Economics

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Economic Indicator — August 15, 2023

Retail Sales: Resilience or Madness?

Summary

Somehow rising delinquencies, higher consumer financing costs and the erosion of pandemic-era savings comprised the perfect formula for an expectation-crushing 0.7% increase in July retail sales...and for an added flex, the gain comes despite upward revisions to prior monthly data.

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U.S. Retail Sales: July 2023

	Aug-22	Sep-22	Oct-22	Nov-22	Dec-22	Jan-23	Feb-23	Mar-23	Apr-23	May-23	Jun-23	Jul-23
Retail Sales (MoM)	0.8	0.0	1.0	-1.3	-0.7	2.8	-0.7	-0.9	0.4	0.7	0.3	**0.7**
Retail Sales (YoY)	10.2	9.4	8.8	6.1	6.0	7.4	5.3	2.2	1.3	2.1	1.6	**3.2**
Retail Sales (% Change from Jan-20)	29.6	29.6	31.0	29.2	28.3	31.9	31.0	29.8	30.4	31.3	31.7	**32.6**
Retail Sales, Ex. Autos (MoM)	0.3	0.0	1.0	-1.1	-0.5	1.9	-0.5	-0.8	0.3	0.4	0.2	**1.0**
Retail Sales, Ex. Autos (YoY)	11.0	10.3	9.6	7.4	7.2	8.4	6.4	2.5	1.6	1.4	0.6	**2.2**
Control Group Sales (MoM)	0.9	0.7	0.4	-0.9	0.2	1.7	0.0	-0.7	0.6	0.5	0.5	**1.0**
Control Group Sales (YoY)	8.2	8.6	7.3	5.7	6.5	6.5	6.3	4.1	3.6	3.9	3.6	**4.8**
Real Retail Sales (MoM)	1.3	0.2	0.5	-1.1	0.0	2.4	-0.8	-0.6	-0.1	0.8	0.2	**0.8**
Real Retail Sales (YoY)	-0.3	-0.2	0.2	-0.8	1.1	2.9	1.7	0.6	-0.8	1.3	2.5	**3.5**
Real Retail Sales (% Change from Jan-20)	8.2	8.4	8.9	7.7	7.7	10.3	9.4	8.8	8.6	9.5	9.8	**10.6**

Notes: MoM = Month-over-Month Percent Change
YoY = Year-over-Year Percent Change

Source: U.S. Department of Commerce, U.S. Department of Labor and Wells Fargo Economics

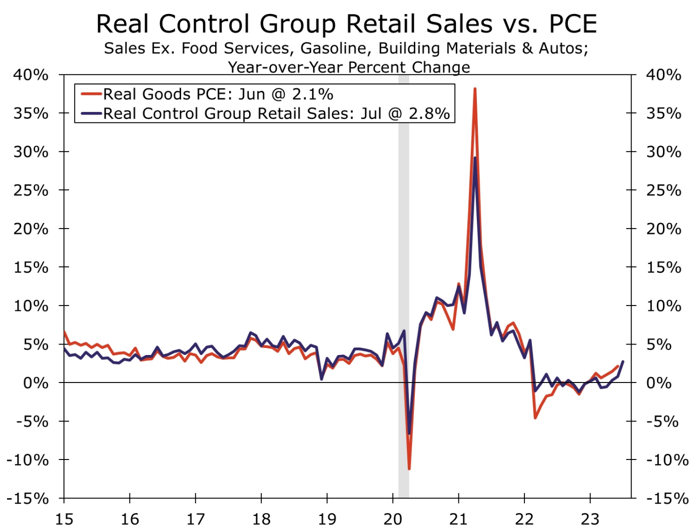
Upside Potential for Q3 PCE... If the Resilience Can Be Sustained

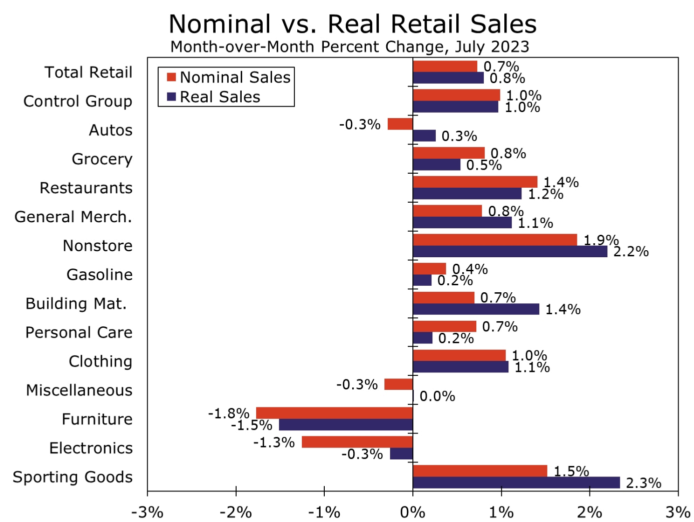
Retail sales rose 0.7% in July after modest upward revisions to June. To say the July data surprised to the upside is an understatement when you consider that the 1.0% gain in the control group measure, which feeds directly into the BEA's calculation of goods spending in its GDP accounting, beat all 28 forecast expectations tallied by Bloomberg. In short, these data present upside risk to our call for real personal consumption expenditures to expand at a 1.8% annualized rate in Q3, and thus GDP (chart).

Strength was fairly broad-based across retailers, with nine of 13 retailers reporting increased sales in July (chart). Overall sales were somewhat buoyed by ecommerce amid the Prime Day event that occurred during the month, though the 1.9% monthly gain in non-store sales was likely somewhat muted by seasonals. Still, we would not be shocked to see some payback in August, particularly as July marked the fourth consecutive +1% monthly gain in non-store sales.

