ECONOMIC UPDATE

REGIONS

August 17, 2022

July Retail Sales: Lower Gasoline Prices Bring Some Relief

- Retail sales were unchanged in July after rising 0.8 percent in June (initially reported up 1.0 percent)
- Retail sales excluding autos rose by 0.4 percent in July after rising 0.9 percent in June (initially reported up 1.0 percent)
- Control retail sales (sales excluding motor vehicles, gasoline, restaurants, and building materials) rose by 0.8 percent in July

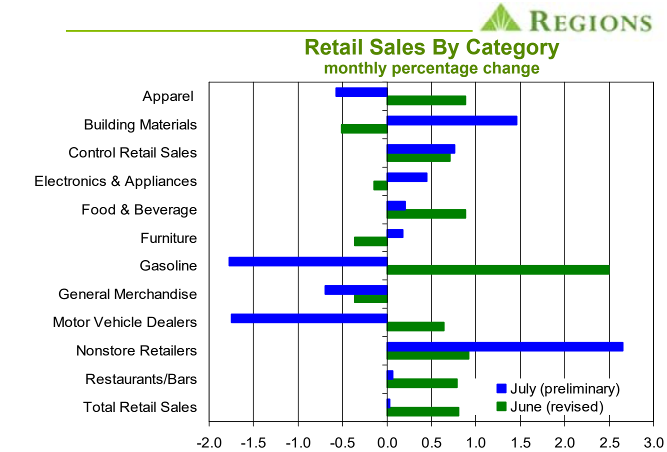
Total retail sales were unchanged in July, falling short of our forecast of a 0.2 percent increase, while ex-auto retail sales were up by 0.4 percent. Control retail sales, a direct input into consumer spending on goods as measured in the GDP data, were up by 0.8 percent, matching our above-consensus forecast. As widely expected, gasoline was a drag on total retail sales. What is surprising, however, is how mild that drag was, at least as reported in the initial estimate of July retail sales. Despite retail gas prices having fallen by over seven percent in July and what was a significantly punitive seasonal adjustment factor for July gasoline sales, gasoline station sales are reported to have declined by only 1.8 percent, a far smaller decline than we and most others expected. At least some of the drag we expected from gasoline, however, was shifted into motor vehicles; despite an increase in unit motor vehicle sales and higher prices for new vehicles, sales revenue at motor vehicle dealers is reported to have declined by 1.7 percent. As we often note, the retail sales data come with their own set of, let's say, special challenges, and it seldom pays to spend much, if any, time trying to make sense of them. The broader theme of the July data, however, is in line with expectations – lower gasoline prices freed up cash for consumers to spend elsewhere, but heavy discounting weighed on sales in certain categories such as department store sales. At the same time, consumers continue to dial back spending on discretionary goods while spending enthusiastically on services.

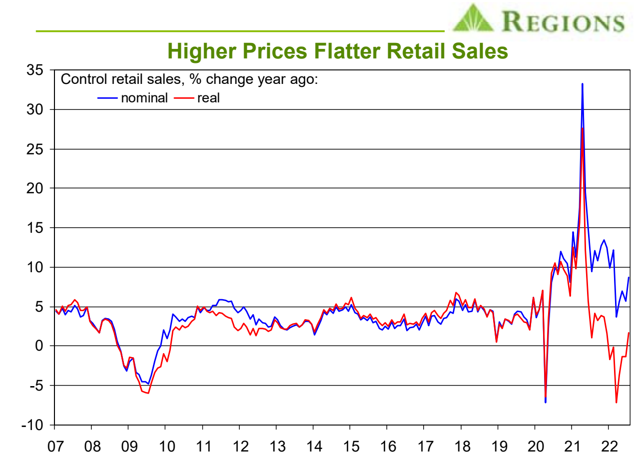
July saw higher sales in nine of the thirteen broad categories for which data are reported. The biggest gain came in the broad nonstore retailers category, in which roughly 90 percent of sales are accounted for by online sales. While online sales are split out after a one-month lag, the size of the increase in the broader category tells us how strong online sales were in July. Amazon Prime Day(s) fell in the middle of the month, which was likely a, well, prime support for online sales. As we noted in this week's *Economic Preview*, historically there has been only a weak connection between Amazon's sales event and measured online sales, but we thought this year might prove to be different to the extent that consumers have become more price-sensitive and may have turned to Amazon for steep discounts on many household items not typically purchased on Prime Day. Sales at building materials stores rose by 1.5 percent in July, while furniture stores and electronics/appliance stores posted modest gains.

As noted earlier, gasoline station sales fell by 1.8 percent in July, a smaller decline than expected given the magnitude of the decline in gas prices. Note that lower gasoline prices would have also weighed on sales at warehouse/club stores, many of which also sell gasoline – sales in this category roll up into the broad general merchandise stores category, in which sales declined by 0.7 percent in July. Department store sales, which fell by 0.5 percent in July, also roll up into the broad general merchandise stores category. Weakness in the broad category no doubt reflects aggressive discounting by retailers caught out by undesired inventory accumulation. One support for warehouse/club store sales over recent months has been food purchases, which to some extent have shifted away from grocery stores and toward the larger warehouse/club stores offering lower prices. Grocery store sales were up by just 0.2 percent in July even as the CPI shows prices for food consumed at home rose by 1.3 percent in July, leaving them up 13.1 percent year-on-year.

Price effects will continue to disrupt the retail sales data in the months ahead. For instance, on a monthly average basis, seasonally adjusted gasoline prices will post close to a double-digit decline in August, which will act as a material drag on headline retail sales. Many retailers remain in discount mode as they try to further winnow down unwanted stocks. Though prices for new vehicles will push higher, used vehicle prices will likely drift lower, thus weighing on revenue at motor vehicle dealers.

To the extent easing supply chain constraints and diminishing consumer demand weigh on goods prices, that will make the retail sales data look weaker than will actually be the case. Our view is that the real test of the strength of consumer spending will come from services spending, not captured in the retail sales data. We expect services spending to slow after the summer months, setting the stage for weaker growth in real consumer spending over the next several quarters, particularly to the extent that labor market conditions begin to soften, as we expect will be the case.





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