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### July Retail Sales: Q3 Gets Off To A Fast Start, But Plenty Of Hurdles Lie Ahead

- › Retail sales rose by 0.7 percent in July after rising 0.3 percent in June (originally reported up 0.2 percent)
- › Retail sales excluding autos rose by 1.0 percent in July after rising 0.2 percent in June ( as originally reported)
- › Control retail sales (sales excluding motor vehicles, gasoline, restaurants, and building materials) rose by 1.0 percent in July

Total retail sales rose by 0.7 percent in July, better than what we and the consensus expected, with ex-auto sales up 1.0 percent and control retail sales up 1.0 percent, topping our above-consensus forecast of a 0.7 percent increase. In this week's *Economic Preview*, we noted that one source of uncertainty in our forecast of control retail sales was the extent to which the Census data would capture *Amazon Prime Day(s)*, which this year saw the highest sales volume in the life of this event. Historically, the initial estimate of sales at nonstore retailers in the retail sales data for months including *Amazon Prime Day(s)* has tended to understate sales in this category, the bulk of which consist of online sales. As such, our forecast of July control retail sales incorporated what we thought to be a conservative estimate of sales at nonstore retailers but, as it turns out, the 1.9 percent increase in this category matched our forecast. That control sales were stronger than our above-consensus forecast anticipated reflects sales at grocery stores, apparel stores, and general merchandise stores coming in stronger than our forecast anticipated. In terms of our miss on headline sales, restaurant sales and sales at building materials stores each came in above our expectations. That control retail sales, a direct input into the GDP data on consumer spending on goods, came in stronger than expected in July gets Q3 growth in real consumer spending off to a better start than we anticipated. At the same time, however, rapidly rising energy prices and what looks to be a pickup in the rate of food price inflation will pose stern headwinds to spending on discretionary goods and services in August and September, which will temper any upgrade to our forecast for Q3 spending growth in the wake of the better than expected July data.

Sales were higher in nine of the thirteen broad categories in July. Sales revenue at motor vehicle dealers fell by 0.4 percent, reflecting lower unit sales and lower prices for both new and used vehicles. At the same time, however, the initial estimate of June revenue was revised higher and is now more in line with what we had expected based on unit sales and pricing in June. Sales at furniture stores fell by 1.8 percent in July while sales at electronics/appliance stores dropped by 1.3 percent, in each case masking much larger declines in the not seasonally adjusted data. It could

be that these two categories fell prey to the charms of *Amazon Prime Day(s)*, meaning it wasn't so much about how much consumers spent in these categories in July but instead how they spent. Either way, that home sales have been so weak over the past several months has been a more relevant constraint on expenditures in these categories, one which doesn't figure to relax much in coming months.

As noted above, sales by nonstore retailers rose by 1.9 percent in July, though the previously reported increase of 1.9 percent in June was marked down to a 1.5 percent increase. We'll note that while online sales account for over ninety percent of sales in the broader nonstore retailers category, online sales are reported with a one month lag, so it won't surprise us if the initial estimate for July is revised higher with the release of the August data. With or without any help from *Amazon Prime Day(s)*, however, online sales continue to account for an increasingly large share of control retail sales, and that share is not too far from the peak seen during the pandemic when physical stores were not fully up and running while department stores account for an ever-dwindling share.

Grocery store sales were up by 0.8 percent in July, though in part that reflects higher prices as prices for food consumed at home logged their largest monthly increase since February, and we look for heftier price increases in the months ahead. Apparel store sales rose by 1.0 percent in July, which to some extent is surprising given flat pricing and potential competition from *Amazon Prime Day(s)*. An even bigger surprise, at least to us, is the 1.4 percent increase in restaurant sales in July, a much larger increase than our forecast anticipated. That our expectations were so low in part reflected what was the smallest monthly increase in restaurant prices since March 2021 and in part reflected signs of weakness in other categories of discretionary services spending of late.

That Q3 growth in consumer spending got off to a faster start than we had anticipated doesn't really alter our view of what comes next. We have for some time anticipated a marked weakening in discretionary services spending come the end of summer, as is still the case. At the same time, higher food and energy prices will pose additional hurdles for consumers, who thus far have proven notably resilient.

