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June Retail Sales: The "Truth" Lies In Between The Sharp Monthly Swings

- Retail sales fell by 0.3 percent in June after having risen by 1.0 percent in May (originally reported up 1.2 percent).
- Retail sales excluding autos fell by 0.1 percent after having risen 0.8 percent in May (originally reported up 1.0 percent).
- Control retail sales (sales excluding motor vehicles, gasoline, restaurants, and building materials) fell by 0.1 percent in June.

We went into it not expecting much – as evidenced by our forecast of a 0.1 percent gain in headline sales – but the June retail sales report still managed to underperform. Total retail sales fell 0.3 percent in June with ex-auto sales dropping 0.1 percent and control retail sales, a direct input into the GDP data, also falling 0.1 percent. Moreover, revisions to May and April were to the downside. All in all, though, the June retail sales report leaves our view of consumer spending pretty much where it was prior to the release of the data – in our write-up of the May retail sales report and in this week's *Economic Preview* we made the point consumer spending was neither as weak as had been reported for April nor as strong as had been reported for May, with the "truth" lying pretty much in the middle. Today's data do nothing to alter that view.

This of course puts us squarely at odds with the initial takes on the June data coming across the airwaves and drifting through cyber space, which have pretty much been along the lines of "what's wrong with U.S. consumers?" As seen in the first chart below, retail sales have been on a rather volatile path over recent months. One factor behind this is the ever dreaded "calendar effect" in which the timing of holidays wreaks havoc with seasonal adjustment factors. This year saw an early Easter holiday – which funneled some spending from April forward into March – and an early Memorial Day holiday – which funneled some spending from June forward into May. Sure, mandating that every holiday fall on exactly the same day each year would mitigate the seasonal adjustment problems. But, as for some odd reason economists seem to be the only group on board with that idea, the alternative is to simply take the average of these two-month swings to get a better sense of the underlying trends.

Admittedly, the words "underlying trends" don't often make their way into the reaction to any given data release, but perhaps they should. The June data on retail sales, soft as they seem, still yield annualized growth of 6.0 percent and 3.3 percent, respectively, in total retail sales and

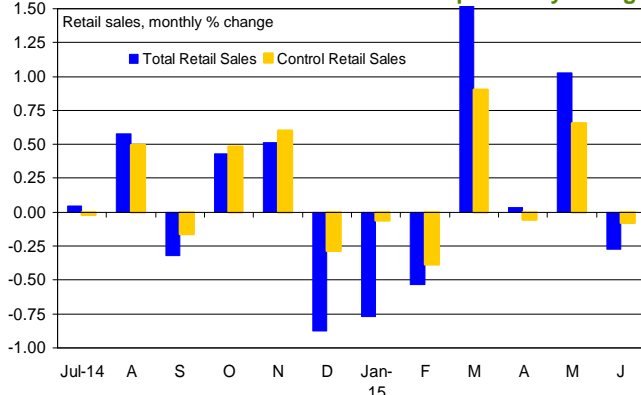
control retail sales for Q2 as a whole. Accounting for spending on services, not included in the retail sales data but roughly two-thirds of all consumer spending, we still see growth in real consumer spending of around 3.0 percent for Q2.

To this point we've not really touched on the June data specifically, but one could simply assume the factors that led to May's outsized gain reversed in June without being too far off the mark. While unit motor vehicle sales came in at an annual rate of 17.2 million units in June, a solid number in and of itself, this nonetheless is below the even more robust 17.8 million unit sales rate in May, thus revenue at motor vehicle dealers is reported to have declined 1.0 percent in June after having risen 1.9 percent in May. Apparel store sales rose 1.4 percent in May then fell 1.5 percent in June. Department store sales rose 1.9 percent in May then fell 0.6 percent in June. Sales at auto parts stores rose 1.9 percent in May then fell 1.4 percent in June. With a double-digit increase in retail pump prices in May, sales at gasoline stations rose 3.7 percent in May as reported in the retail sales data. In June retail pump prices rose by a more modest 2.9 percent which translated into a 0.8 percent increase in sales at gasoline stations in the June retail sales data. Restaurant sales are reported to have declined 0.2 percent in June but prior estimates for April and May were revised higher – this has been a long running pattern in this category and we won't be surprised to see the initial June print revised higher in subsequent months.

As has been the case with so much of the economic data, the retail sales data over the past several months are a useful caution against the tendency to draw broad conclusions about the underlying health of a \$16 trillion economy from each and every piece of data. Sure, the month-to-month swings are frustrating and often confusing, but the underlying trends amidst these monthly swings are a much better guide. As such, while the June retail sales report still leaves us on a path of steady, though surely not spectacular, growth in consumer spending.



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Households In No Rush To Ramp Up Spending

