



## Economics Group

Eugenio Aleman, Senior Economist

[eugenio.j.aleman@wellsfargo.com](mailto:eugenio.j.aleman@wellsfargo.com) • (704) 410-3273

Michael A. Brown, Economist

[michael.a.brown@wellsfargo.com](mailto:michael.a.brown@wellsfargo.com) • (704) 410-3278

## Retail Sales Post Another Gain in July

*July retail sales rose 0.2 percent in July after an upwardly revised 0.6 percent gain in June, marking the fourth consecutive month of sales growth. Core retail sales showed more broad-based gains for the month.*

### More Broad-Based Gains in Sales in July

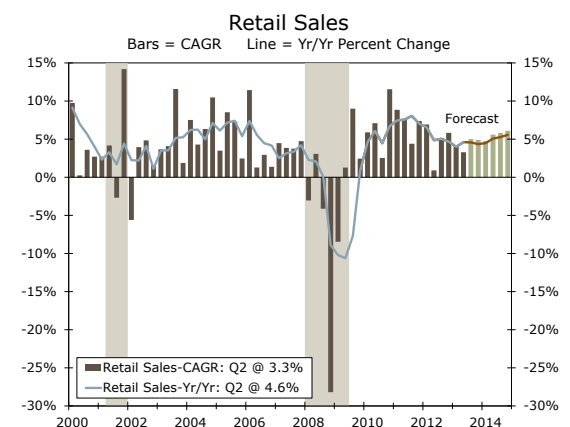
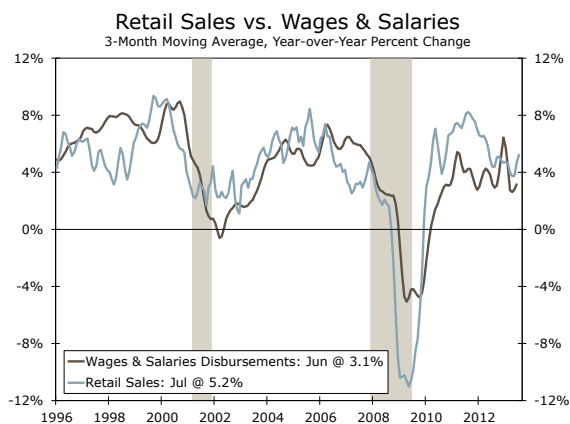
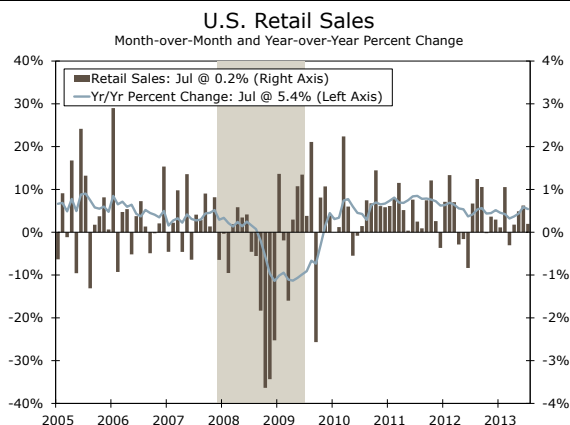
Retail sales posted a modest 0.2 percent rise in July with more broad-based sales gains. Taken together with the sizable upward revisions to June's data, we view this report as a net positive for consumer spending. Nine categories posted sales gains for the month while four posted declines. So far this year, the recent growth in retail sales has been supported primarily by auto sales and not much else. This pattern appears to be changing, as sales excluding auto sales rose 0.4 percent in July, underscoring the more wide spread growth in sales. Once both autos and gasoline sales are excluded, sales posted a 0.4 percent rise for the month. Among the categories posting the largest gains were gasoline stations, food and beverage, sporting goods and clothing. Sales declined the most for furniture and motor vehicles and parts. On a year-over-year basis, overall retail sales are now up 5.4 percent. The three-month moving average has climbed to 4.0 percent as of July, compared to the more modest 3.5 percent pace observed in the final month of the second quarter. Consumer spending appears to be picking up momentum to start the quarter.

