ECONOMIC UPDATE

REGIONS

July 17, 2025

June Retail Sales: The "Truth" Lies Somewhere Between The May And June Data

- Retail sales rose by 0.6 percent in June after falling 0.9 percent in May (as originally reported)
- Retail sales excluding autos rose by 0.5 percent in June after falling 0.2 percent in May (originally reported down 0.3 percent)
- Control retail sales (sales excluding motor vehicles, gasoline, restaurants, and building materials) rose by 0.5 percent in June

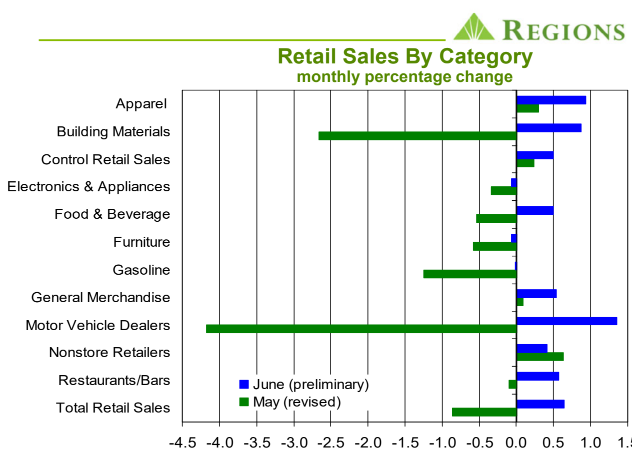
Total retail sales rose by 0.6 percent in June, with ex-auto sales up by 0.5 percent and control group sales, a direct input into the GDP data on consumer spending on goods, also rising by 0.5 percent. Across the board, our forecasts were above the consensus forecasts, but while the increase in total retail sales matched our forecast, our forecasts for ex-auto sales (up 0.8 percent) and control group sales (up 0.9 percent) proved too high. The miss on control group sales is in effect even larger given the downward revision to May control group sales, now reported to have risen by 0.2 percent rather than by 0.4 percent as initially reported. That said, much of our miss on control group sales owes to a meaningfully smaller increase in sales by nonstore retailers, a category dominated by online sales, than our forecast anticipated. June's increase in retail sales was broadly based, with sales rising in ten of the thirteen broad categories for which data are reported. It is fair to note that seasonal adjustment flattered June sales in many categories, as did higher prices thanks in part to tariff pass-through. It is also fair, however, to note that even after adjusting for price changes, retail sales posted a solid gain in June. As we've noted, to the extent there is a soft spot in overall consumer spending, that would be discretionary services, particularly travel related services. Aside from restaurant sales, which posted a healthy increase in June, services spending is not captured in the retail sales data, so we'll have to wait until later in the month for the BEA to release their data on total consumer spending to see if discretionary services spending remained weak in June. Overall, however, with overall household financial conditions remaining strong and growth in aggregate labor earnings continuing to outpace inflation, consumer spending remains sturdier than implied by lackluster prints on consumer sentiment.

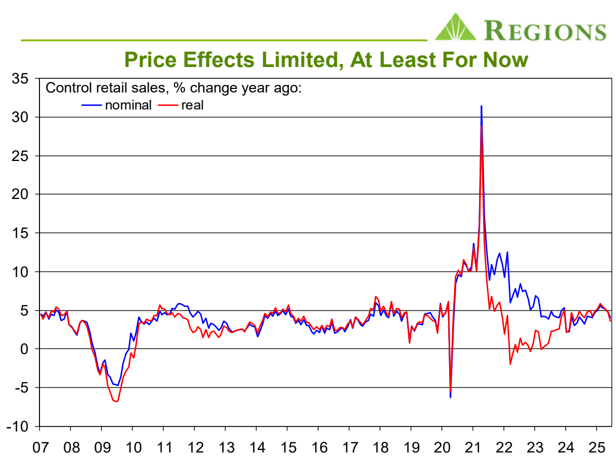
The seasonally adjusted data show sales revenue at motor vehicle dealers rose by 1.4 percent, with apparel store sales up by 0.9 percent, sales at building materials stores up 0.9 percent, restaurant sales up 0.6 percent, and general merchandise stores and grocery stores each posting a 0.5 percent increase. Sales by nonstore retailers rose by 0.4 percent which, as noted above, was lower than our forecast anticipated, perhaps a sign of consumers resting up for July's Amazon Prime Day(s) as this year's event was larger, or at least longer, than has been the case in the past which, in turn, meant other retailers had to up their promotional games as well.

To the downside, sales at auto parts stores fell by 0.4 percent, furniture store sales fell by 0.1 percent, as did sales at electronics/appliance stores. Gasoline station sales were flat for the month. It is interesting that the June Consumer Price Index (CPI) showed hefty increases in the same categories for which June retail sales were the weakest. These are, however, categories for which there were signs of consumers pulling purchases forward earlier in 2025 to avoid tariff-related price increases, while at the same time the magnitude of price increases over the past few months is likely acting to inhibit demand.

To the broader point of whether, or to what extent, the costs of higher tariffs are being passed along to consumers in the form of higher goods prices, the retail sales data do not appear to offer much in the way of evidence one way or the other. One obvious caveat, alluded to above, is that to the extent higher prices are weighing down demand, that will act to counter price effects in terms of total sales revenue. As seen in our second chart below, we have yet to see a gap open up between nominal and real control group sales, certainly nothing on the order of what we saw over the 2021-2023 period when goods price inflation was running amok. We do think it worth noting that the year-on-year percentage changes in both nominal and real control group sales were considerably smaller in June than has been the case over the past several months. This simply reflects how hard the over-the-year comparisons are, as nominal control group sales rose by 1.2 percent last June and real control group sales were up by 1.0 percent, these gains reflecting a spike in online sales.

Just as last month argued that the 0.9 percent decline in retail sales was overstating the case, we'll make the same point about the gain reported for June. The data on goods spending continue to reflect payback from purchases, particularly consumer durable goods, having been pulled forward, and are also being impacted by higher prices in many categories. The "truth," as these things often go, lies somewhere in between but, either way, there is little to suggest growing distress amongst consumers.





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