ECONOMIC UPDATE
REGIONS
July 15, 2022

June Retail Sales: Goods Spending Holds Up, With Help From Higher Prices

- Retail sales rose by 1.0 percent in June after falling 0.1 percent in May (initially reported down 0.3 percent)
- Retail sales excluding autos rose by 1.0 percent in June after rising 0.6 percent in May (initially reported up 0.5 percent)
- Control retail sales (sales excluding motor vehicles, gasoline, restaurants, and building materials) rose by 0.8 percent in June

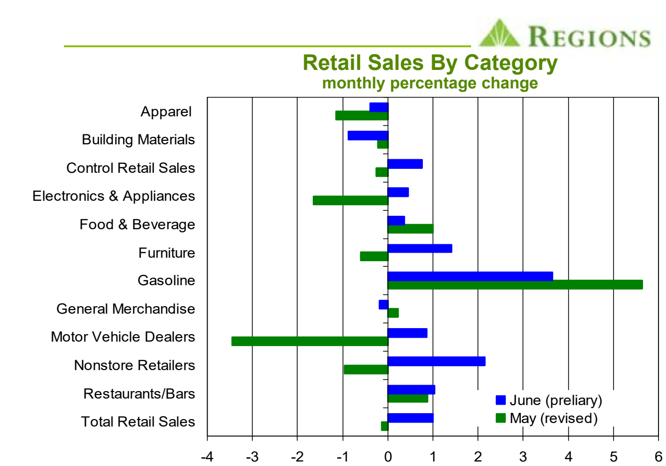
Total retail sales rose by 1.0 percent in June, between the 0.9 percent increase the consensus forecast expected and the 1.1 percent increase we expected, with ex-auto retail sales up by 1.0 percent and control retail sales up by 0.8 percent, compared to our forecast of 1.0 percent and 0.6 percent gains, respectively, both above the consensus forecast. Revisions to the initial estimate of May retail sales were mixed, with total and ex-auto sales revised modestly higher and control retail sales revised down. After comments by Fed Governor Waller yesterday, there was suddenly considerable talk of how important the June retail sales data would be in the FOMC's decision on raising the Fed funds rate by 75 or 100 basis points at this month's meeting, to which our reaction was wow, okay, really? Aside from the retail sales data being inherently volatile and prone to sizable revision, the data are not adjusted for price changes, and given that goods prices as measured in the CPI rose by 2.1 percent in June, what's the takeaway supposed to be here? Additionally, retail sales capture roughly one-third of consumer spending and, with the exception of restaurant sales, don't tell us anything about consumer spending on services. So, not to deny the retail sales data their moment in the spotlight, but the June data don't really tell us anything different about the state of U.S. consumers than we knew, or thought we knew, ahead of the release. Despite dour sentiment, consumers have continued to spend but are shifting more of their expenditures toward services and away from goods while higher goods prices continue to cloud the magnitude of this shift, and Q2 growth in real consumer spending is on course to be slower than was the case in Q1. Hardly the basis for a bold policy decision.

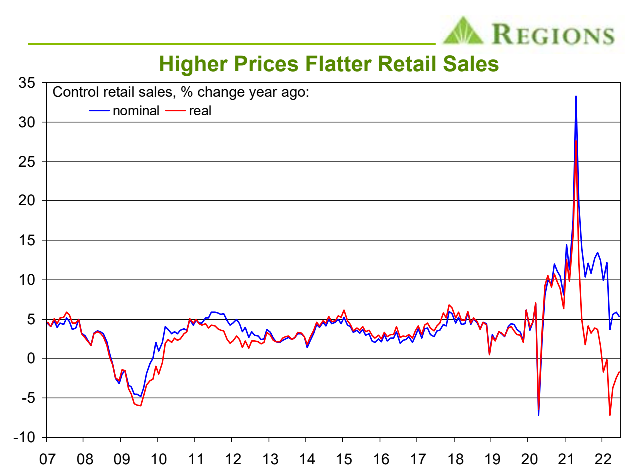
Sales rose in June in nine of the thirteen broad categories for which data are reported. Thanks to sharply higher prices, gasoline station sales rose by 3.6 percent, following an upwardly revised increase of 5.6 percent in May. The recent declines in prices all but assure gasoline will be a drag on July retail sales, particularly on a seasonally adjusted basis. Higher unit sales and higher prices helped push revenue at motor vehicle dealers higher in June, with a 0.9 percent increase following May's 3.4 percent decline, less severe than initially reported. Our forecast anticipated a rebound in sales at nonstore retailers, of which roughly ninety percent consist of online sales, and part of our thinking was that higher gasoline prices led consumers to do more shopping at home rather than venturing out to physical stores. Though the data on online sales are lagged by a month, sales by nonstore retailers rose by 2.2 percent in June, so it seems clear that online sales were up sharply and, while it could be no more than coincidence, department store sales were down by 2.6 percent in June. Aside from where consumers shopped, discounting by inventory-laden retailers likely contributed to the decline in department store sales.

Furniture store sales were up by 1.4 percent in June, more than offsetting the 0.6 percent decline in May, while sales at electronics and appliance stores were up by 0.4 percent after having fallen by 1.6 percent in May. Restaurant sales rose by 1.0 percent, and sales at auto parts stores rose by 0.2 percent. On the flip side, sales at building materials stores fell by 0.9 percent, sales at apparel stores fell by 0.4 percent, and sales at general merchandise stores fell by 0.2 percent (department stores roll up into the broad general merchandise category).

We'll again note that the retail sales data are not adjusted for price changes. Using the CPI index of core goods prices to deflate control retail sales leaves real control sales down month-to-month and down 1.7 percent year-on-year. The June retail sales data also benefit from favorable seasonal adjustment. In a typical June, not seasonally adjusted control retail sales tend to decline, as they did this year. This June's decline, however, was smaller than the normal June decline, which obviously is at least in part a function of higher prices, thus bolstering the reported increase in control retail sales on a seasonally adjusted basis. The point here being that, if one is really trying to use the June retail sales data to gauge the state of U.S. consumers, just looking at the headline sales number isn't going to tell you all that much.

Our take all along has been that consumer spending would hold up better than implied by the sentiment surveys, with services taking a growing share of expenditures. We've seen nothing thus far to contradict that.





Regions Financial Corporation, 1900 5th Avenue North, 17th Floor, Birmingham, Alabama 35203
Richard F. Moody, Chief Economist • 205.264.7545 • richard.moody@regions.com