ECONOMIC UPDATE

REGIONS

July 18, 2023

June Retail Sales: Stronger Control Sales The Bigger Story

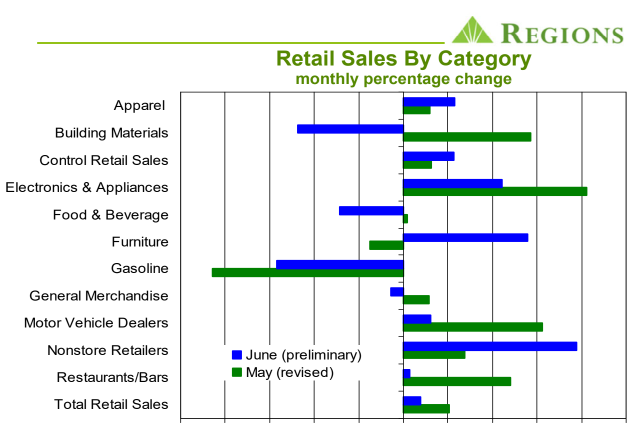
- Retail sales rose by 0.2 percent in June after rising 0.5 percent in May (originally reported up 0.3 percent)
- Retail sales excluding autos rose by 0.2 percent in June after rising 0.3 percent in May (originally reported up 0.1)
- Control retail sales (sales excluding motor vehicles, gasoline, restaurants, and building materials) rose by 0.6 percent in June

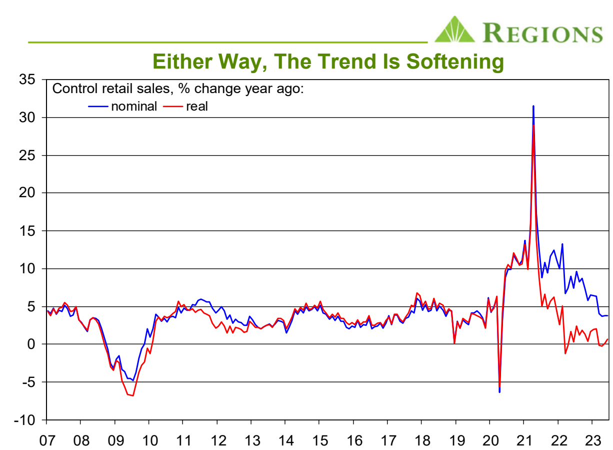
Total retail sales rose by 0.2 in June, matching our below-consensus forecast, while ex-auto sales were up 0.2 percent and control retail sales were up 0.6 percent, double the increase we and the consensus expected. At the same time, initial estimates of May sales were revised higher. Sales were uneven across the thirteen broad categories for which sales are reported, however, with only seven categories posting gains, with notably large increases in sales at furniture stores, electronics & appliance stores, and amongst nonstore retailers. In contrast, sales at gasoline stations were down sharply, which weighed on headline sales. The real story in the June data, however, is the larger than expected increase in control retail sales, a direct input into the GDP data on consumer spending, particularly as that June increase came on top of a modest upward revision to the initial estimate of May control sales. At least as the data now stand, real control retail sales will have eked out a modest increase in Q2, contrary to the modest decline our forecast had anticipated. To be sure, in the grand scheme of things there may be scant difference between a modest decline and a modest increase, and even with slightly firmer Q2 growth than we'd been projecting, we still anticipate a downward trajectory for real consumer spending over coming quarters.

As noted above, seven of the thirteen broad retail sales categories posted increases in June. Our forecast miss on control retail sales traces to three categories coming in well stronger than our forecast anticipated. Sales at furniture stores rose by 1.4 percent in June, ending a run of four straight monthly declines, but which comes after a meaningful downward revision to the initial estimate of May sales. Sales at electronics/appliance stores rose by 1.1 percent, coming on top of a sizable upward revision to the initial estimate of May sales. Sales amongst nonstore retailers rose by 1.9 percent in June on top of an upward revision to the initial estimate of May sales. Recall that the broad nonstore retailers category includes online sales, which are reported with a one-month lag but which account for roughly 91 percent of sales amongst nonstore retailers, so it is safe to assume online sales were up big in June. That may be surprising, at least to those thinking online shoppers would be resting up ahead of *Amazon Prime Days* in July, but it continues a quirk in the retail sales data by which online sales/nonstore retailer sales tend to be weaker during the month(s) including *Amazon Prime Days* than in the surrounding months. This likely has more to do with seasonal adjustment than anything else; the not seasonally adjusted data show sales amongst nonstore retailers fell by 3.3 percent in June, so it was merely favorable seasonal adjustment that led to the reported increase in the seasonally adjusted data. Favorable seasonal adjustment also turned a decline in the unadjusted data on sales at apparel stores into an increase in the seasonally adjusted data.

Sales at gasoline stations fell by 1.4 percent in June, with sales at building materials/garden supply stores falling by 1.2 percent after a harsh downward revision to the initial estimate of May sales. Sales at grocery stores were down by 0.7 percent; while June is a seasonally weak month for grocery store sales (Memorial Day leftovers, anyone?), this June's decline in not seasonally adjusted grocery store sales was larger than is normal for the month. Sales at general merchandise stores were down by 0.1 percent, with higher sales at warehouse/club stores unable to fully offset a steep decline in department store sales.

As we often note, the retail sales data capture consumer spending on goods but not services, which account for roughly two-thirds of all consumer spending. The one exception is restaurant sales, which are included in the retail sales data and which were up by just 0.1 percent in June. Note, however, that what was a weak initial estimate for May was revised sharply higher – what was a 0.4 percent increase is now reported to be a 1.2 percent increase. We've noted that two pockets of strength in consumer spending have been motor vehicle sales and discretionary services (our proxy for the latter includes restaurant sales). We've noted our expectation that discretionary services spending would tail off, perhaps sharply and abruptly, after the summer months. While June restaurant sales suggest some weakness is already occurring, particularly given the extent to which restaurant prices rose in June, the revision to the May data shows us to not read too much into the initial June estimate in the retail sales data. We still think discretionary services spending will slow sharply come the fall, in turn acting as a powerful brake on growth in overall consumer spending.





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