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### July Retail Sales: Sales Live Down To Expectations

- Retail sales were unchanged in July after a 0.2 percent increase in June (matching the initial estimate).
- Retail sales excluding autos rose by 0.1 percent after rising 0.4 percent in June (also matching the initial estimate).
- Control retail sales (sales excluding motor vehicles, gasoline, restaurants, and building materials) rose by 0.1 percent in July.

As readers of our weekly *Economic Preview* know, we expected very little from the July retail sales report, and the data lived up, um, down, to our expectations. Total retail sales were unchanged in July with ex-auto and control retail sales – the latter a direct input into the GDP data on consumer spending – both eking out a 0.1 percent gain. Revisions to prior estimates for May and June were slightly negative, with May total and control sales revised down by one-tenth of a percent each, with gains of 0.4 percent and 0.1 percent, respectively, while June control retail sales were marked from a 0.6 percent to a 0.5 percent increase.

Sales revenue at motor vehicles dealers fell by 0.3 percent in July (sales at parts stores rose 0.5 percent so the decline in the composite "motor vehicle and parts dealers" was 0.2 percent) thanks in part to a drop in both new and used motor vehicles. One factor that mitigated the decline in sales revenue was a more favorable mix of new vehicle sales, i.e., more light trucks and fewer autos. It is worth putting the decline in unit sales of new motor vehicles in July in proper context, coming as it did after sales spiked in June and Q2 as a whole saw the fastest pace of sales of new vehicles since 2006. Should new vehicle sales edge higher over coming months as we anticipate, this will provide moderate support for overall retail sales.

Elsewhere the July retail sales data are very much a mixed bag with few standout changes in either direction. One exception is the 0.7 percent decline in department store sales, a category that has been weak over recent months. Sales at general merchandise stores fell 0.5 percent in July after posting a solid gain in June. There could be a couple of factors at play here, one would be discount stores displacing some sales from department stores, and the other could be consumers simply took a break in July to gear up for back to school sales in August.

Sales at furniture stores and at electronics/appliance stores each fell 0.1 percent in July. On the flip side, sales at apparel stores were up 0.4

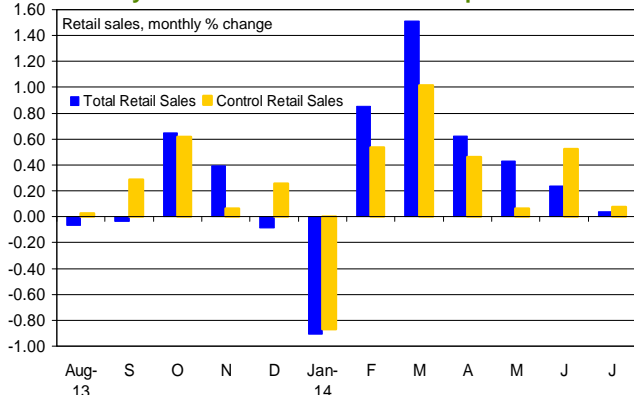
percent in July, with sales at food and beverage stores up 0.3 percent, sales at building materials stores up 0.2 percent, and sales at gasoline stations up 0.1 percent, with lower pump prices holding down sales.

Sales at nonstore retailers were flat in July (down 0.07 percent), note this category includes but is not limited to online sales, which are reported with a one month lag so the July number is not yet available. In June, though, online sales rose a heady 1.6 percent and excluding the post-holiday/it's too cold to even shop online decline in January, monthly gains in online sales have averaged 1.6 percent thus far in 2014. Even including the January decline in the mix, average monthly increases in online sales are running ahead of those posted in 2013, which in turn ran ahead of monthly gains posted in 2012. In other words, the gradual displacement of sales from brick and mortar retailers to online retailers continues to gather pace, and in June online sales accounted for 13.6 percent of control retail sales, ahead of the 12.9 percent share in June 2013 and the highest share since data on online sales has been available. Restaurant sales, at least as reported in the retail sales data, continue to exhibit the odd patterns seen over the past several months. Estimates for prior months have been revised higher – going from up 0.9 percent in May to up 1.1 percent, and going from down 0.3 percent in June to up 0.2 percent – while the current month estimate is again on the same side, with an initial estimate of a 0.2 percent increase in July that, if these patterns hold, will be revised higher with the release of the August data.

As noted, we had low expectations for the July retail sales report and look for back to school spending to support better gains in August. More significantly, we expect continued improvement in the labor market to fuel faster growth in aggregate earnings, which will support better growth in personal income and, in turn, consumer spending. Our forecast for Q3 consumer spending remains intact even with the uninspiring July retail sales report.



July Retail Sales Live Down To Expectations



Faster Earnings Growth Needed To Boost Spending Growth

