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August Retail Sales: Higher Gasoline Prices Push Sales Up

- › Retail sales rose by 0.6 percent in August after rising 0.5 percent in July (originally reported up 0.7 percent)
- › Retail sales excluding autos rose by 0.6 percent in August after rising 0.7 percent in July (originally reported up 1.0 percent)
- › Control retail sales (sales excluding motor vehicles, gasoline, restaurants, and building materials) rose by 0.1 percent in August

Total retail sales rose by 0.6 percent in August, handily beating the 0.1 percent increase we and the consensus expected, while ex-auto sales were also up by 0.6 percent and control sales notched a 0.1 percent gain, contrary to the modest decline we and the consensus expected. While the August figures beat expectations, that in part reflects the downward revisions to the initial estimates of July sales, the most notable being that control retail sales, a direct input into the GDP data on consumer spending on goods, are now reported to have risen by 0.7 percent in July rather than the initial estimate of a 1.0 percent gain. Our miss on top-line sales is mainly accounted for by an even larger increase in gasoline sales than we had anticipated, which of course was mainly price driven, while our miss on control sales mainly comes from sales at nonstore retailers being flat, as opposed to the post-Amazon decline we anticipated. Either way, August's increase will look less impressive after accounting for the extent to which prices rose during the month. While growth in real consumer spending will not be as fast in Q3 as implied by the July spending data, it is nonetheless still on course to be faster than in Q2, which will in turn lift Q3 real GDP growth. We do, however, continue to expect real consumer spending to be flat, if not slightly lower, in Q4.

There were two big questions looming over the August retail sales report, one being the extent to which gasoline station sales would increase given what was, in seasonally adjusted terms, a double-digit increase in prices, and the second being whether, or to what extent, August would see a pullback in sales by nonstore retailers, the vast majority consists of sales by online retailers, in the wake of what in July was the highest-volume *Amazon Prime Day(s)* in the life of that event. Gasoline station sales rose by 5.2 percent in August, which alone lifted total retail sales by 0.4 percent. It is also worth noting that higher gasoline prices would have added to sales at those warehouse/club stores that also sell gasoline, thus contributing to in sales at general merchandise stores (warehouse/club store sales roll up into this broader category but are not reported concurrently). As noted above, sales by nonstore retailers were flat in August (down slightly unrounded) while the original estimate of a 1.9 percent increase in July is now reported as a 1.5 percent increase. Note

that online sales, which account for over ninety percent of sales by online retailers, are reported with a one-month lag, but if the broader category was flat to slightly lower in August, that likely holds for online sales.

Another question we posed ahead of the report on August retail sales was whether, or to what extent, back-to-school shopping which would typically take place in August had been pulled forward into July by Amazon's event and by other retailers offering online discounts to try and keep pace, or at least fall less further behind. While we can't directly answer that question from the retail sales data, apparel store sales were up by 0.9 percent, some of which was likely driven by back-to-school spending. Still, general merchandise store sales were up by just 0.3 percent, and this is a category which typically benefits from back-to-school spending. Moreover, as noted above, gasoline sales likely added to sales in this broad category in August, making the 0.3 percent increase in the broad category look even weaker.

Sales did rise in most of the broad categories for which data are reported, including motor vehicle dealers, where sales revenue is reported to have risen by 0.4 percent, which is somewhat surprising given the drop-off in unit sales and another steep decline in prices for used vehicles. Grocery store sales were up by 0.4 percent despite less support from pricing than we had anticipated. Restaurant sales, the one glimpse of services spending offered in the retail sales data, rose by 0.3 percent in August, which is basically a wash after accounting for higher prices for food consumed away from home. Either way, the increase in nominal sales in this category is the smallest since March.

While higher gasoline prices may have led to consumers puling back spending in other areas in August, the reality is that the cumulative effects of higher prices have been weighing on consumers for quite some time. That, along with an emphasis on services spending, has contributed to real retail sales having been basically flat over the past two years, as we show in the chart below. If we are correct in expecting discretionary services spending to slow, coming months will see very little, if any, growth in overall consumer spending after accounting for price changes.

