ECONOMIC UPDATE

REGIONS

July 16, 2024

June Retail Sales: Not Buying What Census Is Selling

- Retail sales were unchanged in June after rising 0.3 percent in May (originally reported up 0.1 percent)
- Retail sales excluding autos rose by 0.4 percent in June after rising 0.1 percent in May (originally reported down 0.1 percent)
- Control retail sales (sales excluding motor vehicles, gasoline, restaurants, and building materials) rose by 0.9 percent in June

Total retail sales were unchanged in June, with ex-auto sales rising by 0.4 percent and control retail sales up by 0.9 percent. At the same time, prior estimates of sales over the prior two months were revised upward. June sales topped the consensus forecasts across the board and were even further above our below-consensus forecasts, as we anticipated total sales falling by 0.6 percent, ex-auto sales falling by 0.2 percent, and control sales being flat. Sure, we know the drill, this is the point where we, hanging our heads in shame, apologize for an egregiously bad forecast, explain it away, promise to do better next time, and throw in some tired cliches about never underestimating the resilience of U.S. consumers. You'll perhaps excuse us if we do not stick to that script.

As we discussed in this week's *Economic Preview*, June has always been somewhat of an odd month for retail sales, falling between May, when the Memorial Day holiday drives a lot of spending, and July, when the Fourth of July holiday and, in more recent years, online promotions drive a lot of spending. As such, on a not seasonally adjusted basis, with the obvious exception of 2020, retail sales have almost never risen in June, having done so only three times in the life of the current data, which go back to 1992, while 1994 was the last time unadjusted control retail sales rose in the month of June. As we anticipated, unadjusted sales fell this June as well, and while that obviously is not news, what is noteworthy is the magnitude of this June's declines. The unadjusted data show total retail sales fell by 5.6 percent in June, while control retail sales fell by 4.5 percent, significantly larger than the 3.4 percent decline our forecast anticipated. So the unadjusted data show a meaningfully larger decline in control retail sales than our forecast anticipated, yet the seasonally adjusted data show control sales up 0.9 percent as opposed to being flat as our forecast anticipated. In other words, seasonal adjustment was far more generous in June than we anticipated, which in turn means that every account of retail sales you see touting the resilience of U.S. consumers is reacting to nothing more than seasonal adjustment flattery.

We're not trying to save face here. As we've made clear repeatedly, we think it important to understand why the numbers are what they are; if not, how can anyone say anything remotely useful about what is actually happening in the economy. We have also repeatedly stated that we could not possibly care less if we "miss" a forecast for no other reason than seasonal adjustment being meaningfully more/less supportive than we expected, as it is the patterns in the unadjusted data that tell the only story worth listening to. Sure, our June retail forecasts will be on the books as being wildly off base, but that's fine given why that will be the case.

For perspective, this June's decline in unadjusted control retail sales was much larger than the average June declines in both the pre and post-pandemic periods. To our point about friendly seasonal adjustment, the unadjusted data show sales by nonstore retailers, the bulk of which consist of online sales, fell by 6.6 percent in June, while the seasonally adjusted data show sales by nonstore retailers rising by 1.9 percent. Sales at furniture store sales fell by 2.6 percent prior to seasonal adjustment whereas the seasonally adjusted data show them rising by 0.6 percent. We could go on, but we won't, as the point should be clear by now. We will note once again that June motor vehicle sales were significantly impacted by the cyberattack on software used by dealers to conduct and report sales. That shortfall, however, will be largely made up for in the July data, which will boost headline sales.

We also think it worth noting that, while our forecast of June retail sales was below the consensus, we had, and still have, a more constructive take on U.S. consumers than do many others, particularly those who prior to the report on June retail sales were spinning particularly gloomy tales of tapped-out consumers lacking the will and the means to spend. While we neither dismiss nor discount the financial stress being felt by many lower-to-middle income households, household financial conditions on the whole remain solid, particularly with aggregate labor earnings continuing to easily outpace inflation. Goods spending has been held back by falling goods prices and spending still tilting toward services spending. While we had seen signs of spending fatigue, we by no means felt consumer spending was on the verge of collapse. The June retail sales data do not at all change our view of U.S consumers.