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September Retail Sales: No Profound Meaning, Just A Typical September

- Retail sales rose by 0.2 percent in September after rising 0.6 percent in August (originally reported up 0.6 percent)
- Retail sales excluding autos rose by 0.3 percent in September after rising 0.6 percent in August (originally reported up 0.7 percent)
- Control retail sales (sales excluding motor vehicles, gasoline, restaurants, and building materials) fell by 0.1 percent in September

Total retail sales rose by 0.2 percent in September, splitting the difference between our forecast of no change and the consensus forecast of a 0.4 percent advance, with ex-auto sales up 0.3 percent and control retail sales, a direct input into the GDP data on consumer spending on goods, falling by 0.1 percent. The consensus forecast called for 0.3 percent increases in both ex-auto and control group sales, whereas our forecast called for ex-auto sales falling by 0.1 percent and control group sales falling by 0.3 percent. As we discussed in our previews of the September data – as originally published last month and the slimmed down version published this week – that we expected a negative print on control groups sales had more to do with seasonal adjustment than whatever we thought of the state of U.S. consumers, which is in turn why our reaction to the September data is more tempered than those of many others. The reality is that September is typically a lull between the end of the back-to-school shopping season and the start of the holiday shopping season, which over recent years has been increasingly pulled into October. As such, in the life of the current series dating back to 1992, there is not a single instance of not seasonally adjusted retail sales – total, ex-auto, or control group – rising in the month of September, and this year is no exception. Indeed, while our forecast anticipated unadjusted control group sales falling by 5.0 percent, matching the typical September decline, the actual decline was 4.5 percent. As we discussed, however, we anticipated seasonal adjustment would be less generous this September than was the case last September, which would weigh down the seasonally adjusted estimate of control group sales. That proved to be the case and had last year's September seasonal factor been applied to this year's unadjusted sales, it would have yielded a hefty increase in control group sales, which in turn would have triggered far different reactions featuring much different assessments of the state of consumers.

As for us, we make it a point to never react to seasonal adjustment noise, so the September retail sales data don't alter our assessment of the state of U.S. consumers. While consumers, particularly lower-to-middle income households, are feeling the effects of cumulative price increases over the past few years and are feeling less constructive on the state of

the labor market, they nonetheless have ample wherewithal to spend. To be sure, many are becoming more discerning and searching for value, but there is still ample capacity to spend. That they have become more circumspect in the timing and composition of spending should be sending a message to retailers pondering tariff-related pricing decisions. Largely lost in the considerable discussion of the pronounced slowdown in job growth is the question of why job growth has slowed. We've argued that this is just as much, if not more, of a labor supply story than a labor demand story, and that growth in labor earnings continues to easily run ahead of inflation supports our contention. Even with the soft September print on seasonally adjusted sales, nominal control group sales grew at an annual rate of 6.3 percent in Q3 which, even accounting for higher goods prices, will still translate into a hefty increase on a real basis. We expect that real consumer spending – combined spending on goods and services – grew at an annual rate of around 3.5 percent in Q3. While we do expect a markedly slower pace of growth in Q4, keep in mind that Q1 2026 will bring a sizable boost – we estimate over \$150 billion on an annualized basis – to after-tax household income as a result of this summer's tax bill. That will be a powerful support for spending in Q1.

As for the September data, sales increased in eight of the thirteen broad categories for which sales are reported, led by gasoline station sales (up 2.0 percent), restaurant sales (up 0.7 percent), and furniture store sales (up 0.6 percent). On the flip side, sales at auto parts stores fell by 1.2 percent, sales at clothing stores fell by 0.7 percent, and sales by nonstore retailers also fell by 0.7 percent. Sales revenue at motor vehicle dealers fell by 0.2 percent as unit sales, despite running at an annual rate of over sixteen million units, fell slightly from August's pace. This is one place where we will see some payback in Q4 – recall motor vehicle sales were boosted in August and September by the looming expiration of tax credits for purchases of EVs. Still, it's hard to get too invested in September retail sales given that this was really just a fairly typical September and also given how strong sales were for Q3 as a whole and the strength of October's seasonal online sales promotions. On the whole, we remain constructive on the state of U.S. consumers.