### Inflation May Have Played a Small Role in July Gains

The nominally reported retail sales number was likely influenced in part by somewhat higher prices for the month. Sales at gasoline stations in particular posted a sizable 0.9 percent gain for the month. This gain coincides with an increase in gasoline prices for the month of July. The AAA average retail price of regular unleaded gasoline rose 3.9 percent for the month which likely accounts for much of the jump in gas station sales. Beyond gasoline prices, overall consumer prices have begun to pick up in recent months as global economic activity has begun to edge higher. With somewhat higher rates of inflation in the second half of the year, there may be some upside potential to the headline retail sales number in the coming months.

### What Will Consumer Spending Look Like in the Third Quarter?

Today's report indicates that third quarter consumer spending started on a positive note. The control group within retail sales that feeds into the calculation of GDP accelerated to 0.5 percent after rising an average of just 0.2 percent over the last quarter. In addition, personal income growth is expected to post modest gains. According to our outlook, job growth should average in the 190-200 thousand per month range, which should maintain some of the momentum behind the upward trend in wage and salary growth. Our expectation is that that overall retail sales will post a 4.6 percent rise for the third quarter as a whole, before accelerating further into 2014. Real personal consumption expenditures should help support stronger GDP growth with gains of 2.0 percent and 2.2 percent in the third and fourth quarters respectively.



## Wells Fargo Securities, LLC Economics Group

|                       |   |                                  |                                     |
|-----------------------|---|----------------------------------|-------------------------------------|
| Diane Schumaker-Krieg | Global Head of Research, Economics & Strategy | (704) 410-1801<br>(212) 214-5070 | diane.schumaker@wellsfargo.com      |
| John E. Silvia, Ph.D. | Chief Economist                               | (704) 410-3275                   | john.silvia@wellsfargo.com          |
| Mark Vitner           | Senior Economist                              | (704) 410-3277                   | mark.vitner@wellsfargo.com          |
| Jay Bryson, Ph.D.     | Global Economist                              | (704) 410-3274                   | jay.bryson@wellsfargo.com           |
| Sam Bullard           | Senior Economist                              | (704) 410-3280                   | sam.bullard@wellsfargo.com          |
| Nick Bennenbroek      | Currency Strategist                           | (212) 214-5636                   | nicholas.bennenbroek@wellsfargo.com |
| Eugenio Aleman, Ph.D. | Senior Economist                              | (704) 410-3273                   | eugenio.j.aleman@wellsfargo.com     |
| Anika Khan            | Senior Economist                              | (704) 410-3271                   | anika.khan@wellsfargo.com           |
| Azhar Iqbal           | Econometrician                                | (704) 410-3270                   | azhar.iqbal@wellsfargo.com          |
| Tim Quinlan           | Economist                                     | (704) 410-3283                   | tim.quinlan@wellsfargo.com          |
| Michael A. Brown      | Economist                                     | (704) 410-3278                   | michael.a.brown@wellsfargo.com      |
| Sarah Watt            | Economist                                     | (704) 410-3282                   | sarah.watt@wellsfargo.com           |
| Michael T. Wolf       | Economist                                     | (704) 410-3286                   | michael.t.wolf@wellsfargo.com       |
| Sara Silverman        | Economic Analyst                              | (704) 410-3281                   | sara.silverman@wellsfargo.com       |
| Zachary Griffiths     | Economic Analyst                              | (704) 410-3284                   | zachary.griffiths@wellsfargo.com    |
| Peg Gavin             | Executive Assistant                           | (704) 410-3279                   | peg.gavin@wellsfargo.com            |
| Cyndi Burris          | Administrative Assistant                      | (704) 410-3272                   | cyndi.burris@wellsfargo.com         |

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