ECONOMIC UPDATE REGIONS
September 17, 2024

August Retail Sales: Details Of The Data Paint A More Constructive Story

- Retail sales rose by 0.1 percent in August after rising 1.1 percent in July (originally reported up 1.0 percent)
- Retail sales excluding autos rose by 0.1 percent in August after rising 0.4 percent in July (as originally reported)
- Control retail sales (sales excluding motor vehicles, gasoline, restaurants, and building materials) rose by 0.3 percent in August

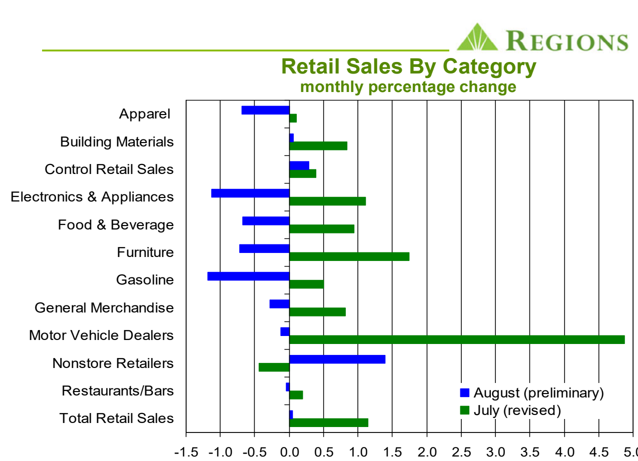
Total retail sales rose by 0.1 percent in August, matching our above-consensus forecast, with ex-auto sales also rising by 0.1 percent and control retail sales rising by 0.3 percent, matching the consensus forecast while topping the 0.1 percent increase we anticipated. At the same time, an already sizable July increase in total retail sales is now shown to be even slightly more so, with sales up 1.1 percent rather than by 1.0 percent as first estimated. Moreover, the original estimate of a 0.3 percent gain in control retail sales in July is now shown as a 0.4 percent increase which, coupled with the 0.3 percent increase in August, puts annualized Q3 growth in control sales at a meaningfully faster pace than seen in Q2. On a nominal basis, control retail sales are rising at an annual rate of 5.1 percent thus far in Q3, compared to the 3.3 percent growth rate logged in Q2, and Q3 growth will be even stronger after falling goods prices are accounted for. This matters in that control retail sales are a direct input into the GDP data on consumer spending, accounting for roughly one-quarter of all consumer spending as measured in the GDP data. This in turn poses some upside risk to our expectations that Q3 real GDP growth would come in at an annualized rate of around two percent.

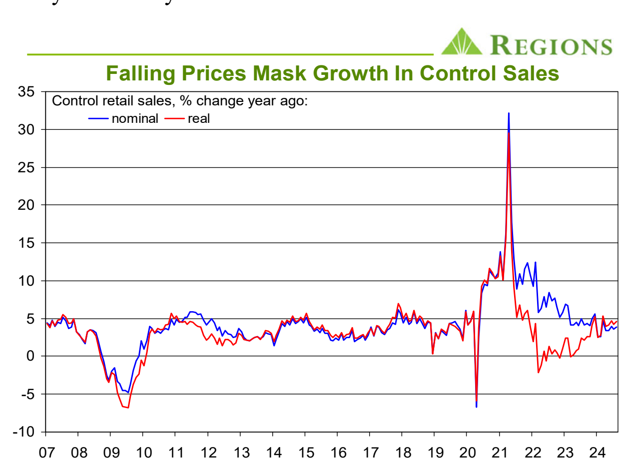
In this week's *Economic Preview*, we pointed to two factors that should be accounted for when interpreting the August retail sales data – or the retail sales data for any given month, for that matter. One of those factors is seasonal adjustment. As noted above, the 0.3 percent increase in control retail sales in August was easily ahead of our forecast of a 0.1 percent increase. At the same time, however, the 1.7 percent increase in not seasonally adjusted control retail sales was smaller than our forecast of a 2.1 percent increase, so that the increase in the seasonally adjusted data was larger than we expected reflects the August seasonal factors being less punitive than we expected. We will, however, note that it is the seasonally adjusted measure of control sales that feeds into the GDP data.

The second factor we pointed to was falling goods prices, which have for some time been a weight on growth in retail sales given that retail sales are reported on a nominal basis, i.e., the data are not adjusted to account for price changes. We do, however, calculate price-adjusted measures of total and control retail sales, the latter of which is shown in our second chart below. On an over-the-year basis, real control sales were up 4.6 percent in August, and over the past several months, when many analysts have been pointing to weak consumer spending as a threat to the broader economy, growth in real control retail sales has been easily above the average pace seen in the years prior to the pandemic. This is one reason our take on the state of U.S. consumers has been more constructive than the views of many other analysts.

To our point(s), some are already using the details of the report on August retail sales as grounds to argue the FOMC should cut the Fed funds rate by fifty basis points at this week's meeting. Leaving aside the fact that it is highly unlikely that anything in the retail sales data would have swayed the FOMC one way or the other, the actual details of the data do not argue for a larger rate cut. Of course, it depends on what one means by "details." Sure, that only five of the thirteen broad categories saw higher sales in August is a weak detail, made even more so by the fact that it was the 1.4 percent increase in sales by nonstore retailers that really drove the gain in control retail sales. To us, however, the details that matter are the details of the not seasonally adjusted data. The unadjusted data show sales rose across most of the main categories; one exception is gasoline station sales, which were weighed down by falling prices, and another exception is sales by nonstore retailers. As we noted in this week's *Preview*, this is the one category in which the August seasonal factor was supportive, as opposed to punitive, hence the 1.4 percent increase in the seasonally adjusted data. To be sure, the August increases in total and control retail sales were smaller than is typical for the month, but this comes on the heels of much larger than normal July increases. This is where taking the data on a quarterly growth basis helps, as this helps even out the inherent month-to-month swings in the data.

As we often note, the retail sales data almost always look different when seasonal adjustment and price changes are accounted for. We think doing so is mandatory before saying anything about the data which, again, helps account for why we're more constructive on the state of U.S. consumers than many other analysts seem to be.





Regions Financial Corporation, 1900 5th Avenue North, 17th Floor, Birmingham, Alabama 35203
Richard F. Moody, Chief Economist • 205.264.7545 • richard.moody@regions.com