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July Retail Sales: Relax, U.S. Consumers Are Just Fine

- Retail sales rose by 0.6 percent in July after being unchanged in June (originally reported down 0.3 percent).
- Retail sales excluding autos rose by 0.4 percent after rising 0.4 percent in June (originally reported down 0.1 percent).
- Control retail sales (sales excluding motor vehicles, gasoline, restaurants, and building materials) rose by 0.3 percent in July.

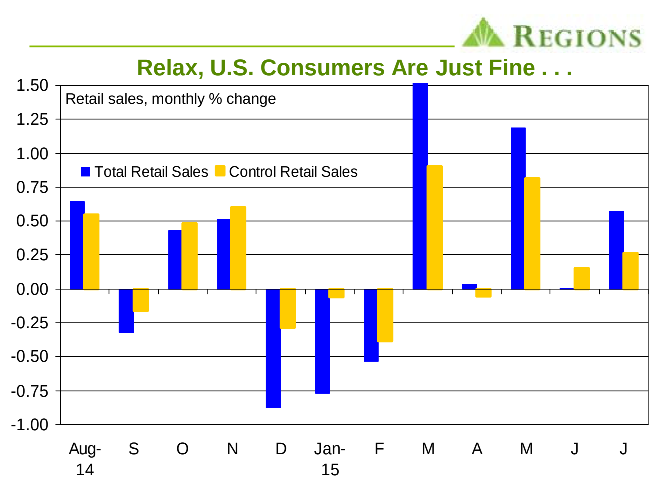
"Nothing, really." That has been our answer to a question that over recent months has been posed to us quite often – "what's wrong with U.S. consumers?" Sure, reported retail sales have been choppy from one month to the next, as is the case with most of the top-tier economic data of late. But, the July retail sales report should help allay any remaining concerns as to the state, and psyche, of U.S. consumers. Not only did total retail sales rise 0.6 percent in July, but prior estimates for May and June were revised higher. Ex-auto sales were up 0.4 percent in July, with control retail sales up 0.3 percent – prior estimates for May and June were revised higher for both of these series. Since control retail sales are a direct input into the GDP data, the upward revisions mean growth in real consumer spending for Q2 will be revised higher, yet another source of upward revision to top-line real GDP growth for Q2.

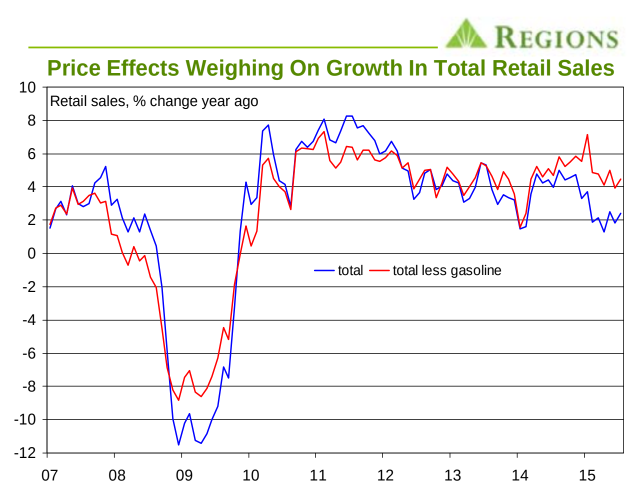
July's gains in retail sales were broad based, with 11 of the 13 broad categories for which sales are reported advancing. Sales revenue at motor vehicle dealers was up 1.4 percent, reflecting the heady 17.5 million unit annual sales rate. Nonstore retailers posted a 1.5 percent increase in sales, which to a large extent likely reflects Amazon's "Prime Day" which saw huge volume – note that online sales are broken out separately but only with a one-month lag, so we won't have a better sense of this effect for another month yet but it's a fairly safe bet Amazon was the big driver of gains in this category. But, even if that is the case, consumers still spent freely in other categories in July. Sales at furniture stores were up 0.8 percent, restaurant sales were up 0.7 percent, as were sales at building materials/garden stores, while sales at apparel stores were up 0.4 percent. Some of the largest upward revisions to the June data came in the categories of gasoline stations, furniture stores, building material stores, and apparel stores.

Given the high degree of volatility in the monthly data in so many of the economic data series of late we have repeatedly stressed the importance of looking at the underlying trends. This has been true of the retail sales data, where the underlying trend showed healthy growth in sales despite considerable swings in the monthly headline numbers, as evidenced by the Q2 GDP data. There is, however, another detail in the data that is making the retail sales data look weaker than in reality is the case.

The issue is the retail sales data are reported on a nominal basis, which means they do not reflect changes in price. The most obvious case of this is gasoline sales -- retail gasoline prices are better than 20 percent below their year-ago levels per EIA data, and this is acting as a significant drag on measured growth in total retail sales, as is clearly seen in the chart below. Excluding gasoline, retail sales were up 4.5 percent in July compared to the 2.4 percent increase in total retail sales. But, gasoline is by no means the only instance in which price effects are holding down growth in nominal sales. Prices of goods are down on a year-on-year basis almost across the board – apparel, home furnishings, appliances, video & audio equipment, and personal care products are amongst the categories of goods in which prices are falling year-on-year. One notable exception is food – prices for food consumed at home are up year-on-year, but by less than 1 percent and the rate of increase has been steadily slowing. Today's report on import prices suggests the trend for falling goods prices will continue, which is a side effect of a stronger U.S. dollar. Looking out at the world, the dollar figures to gain further strength in the months ahead, particularly if/when the FOMC begins raising the Fed funds rate. To be sure, spending on goods accounts for only about one-third of all consumer spending; services account for the remainder, and services prices are rising at a better than 2 percent rate. But, the point remains that lower goods prices are a decided lift for consumers, particularly in tandem with healthy gains in total labor earnings, even if hourly earnings growth remains listless.

So, as we noted at the outset, U.S. consumers are doing just fine. The monthly data may indeed remain volatile, but the underlying trend will still show steady growth in consumer spending in the months ahead.





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