ECONOMIC UPDATE

REGIONS

August 12, 2016

July Retail Sales: Here We Go Again . . .

- Retail sales were unchanged in July after rising by 0.8 percent in June (originally reported up 0.6 percent).
- Retail sales excluding autos fell by 0.2 percent after rising by 0.9 percent in June (originally reported up 0.7 percent).
- Control retail sales (sales excluding motor vehicles, gasoline, restaurants, and building materials) were unchanged in July.

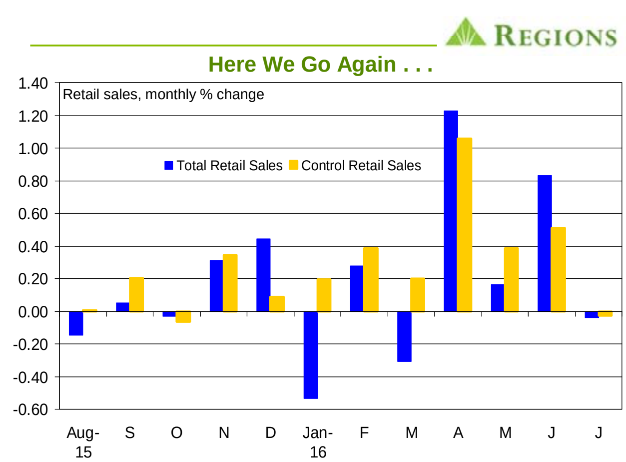
Well, here we go again. We rather enjoyed the last few months of robust retail sales reports and a second quarter in which real consumer spending as measured in the GDP data grew at an annual rate of better than 4.0 percent. What we enjoyed more than the data was the silence of the "what's wrong with U.S. consumers?" crowd. That ended this morning with the release of the report on July retail sales. Total retail sales are reported to have been unchanged in July, with ex-auto sales down 0.3 percent and control retail sales – a direct input into the GDP data on consumer spending – were unchanged. As has been the case all along, we'll offer up our answer to the "what's wrong with U.S. consumers?" chorus, which is "not much."

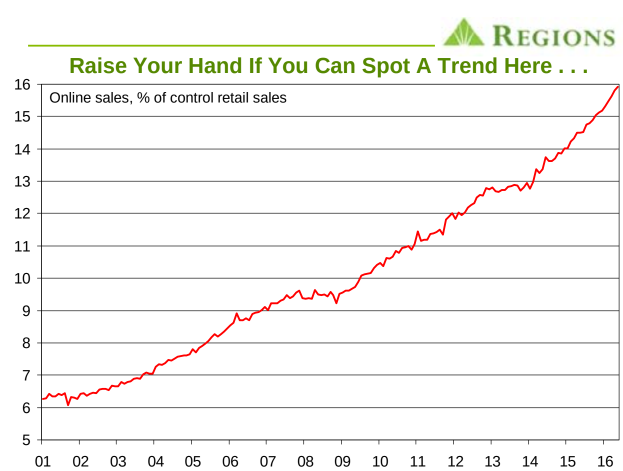
At the same time, we'll revisit some of the main points we frequently make in our discussion of the retail sales data. First, don't get too attached to the initial estimates for July as the revisions to the retail sales data are typically substantial. This is the case with the initial estimates for June, with five components revised higher by at least 0.5 percent, with sales at furniture stores and gasoline stations revised higher by 1.0 percent and apparel store sales revised up by 0.9 percent. This of course doesn't ensure the first July estimates will be revised up, but that's our hunch after going through the details of today's report.

Another point we typically make about the retail sales data is they are reported in nominal terms, i.e., not adjusted for price changes. The most glaring example of this is gasoline – retail pump prices fell by 4.0 percent in July, much larger than is typical for the month. As a result, the seasonal adjustment factors will not have fully accounted for the decline in prices, which led to a reported 2.7 percent decline in sales at gasoline stores in July. We think price effects are also apparent in reported sales at grocery stores, which we are told fell 0.9 percent in July. Retail food prices have been under downward pressure for the past several months and, again, the retail sales data do not account for these lower prices. We'll also note restaurant sales fell 0.2 percent in July per the initial estimate and that restaurant sales have for some time now been underreported in the initial estimates and revised higher in subsequent months. This is the case with the June data – originally restaurant sales were reported to have fallen 0.3 percent in June, but in today's report that is now shown to be a 0.3 percent increase. So, either U.S. consumers went on one hell of a diet in July or the retail sales data are being distorted by price and reporting effects. We think we'll stick with the latter explanation.

Department store sales fell 0.5 percent in July, as did sales at apparel stores. We suspect there will be catch-up in the August data, which to some extent will reflect back to school shopping. In many states sales tax holidays have shuffled the timing of back to school shopping, and those tax holidays falling in August would have pulled spending from July. Sales at building materials stores fell 0.5 percent in July but this comes on the heels of a 4.2 percent increase in June. Sales at motor vehicle dealers rose 1.3 percent in July. This may seem like a small gain considering the jump in unit sales to an annual rate of 17.9 million. But, keep in mind July's jump in unit sales was heavily skewed by higher fleet sales, which do not turn up in the retail sales data. In reality, sales to consumers have been accounting for a steadily shrinking share of total motor vehicle sales for some time now. Sales at nonstore retailers rose 1.3 percent in July, but we look for an upward revision as the initial July estimate likely does not fully capture the impact of *Amazon Prime* day, at least based on 2015 when July saw online sales rise 2.9 percent.

When the Q2 GDP report came out, we noted the 4.2 percent growth (annualized) in real consumer spending was not a sustainable pace. The July retail sales report starts Q3 off on a soft note, but we think it obvious that price effects are clouding the view. And, the ongoing strength of online sales shows the question isn't whether consumers are spending, it's how they are spending. Again, as we see it, "not much" is the answer to the "what's wrong with U.S. consumers?" chorus.





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