ECONOMIC UPDATE

REGIONS

August 15, 2017

July Retail Sales: A Solid Report – At Least For Now

- Retail sales rose by 0.6 percent in July after rising by 0.3 percent in June (originally reported down 0.2 percent).
- Retail sales excluding autos rose by 0.5 percent after rising by 0.1 percent in June (originally reported down 0.2 percent).
- Control retail sales (sales excluding motor vehicles, gasoline, restaurants, and building materials) rose by 0.6 percent in July.

Retail sales were stronger than expected in July and stronger than it looked in May and June. At least for now. Total retail sales rose by 0.6 percent in July, with ex-auto sales up 0.5 percent. Our forecast, which matched the consensus, was for a 0.4 percent increase in each category. Control retail sales, a direct input into the GDP data on consumer spending, were up 0.6 percent, matching our above-consensus forecast. July's gains are even more impressive in light of upward revisions to prior estimates for sales in May and June, which not only points to an upward revision to Q2 real GDP growth but also puts Q3 on a bit firmer footing than had appeared to be the case. We often note that, in any given month, the initial estimate of retail sales is prone to large, often ridiculously so, revisions. In the interest of being fair and balanced, we point that out whether the initial estimate is good or bad.

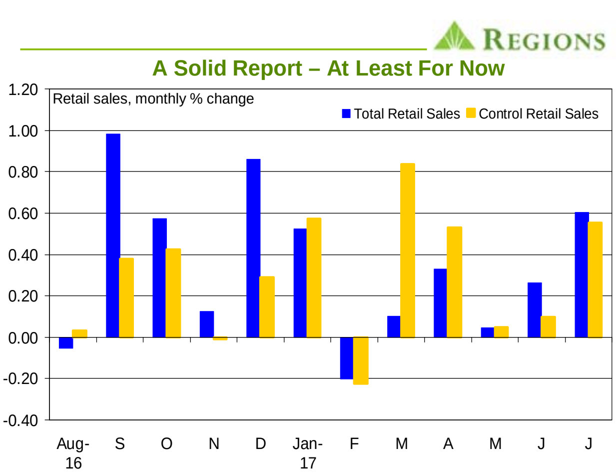
Strength in retail sales was broad based in July, with 10 of the 13 main categories for which data are reported posting gains. Auto dealers and nonstore retailers lapped the field, however, each posting gains of better than 1.0 percent. Both categories were, unsurprisingly, the beneficiaries of sizeable upward revisions to prior estimates of sales in June. Sales revenue at motor vehicle dealers rose 1.1 percent in July, matching the increase in June which was initially reported as a 0.1 percent increase, and May sales revenue was also revised higher. It is worth noting that while unit vehicle sales have softened a bit over recent months, the sales mix has become increasingly concentrated amongst higher priced SUVs/light trucks, which has helped mitigate the impact on sales revenue. What is still puzzling, however, is that measures of new and used vehicle prices continue to show falling prices, making it harder to put the retail sales data in proper context.

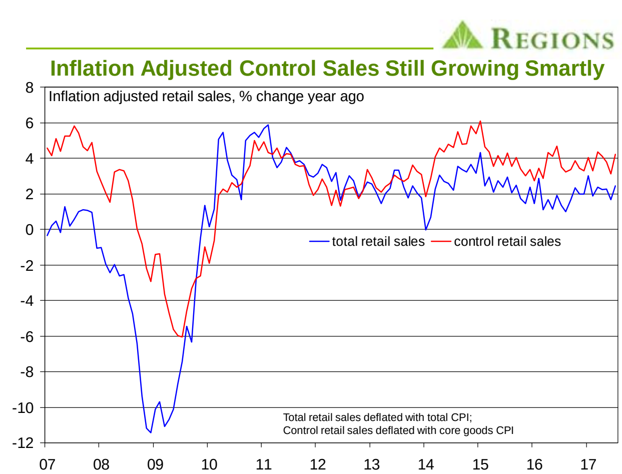
That the July data show a sizeable increase in sales by nonstore retailers, roughly 87 percent of which are accounted for by online sales, comes as no surprise given July 11 was *Amazon Prime Day*. Still, the estimates of online sales come with a two-month lag, meaning we don't yet have the June data let alone the July data. As such, the estimate of a 1.3 percent increase in sales by nonstore retailers in July will no doubt be revised over coming months. To that point, today's report pegs the gains in sales at nonstore retailers for both May and June at 1.0 percent, significantly higher than the initial estimates, and we won't be at all surprised to see the initial July estimate revised higher.

As we noted in our weekly *Economic Preview*, to some extent online sales driven by Amazon's promotion would have displaced spending through other channels. As if on cue, sales at apparel stores were down by 0.2 percent in July while sales at electronics stores were down 0.5 percent. If we are correct that the initial estimate of July sales by nonstore retailers will be revised higher, the flip side of that could well be downward revisions to these two categories. The other broad category posting lower sales in July was gasoline stations, which we had anticipated would be the case given lower retail prices.

As we routinely point out, the retail sales data are reported in nominal terms, i.e., they are not adjusted for price changes. Given that prices for core goods (i.e., excluding food and energy) have been falling for over four years now, this has led to the retail sales data often looking weaker than has actually been the case, which in turn has led to some, frankly, lousy analysis by those failing to account for price changes. As seen in our second chart below, when accounting for price changes, growth in control retail sales continues to grow at a solid pace, a pace consistent with ongoing improvement in labor market conditions, continued low interest rates, and elevated consumer confidence. This of course won't those intent on seizing any negative data point and spinning it into a tale of consumer distress, but, whatever.

We have been consistent in our view that the drivers of consumer spending remain solid, even as recent revisions to data on personal income and savings have highlighted some downside risks. The inherent volatility in the monthly retail sales reports notwithstanding, consumers will remain the key driver of growth in the U.S. economy.





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