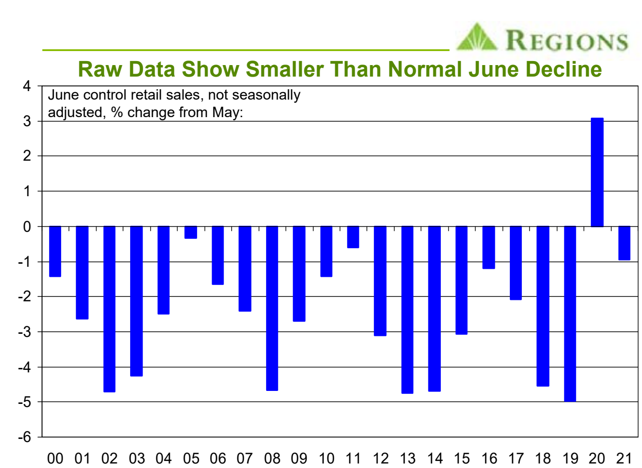
In June, retail sales increased in nine of the thirteen broad categories for which data are reported. Gasoline station sales were up by 2.5 percent, which largely reflects higher gas prices. Apparel store sales were up by 2.6 percent while general merchandise store sales were up 1.9 percent, with both instances reflecting the ever popular price increase/friendly seasonal adjustment combo – the unadjusted data show declines in sales in each category, but smaller declines than typical for the month of June.

Sales by nonstore retailers increased by 1.2 percent in June, which seems an oddly small increase for two reasons. First, June's increase follows a 2.3 percent decline in May after sales in this category were unchanged in April, so it would seem that a stronger rebound in June would have been in order. More significantly, *Amazon Prime Day*(s) fell into June this year. Even allowing what for this event was more muted growth in sales, many expected more from June sales in the nonstore retailer category, which includes but is not limited to online sales. That said, the June retail sales data are in keeping with a quirk that has been around for as long as *Amazon Prime Day* has been around, which is that the retail sales data never seem to capture the effects. Part of it could be that in the retail sales data, there is a one-month lag in the reporting of online sales, which account for roughly 90 percent of the broad nonstore retailers category. In any event, the report on July retail sales will contain the initial estimate of June online sales, which will be incorporated into the revisions to the broader nonstore retailers category.

Sales revenue at motor vehicle dealers fell by 2.0 percent in June which, as noted above, seems smaller than implied by unit motor vehicle sales, which fell by almost ten percent. Sales of new vehicles are being limited by supply shortfalls stemming from the global semiconductor chip shortage, and this has funneled demand into the market for used motor vehicles, sales of which are also being held down by lean supplies. One result is sharply higher vehicle prices, and while we expected this to cushion the blow from lower unit sales, the reported decline in the dollar volume of sales seems too small. As such, this is another category to watch when the revisions to the June data turn up next month..

We think there is less to the June retail sales data than meets the eye. We will be much more interested in the BEA's more comprehensive measure of consumer spending and what it tells us about services spending.





Regions Financial Corporation, 1900 5th Avenue North, 17th Floor, Birmingham, Alabama 35203
Richard F. Moody, Chief Economist • 205.264.7545 • richard.moody@regions.com