

This Economic Update may include opinions, forecasts, projections, estimates, assumptions, and speculations (the "Contents") based on currently available information which is believed to be reliable and on past, current and projected economic, political, and other conditions. There is no guarantee as to the accuracy or completeness of the Contents of this Economic Update. The Contents of this Economic Update reflect judgments made at this time and are subject to change without notice, and the information and opinions herein are for general information use only. Regions specifically disclaims all warranties, express or implied, with respect to the use of or reliance on the Contents of this Economic Update or with respect to any results arising therefrom. The Contents of this Economic Update shall in no way be construed as a recommendation or advice with respect to the taking of any action or the making of any economic, financial, or other plan or decision.

June Retail Sales: Someone Forgot To Tell U.S. Consumers How Lousy Things Are

- › Retail sales rose by 0.4 percent in June after rising by 0.4 percent in May (initially reported up 0.5 percent)
- › Retail sales excluding autos rose by 0.4 percent after rising by 0.4 percent in May (initially reported up 0.5 percent)
- › Control retail sales (sales excluding motor vehicles, gasoline, restaurants, and building materials) rose by 0.7 percent in June

There's always someone who doesn't get the word, and in June it was U.S. consumers who, apparently, did not get the word. After all, amidst the global economy going straight to, well, somewhere not so nice, and calls for the Fed and foreign central banks to ride to the rescue, U.S. consumers continued to do what they do best, i.e., spend. Total retail sales went up by 0.4 percent in June, with a like-sized increase in ex-auto retail sales. Of more significance, however, is that control retail sales, a direct input into the GDP data on consumer spending, rose by 0.7 percent in June while May control sales were revised higher, now reported to be up 0.6 percent rather than the 0.5 percent gain initially reported. This pushes our tracking estimate of Q2 growth in real consumer spending just over 4.0 percent (annualized), and poses upside risk to our forecast for top-line real GDP growth, which we currently have tracking at 1.8 percent. In short, while central bankers around the globe are plotting out the course they will take to "rescue" the global economy, from what exactly we're not sure, U.S. consumers aren't waiting around for guidance, forward or otherwise.

The increase in retail sales in June was broad based, with gains in 11 of the 13 broad categories for which data are reported. Sales of nonstore retailers rose by 1.7 percent, matching the increase seen in May (revised up from the initial estimate). Keep in mind that online sales are included in, and account for roughly 89 percent of sales in, the broader nonstore retailers category, but online sales come with a one month lag. Online sales rose by 1.8 percent in May, and the large increase in the nonstore retailers category in June sets up similarly large June increase in online sales. We point this out, on Amazon Prime day ironically enough, because it points to a quirk in the retail sales data – since Amazon Prime day began, 2015 is the only year in which the reported July increase in online sales was larger than the June increase. Our suspicion, as we've noted before, is that one reason the quality of the monthly retail sales data leaves something to be desired is that Census has not been able to keep pace with the changing nature of consumer spending, and this

pattern goes right to our point.

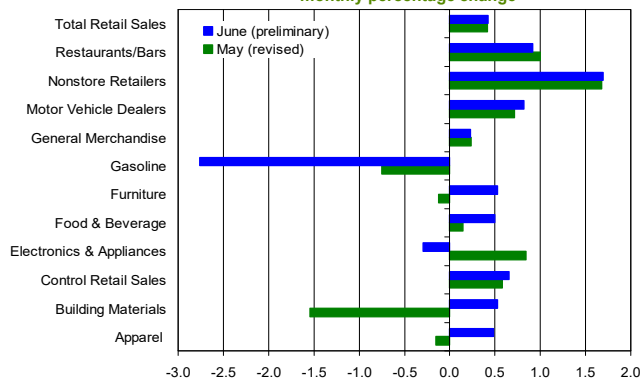
Restaurant sales were up 0.9 percent in June, which extends a run of sizable gains in this category. To some extent, this reflects price effects, as this is one category in the CPI data in which there is clear evidence of pricing power. Sales at apparel stores were up 0.5 percent in June, which, if the CPI data are any guide, could also reflect price effects. Sales at furniture stores, building materials stores, and grocery stores were each reported to have risen by 0.5 percent in June.

While sales at motor vehicle dealers are reported to have risen by 0.8 percent in June, we'll not get too attached to this number as this is one of the categories in which the initial estimate of sales in any given month is the least reliable. Unit motor vehicle sales fell in June and the sales mix was less revenue friendly, so we'll not be surprised to see the initial June estimate in the retail sales data to be revised lower. Thanks to sharply lower pump prices, gasoline sales were a sizable drag on top-line retail sales in June, falling by 2.8 percent. The biggest loser, at least in the retail sales sense of that term, continues to be department stores, with sales down by 1.1 percent in June after a 0.6 percent decline in May. Over the longer term, of course, the path of sales in this category is pretty much the opposite of the path of online sales. Department store sales now account for only about 4.0 percent of control retail sales, while online sales account for about 20 percent of control retail sales, and the divergence will only get larger going forward. This, rather than some underlying weakness in consumer spending, accounts for the steady decline in employment in retail trade.

The June data, subject to revision of course, put annualized growth in control retail sales at 7.5 percent in Q2, the largest such increase since Q4 2005. Look we get it, the uncertainty surrounding trade does no favors for anyone. That said, on the back of a still-strong labor market and low interest rates, consumer fundamentals remain solid and, as such, consumer spending remains a key support for the U.S. economy.



Retail Sales By Category
monthly percentage change



Sales Continue To Bounce Back From Late-2018 Debacle