Other sources of strength came from sporting goods (1.5%), clothing (+1.1%), grocery stores (+0.8%), general merchandise (+0.8%) and building materials (+0.7%), all of which bounced back after weakness in June. The 1.4% gain in restaurant sales is our first look at services consumption for July and suggests demand remained elevated.

Housing-related categories were relatively weak with furniture and electronic stores reporting the largest declines, down 1.8% and 1.3% during the month respectively. There is some near-term downside risk for these categories as they tend to lag existing home sales, which remain under pressure.





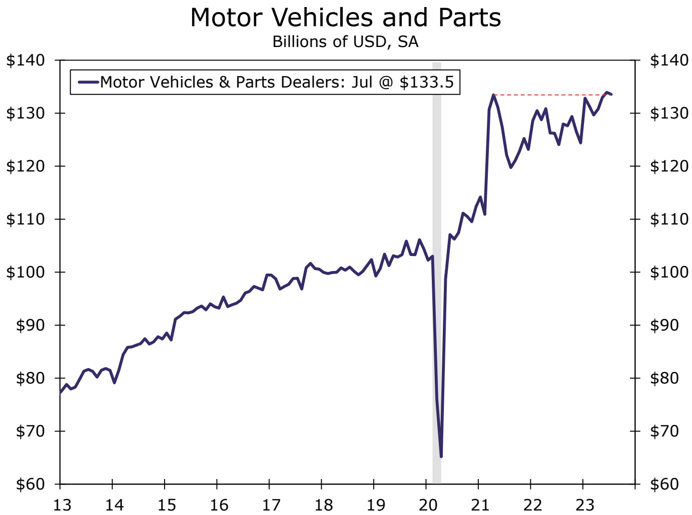
Source: U.S. Department of Commerce, U.S. Department of Labor and Wells Fargo Economics

The Unimpressive Feat of a New Record in Auto Sales

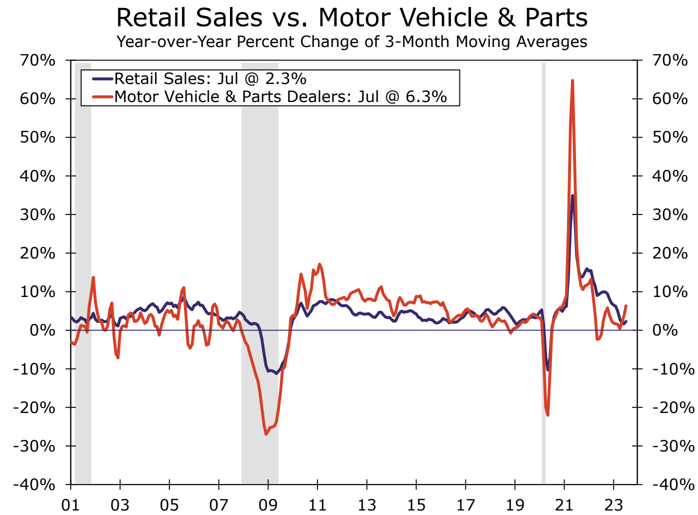
Sales at motor vehicles & parts dealers comprise about a fifth of total retail sales. Because this category has a tendency to be volatile, an "ex-autos" read is often one of the first cuts of the headline data. Yet the category warrants its own attention this month, as the total level of retail auto sales hit a milestone by cresting above its stimulus-fueled all-time high in April 2021. The devil may be in the details, but the record is in the revisions. July's print would have been the first time the level of retail sales for autos had surpassed this mark, were it not for the roughly $700 million in upward revisions to last month's data (chart). We noted in our write-up of the June retail sales report that the line for motor vehicles and parts was surprisingly soft, so the sharp upward revision was not a huge surprise.

The fact that consumers spent more on vehicles in recent months than ever before has much to do with the fact that vehicle pricing has risen so aggressively in the post-pandemic era. The CPI line item for new cars is up 20% from where it was in March 2020. In adjusting this nominal sales level by the run-up in prices, inflation-adjusted auto sales are only about 1.5% above their pre-pandemic level.

The fresh record high may be cold comfort to auto-dealers who are seeing the pace of sales growth moderating on trend over the past couple of years. Gone are the days of cash-flush consumers waving stimulus checks and bidding for the few remaining vehicles on the lot. Today's would-be buyers may have a better inventory from which to select a vehicle, but there are signs that the financial burden is getting to be a bit much. According to Edmunds, 17.1% of buyers who financed a vehicle committed to a monthly payment of more than $1,000/ month in Q2, a record high share. That is a tough payment to keep up with. Second quarter data from the NY Fed's report on household debt & credit reported that transition rates into delinquency for auto loans are now slightly above pre-pandemic (Q4-2019) levels.



Source: U.S. Department of Commerce and Wells Fargo Economics



Source: U.S. Department of Commerce and Wells Fargo Economics

Not All Retailers Are Flourishing

While today's number are undoubtedly better than expected, to some extent retail sales is missing what underlying retailers are feeling. Consider the fact that retail sales fell in four out of five months between November and March before going on a four-month run of gains between April and July. At a macro-level, that indicates consumer resilience. Goods consumption is holding up even as services spending has taken up an increasing share of household's wallets. But for most retailers, it's year-over-year comparisons that matter. Retailers that sell their wares online and bars & restaurants are doing very well by this measure, but nearly half (five of 13) of retailers have seen sales slip below where they stood a year ago when adjusted for inflation, which instead speaks to the weakening demand profile often experienced by many retailers today.

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