

ECONOMIC UPDATE



REGIONS

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August Retail Sales: Consumers More Discerning, But Still Willing And Able To Spend

- Retail sales rose by 0.6 percent in August after rising 0.6 percent in July (originally reported up 0.5 percent)
- Retail sales excluding autos rose by 0.7 percent in August after rising 0.4 percent in July (originally reported up 0.3 percent)
- Control retail sales (sales excluding motor vehicles, gasoline, restaurants, and building materials) rose by 0.7 percent in August

Total retail sales rose by 0.6 percent in August, a touch better than the 0.5 percent increase we expected and easily ahead of the consensus forecast of a 0.2 percent increase. Ex-auto sales were up by 0.7 percent, again just ahead of our forecast (0.6 percent) and well ahead of the consensus forecast (0.4 percent), while control retail sales were up by 0.7 percent, matching our forecast and topping the consensus forecast (0.4 percent). At the same time, prior estimates of sales for June and July were revised higher. Broadly speaking, the August data align with our expectations; as we noted in this week's *Economic Preview*, we anticipated smaller gains in not seasonally adjusted total and control group sales than those seen in July and friendlier seasonal adjustment for the August data than that seen in July, both at odds with typical patterns, and both proved to be the case. While one could point to what is one of the weaker August performances for not seasonally adjusted control retail sales in the life of the current series, which dates back to 1992, our counter would be that July saw the largest increase in unadjusted control group sales on record. It seems clear that expanded online promotions in July, led by a super-sized *Amazon Prime Day* sales, pulled some spending, including some back to school spending, forward from August.

Such shifts in timing are of little consequence in terms of quarterly growth patterns, but we do think this to be another instance of consumers being opportunistic, in the sense that while consumers in the aggregate have ample wherewithal to spend, they are being more discerning and taking advantage of discounts/incentives. Aside from online spending, we've also seen this with motor vehicle sales over the past two months as consumers have taken advantage of expiring EV tax credits, thus helping push the annualized pace of new vehicle sales over 16 million units in July and August. While pricing was a modest support for August retail sales, higher goods prices are not close to being the main driver of growth in nominal spending, though we still expect to see greater tariff pass-through over coming months. Through August, growth in nominal control group sales is running at an annual rate of over six percent, which will still yield a solid gain after accounting for price changes. Largely lost in the considerable discussion of the pronounced slowdown in job growth

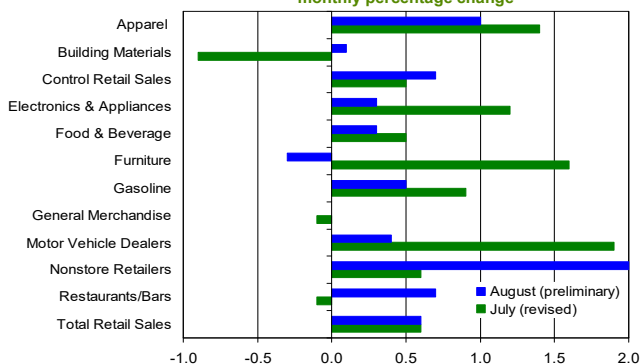
is the question of why job growth has slowed. We've argued that this is just as much, if not more, of a labor supply story than a labor demand story, and that growth in labor earnings continues to easily run ahead of inflation supports our contention. While consumers may be more anxious they nonetheless still have the capacity to spend. That they have become more circumspect in the timing and composition of spending should be sending a message to retailers pondering tariff-related pricing decisions.

On a seasonally adjusted basis, sales were up in nine of the thirteen broad categories for which data are reported. Sales at nonstore retailers, a category dominated by online sales, were up by 2.0 percent, apparel store sales were up by 1.0 percent, and restaurant sales – the only glimpse of services spending in the retail sales data – were up by 0.7 percent. Sales revenue at motor vehicle dealers was up by 0.4 percent despite a decline in unit sales of new vehicles, which to some extent reflects the impact of higher vehicle prices in August. If we are correct in expecting stronger tariff pass-through in new vehicle prices in the months ahead, that will help offset what we expect will be a more restrained pace of unit sales.

To our earlier point, however, the not seasonally adjusted data show both total and control group sales were up by just 0.1 percent in August, easily smaller gains than are typical for the month. That said, the details of the data suggest spending being pulled forward into July was only partially to blame. For instance, July's increase in not seasonally adjusted sales by nonstore retailers was the largest July increase on record, so it is no surprise that the August data show a larger decline than is typical for the month. In contrast, however, not seasonally adjusted sales at general merchandise stores, typically a beneficiary of back to school spending, posted a slightly larger than normal July increase and followed that up with a larger than normal August increase. Unadjusted apparel store sales also notched a larger August increase than is typical for the month. Again, higher prices account for some of this, but thus far increases in goods prices have not been large enough or sufficiently broadly based to be seen as the primary driver of higher sales revenue. While there are pockets of stress, particularly amongst lower-income households, on the whole the retail sales data suggest ample wherewithal to spend.



Retail Sales By Category
monthly percentage change



No Surprise: Softer August Follows Record July

