

# ECONOMIC UPDATE



REGIONS

August 15, 2025

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## July Retail Sales: About Where We Thought We'd Be, Just Not How We Expected

- Retail sales rose by 0.5 percent in July after rising 0.9 percent in June (originally reported up 0.6 percent)
- Retail sales excluding autos rose by 0.3 percent in July after rising 0.8 percent in June (originally reported up 0.5 percent)
- Control retail sales (sales excluding motor vehicles, gasoline, restaurants, and building materials) rose by 0.5 percent in July

Total retail sales rose by 0.5 percent in July, with ex-auto sales up by 0.3 percent and control group sales, a direct input into the GDP data on consumer spending on goods, rising by 0.5 percent. While these increases fell short of our above-consensus forecasts (1.0 percent, 0.6 percent, and 0.8 percent, respectively) across the board, prior estimates of June retail sales were revised meaningfully higher, perhaps helping to redeem the reputation of revisions to June data. Either way, the revisions to the June estimates coupled with the July increases leaves the dollar volume of total and control retail sales pretty much where our forecasts of the July data put them – 0.08 percent lower and 0.09 percent higher, respectively. At the same time, the reported increase in sales by nonstore retailers does appear to be held down by harsh seasonal adjustment, a prospect we flagged as a downside risk in our preview of the July retail sales data. To that point, the not seasonally adjusted data show the largest increase in sales by nonstore retailers in the life of the current series, which goes back to 1992, largely reflecting Amazon Prime Day(s) spanning four days this year. With nonstore retailers accounting for over thirty percent of control group sales, it is no coincidence that this year also saw the largest July increase in not seasonally adjusted control group sales in the life of the current series. Between the revisions to the June data and the initial July estimates, there is nothing in the retail sales data that would cause us to alter our view of the state of U.S. consumers. As the data now stand, Q3 growth in consumer spending on goods is off to a fast start, on pace to easily top growth in each of the first two quarters of this year. To be sure, the pace of motor vehicle sales in August is unlikely to match July's surprisingly strong pace, August will bring at least some payback for the strength of control group sales in July, and the degree of tariff pass-through into goods prices is likely to pick up. The broader point, however, is that despite notably low reads on consumer sentiment and uncertainty around the state of the labor market, the spending data suggest consumers are more than holding their own.

On a not seasonally adjusted basis, control group sales rose by 4.3 percent in July which, as noted above, is the largest July increase in the life of the current series. Sales by nonstore retailers rose by 7.9 percent in July;

while the data on online sales come with a one-month lag, given that online sales account for over ninety percent of sales by nonstore retailers, it is reasonable to infer that online sales were notably strong in July. Again, this in large part likely reflects Amazon's expanded promotion and the responses that drew amongst other retailers, and the August data will likely show some payback, particularly if online promotional activity drew back-to-school spending that would normally take place in August forward into July. To our earlier point, however, the seasonally adjusted data show sales by nonstore retailers rose by 0.8 percent, smaller than June's increase, which reflects harsh July seasonal adjustment.

The breadth of gains, however, tells us that there is more to the July spending data than online promotions. Sales rose in nine of the thirteen broad categories for which Census reports data. A sizable, not to mention surprising, jump in unit sales of new motor vehicles helped push revenue at motor vehicle dealers up 1.6 percent in July, with some help from higher prices for used vehicles. Sales at furniture store sales were up by 1.4 percent, which in part reflects higher prices as this is one category of consumer goods for which the CPI data shows hefty price increases that at least in part reflect tariff pass-through. To the downside, sales at building materials stores fell by 1.0 percent, sales at electronics and appliance stores fell by 0.6 percent, and restaurant sales were down by 0.4 percent. The latter is noteworthy given that restaurant sales are the only component of services captured in the retail sales data. Some are pointing to the drop in restaurant sales as a sign that strong spending on goods came at the expense of spending on services, but that is at odds with various spending trackers showing a rebound in discretionary services spending, particularly travel services, in July. We'll await the BEA's picture on overall July consumer spending before drawing any conclusions on this point.

More broadly, on a year-to-date basis through July, nominal control group sales are up 5.0 percent from last year, with real control group sales up 4.9 percent. This suggests only limited tariff pass-through thus far. One key question, however, is whether, or to what extent, this will change in the months ahead and how, if it does, consumers will respond.

