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June Retail Sales, CPI, Industrial Production: Will A Solid Set Of Data Reset Expectations?

- > Total retail sales rose by 0.6 percent in June, ex-auto sales were up 0.7 percent, and control retail sales rose by 0.5 percent.
- > Both the total CPI and the core CPI rose by 0.2 percent in June, for year-over-year increases of 1.0 percent and 2.3 percent, respectively.
- > Total industrial production rose by 0.6 percent in June while output in the manufacturing sector rose by 0.4 percent.

Retail Sales: Total retail sales rose by 0.6 percent in June, far ahead of expectations but keep in mind the prior estimate for May was revised down, so the 0.5 percent gain initially reported is now put at 0.2 percent. The net effect is the dollar level of total retail sales is right where we had expected it to be. At the same time, however, control retail sales, a direct input into the GDP data, came in stronger than expected in June while May's increase was revised slightly higher. Control sales grew at a whopping 7.4 percent annualized rate in Q2 prior to adjusting for inflation, the fastest growth since Q2 2014. Prior to today's report our forecast had been for 4.3 percent annualized growth in inflation adjusted consumer spending in the Q2 GDP data (due July 29) but it now appears we may have to mark that up a bit. June's gain in retail sales was broad based, with 11 of the 13 main categories logging higher sales. Helped along by higher prices, sales at gasoline stations were up 1.2 percent, while sales at building materials stores jumped 3.9 percent – recapturing some of the losses seen over the past few months – with department stores, furniture stores, and grocery stores also posting solid gains. Perhaps the most notable element of the June data, however, is the ongoing strength of sales at nonstore retailers, which includes but is not limited to on-line retailers. Sales in the broader category rose 1.1 percent in June, following gains of 1.5 percent in May and 2.8 percent in April. While data for the on-line component come with a lag, we know such sales account for about 87 percent of total sales by nonstore retailers, and the strength in this category simply reflects the ongoing shift in how consumers are spending their dollars. As to how much they're spending, while many analysts have completely missed the effects of falling goods prices on reported nominal sales, we have been consistently pointing to the inflation adjusted data showing consumers have been on solid footing all along. As long as job and income growth hold up while inflation and interest rates remain low, this will continue to be the case.

CPI: Both the total CPI and the core CPI rose by 0.2 percent in June, yielding year-over-year increases of 1.0 percent and 2.3 percent, respectively. What really catches our eye, however, is the recent acceleration in rent growth, even after a prolonged period of steady gains. In June, market rents rose by 0.4 percent, matching May's increase, while owners' equivalent rents were up 0.3 percent for a third consecutive month. These translate into year-over-year increases of 3.8 percent in market rents and 3.2 percent in owners' equivalent rents. What is interesting here, however, is several data providers report slowing growth in apartment rents, which we expect to remain the case given the amount of supply in the pipeline. Keep in mind that the measure of market rents in the CPI also includes rents on single family homes while owners' equivalent rents are swayed by the pace of house price appreciation, which has been robust over the past several months. The single family segment of the housing market, both sales and rentals, remains tight, so this could be a source of steady support for rent growth as measured in the CPI. This is important given these measures of rent account for more than 40 percent of the core CPI but, aside from medical costs – up 3.6 percent year-on-year in June – there is little upward pressure on core inflation. Core inflation excluding shelter has been steady at around 1.4 percent, while core goods prices have fallen on a year-over-year basis in 38 of the past 39 months. This trend is unlikely to change any time soon, which is one reason we continue to argue there is less inflation pressure than implied by the core CPI.

Industrial Production: Total industrial production jumped 0.6 percent in June, well ahead of expectations, with output rising in each of the three broad sectors – manufacturing, utilities, and mining. One caveat, however, is that the increase in manufacturing was solely due to higher motor vehicle output, as auto assemblies jumped in June. Outside of motor vehicles, manufacturing output was flat in June and has basically been that way for the past several months. Output of industrial machinery and construction supplies has been notably weak, and we'd also caution that motor vehicle output looks ripe for a decline over coming months, particularly if manufacturers put less emphasis on fleet sales. While the ISM survey does indicate some stability in manufacturing, the sector remains awash in unused capacity and is unlikely to exhibit meaningful and sustained growth in the near term.

