ECONOMIC UPDATE

REGIONS

July 16, 2018

June Retail Sales: Solid Rebound For Consumer Spending In Q2

- Retail sales <u>rose</u> by 0.5 percent in June after rising by 1.3 percent in May (initially reported up 0.8 percent)
- Retail sales excluding autos <u>rose</u> by 0.4 percent after rising by 1.4 percent in May (initially reported up 0.9 percent)
- Control retail sales (sales excluding motor vehicles, gasoline, restaurants, and building materials) were <u>unchanged</u> in June

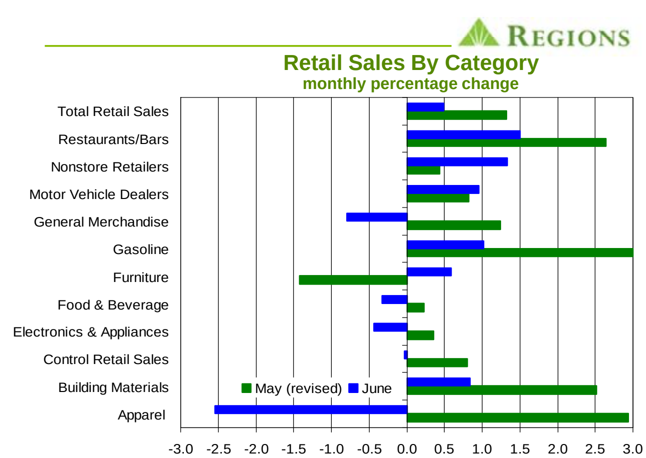
One simply must appreciate the subtle irony of the report on June retail sales being released on *Amazon Prime Day*. This is, after all, the company that is single handedly reshaping the retail landscape and driving all brick and mortar retail into total darkness. It follows that we'll get to the point where the retail sales report as we now know it will cease to exist and retail sales will be what Amazon says they are and they'll tell us whenever, or, if, they want to. Okay, none of these things will happen, even if there are those who seem to think they will. As for the retail sales data, it's not clear to us that the scenario described above would in any way diminish our confidence in the retail sales data, as we have no confidence in that data whatsoever at least in the initial estimate for sales in any given month. So, with all of that as a backdrop, total retail sales rose by 0.5 percent in June, below our forecast of a 0.7 percent increase, but June's increase comes on top of significant upward revisions to the initial estimate for May, with total retail sales now reported to have risen by 1.3 percent.

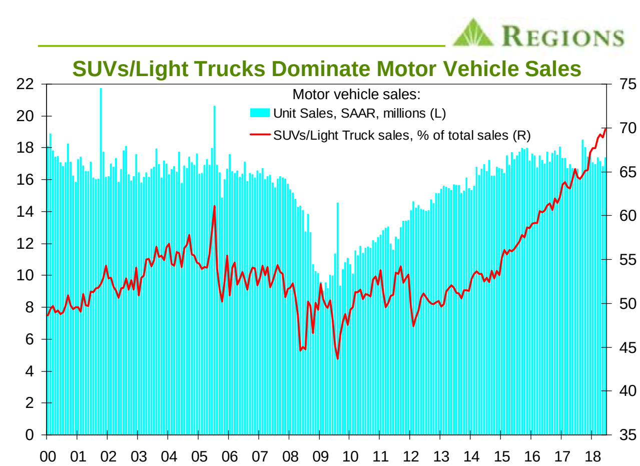
Ex-auto sales were up 0.4 percent in June after an upwardly revised increase of 1.4 percent in May, while control retail sales were unchanged in June. As control retail sales are a direct input into the GDP data on consumer spending on goods, the flat June print may seem concerning, but here too there was an upward revision to the initial estimate for May, with control retail sales now reported to have risen by 0.8 percent in May. To put this in context, our forecast of a 0.4 percent increase in control retail sales in June – based on the initial May data, would have left control retail sales up at an annualized rate of 6.1 percent for Q2; the actual data, or at least the revised May data and the initial estimate for June, put control retail sales up at an annualized rate of 6.2 percent in Q2, more than three times the Q1 growth rate.

As to the mix of June retail sales, eight of the 13 broad categories for which sales data are reported showed increases. Still, sales were less concentrated in motor vehicles than seems consistent with data on unit sales and motor vehicle prices. Unit motor vehicle sales were up better than 3.0 percent in June, new and used vehicle prices posted sizeable increases, and the mix of sales was heavily concentrated amongst higher priced SUVs/light trucks – the 69.82 percent of total sales accounted for by SUVs/light trucks is the highest on record. Nonetheless, the June retail sales data show only a 1.0 percent increase in sales revenue at motor vehicle dealers, which we look to be revised higher with next month's release. Restaurant sales rose by 1.5 percent after an upwardly revised increase of 2.6 percent in May – twice the initial estimate. Sales by nonstore retailers, which includes but is not limited to online sales, bounced back smartly in June, rising by 1.3 percent after a soft 0.4 percent increase in May. In honor of *Amazon Prime Day*, we'd like to tell you what online sales, which account for about 87 percent of the broader nonstore retailers category, did in June, but, alas, it takes way longer to get the data on online sales (two months) than to get what you buy online, so let's just stipulate they rose in June. By a lot.

To the downside, apparel sales fell by 2.5 percent in June after gains of 1.5 percent in April and 2.9 percent in May – take these numbers with a huge grain of salt – department store sales fell by 1.8 percent, sales at electronics/appliance stores were down by 0.4 percent, and grocery store sales were down 0.3 percent. It is worth noting that falling prices for core consumer goods mean that inflation adjusted spending on core goods is stronger than implied by nominal control retail sales.

While we have little confidence in the initial estimate of retail sales in any given month, we have no such doubts as to the willingness and wherewithal of U.S. consumers to spend. Ongoing improvement in labor market conditions, better growth in disposable personal income, elevated consumer confidence, and steadily rising household net worth – particularly housing equity – are all lending support to growth in consumer spending. To be sure, an escalation in trade battles that extends to consumer goods, and as such pushes goods prices higher, looms as a downside risk. For now, though, consumers remain the key driver of broader growth in the U.S. economy.





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