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July Retail Sales: Trend Growth Falling Back In Line

- › Retail sales rose by 1.0 percent in July after falling 0.2 percent in June (originally reported unchanged)
- › Retail sales excluding autos rose by 0.4 percent in July after rising 0.5 percent in June (originally reported up 0.4 percent)
- › Control retail sales (sales excluding motor vehicles, gasoline, restaurants, and building materials) rose by 0.3 percent in July

Total retail sales rose by 1.0 percent in July, ahead of our forecast of a 0.7 percent increase and further ahead of the consensus forecast of a 0.4 percent increase. Ex-auto retail sales rose by 0.4 percent, matching our above-consensus forecast, while control retail sales, a direct input into the GDP data on consumer spending on goods, rose by 0.3 percent, shy of our forecast of a 0.5 percent increase but ahead of the 0.1 percent gain anticipated by the consensus forecast. While the initial estimate of July retail sales was revised lower, that is entirely accounted for by a sharp downward revision to the initial estimate of sales revenue at motor vehicle dealers. Recall that a cyberattack on dealer network software held down sales in June, and we noted at the time of the release that we thought the initial estimate of a 2.3 percent decline in motor vehicle dealer revenue in June seemed too mild; the revised June data now put that decline at 3.9 percent. We also noted that the drop in unit vehicle sales in June due to the cyberattack would be made up for in the July/August data, and this is reflected in the July retail sales data, with the 4.0 percent increase in revenue at motor vehicle dealers adding six-tenths of a point to the change in total retail sales. Of more significance, at least to us, is that the not seasonally adjusted data show control retail sales rose by 3.4 percent in July, easily topping our forecast. That the seasonally adjusted data show a smaller increase in control sales than we expected reflects nothing more than the July seasonal factor being more punitive than we expected which, in the grand scheme of things, is not even remotely relevant. Relevant or not, we do think it worth pointing out that the 3.4 percent increase in unadjusted control retail sales is, with the obvious exception of 2020, the largest July increase on record in the current data series which goes back to 1992. Remarkably enough, many analysts are pointing to the increase in total retail sales as evidence that concerns over the demise of U.S. consumers were misplaced, remarkable only in the sense that it was many of these same analysts who, prior to the release of the July retail sales data, were bemoaning the demise of U.S. consumers. Okay, fine, maybe "remarkable" isn't the right word here . . .

Ten of the thirteen broad categories for which data are reported logged increases in sales in July, led by the aforementioned 4.0 percent increase

in motor vehicle dealer sales revenue. Sales at electronics/appliance stores rose by 1.6 percent, grocery store sales rose by 1.0 percent, and sales at building materials stores rose by 0.9 percent.

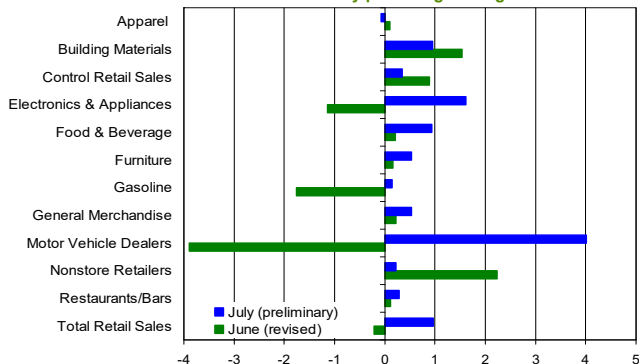
We do think it worth noting the role of seasonal adjustment in the retail sales data. What many seemed to have overlooked in assessing the June data is that June is a seasonally weak month for retail sales, with declines in total and control retail sales the norm rather than the exception. To that point, unadjusted control retail sales fell by 4.6 percent, and while we noted at the time that was a larger decline than is typical for the month of June, we were not overly concerned by it, but neither were we at all impressed by the 0.9 percent increase in control sales reported in the seasonally adjusted data. Our premise in our above-consensus forecasts of the July data was that July would see larger increases in unadjusted sales than is typical for the month, and that proved to be the case. One category we think worth highlighting is sales by nonstore retailers, the bulk of which consists of online sales. The seasonally adjusted data show a 2.2 percent increase in sales by nonstore retailers in June, despite a better than five percent decline in the not seasonally adjusted data. As we anticipated, the July data show an almost nine percent increase in sales by nonstore retailers on a not seasonally adjusted basis, but the seasonal factor applied by Census was far more punitive than we anticipated, yielding but a 0.2 percent increase on a seasonally adjusted basis. One could argue that, on average, the average of the seasonally adjusted increases for the past two months is right on the money. Our point here, however, is that it is important to understand how shifting seasonal spending patterns can distort the view presented in the headline numbers.

Unlike many analysts, our view of consumer spending and the overall state of U.S. consumers is no different after the release of the July retail sales data than it was prior to the release. We have been pointing to a slowing trend rate of growth of consumer spending, with growth in spending becoming realigned with growth in after-tax income, as had been the case in the years prior to the pandemic. We've seen nothing in the data to suggest otherwise.



Retail Sales By Category

monthly percentage change



July Control Sales Notably Strong

