

Economic Indicator — July 16, 2024

Despite Upside Surprise, Retail Sales Show Lost Momentum

Summary

Despite lower sales at autos dealers and at gas stations, retail spending held steady in June. Excluding those categories, it was the best month since January 2023, and that means upside risk for Q2 consumer spending.

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| U.S. Retail Sales: June 2024 | | | | | | | | | | | | |
|--------------------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|------------|
| | Jul-23 | Aug-23 | Sep-23 | Oct-23 | Nov-23 | Dec-23 | Jan-24 | Feb-24 | Mar-24 | Apr-24 | May-24 | Jun-24 |
| Retail Sales (MoM) | 0.3 | 0.7 | 0.8 | -0.2 | 0.1 | 0.4 | -1.1 | 0.7 | 0.5 | -0.2 | 0.3 | 0.0 |
| Retail Sales, Ex. Autos (MoM) | 0.6 | 0.8 | 0.8 | 0.0 | 0.0 | 0.3 | -0.8 | 0.3 | 0.6 | 0.1 | 0.1 | 0.4 |
| Control Group Sales (MoM) | 0.8 | 0.2 | 0.7 | 0.2 | 0.2 | 0.6 | -0.4 | 0.0 | 0.8 | -0.3 | 0.4 | 0.9 |
| Real Retail Sales (MoM) | 0.4 | 0.0 | 0.7 | 0.2 | 0.5 | 0.4 | -0.8 | 0.3 | 0.3 | -0.4 | 0.6 | 0.3 |
| Retail Sales (YoY) | 2.9 | 3.0 | 4.2 | 2.7 | 4.0 | 5.5 | 0.3 | 2.1 | 3.6 | 2.8 | 2.6 | 2.3 |
| Retail Sales, Ex. Autos (YoY) | 1.9 | 2.7 | 3.7 | 2.6 | 3.6 | 4.6 | 0.9 | 2.0 | 3.7 | 3.2 | 3.0 | 3.4 |
| Control Group Sales (YoY) | 4.7 | 4.1 | 4.2 | 4.0 | 4.9 | 5.6 | 2.5 | 2.6 | 4.6 | 3.4 | 3.4 | 4.1 |
| Real Retail Sales (YoY) | 3.3 | 1.9 | 2.7 | 2.2 | 4.1 | 4.7 | 0.2 | 1.8 | 3.0 | 2.4 | 2.5 | 2.6 |

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

Recent Commentary

[Still Unstoppable? The U.S. Consumer in Five Charts \(07/11/2024\)](#)

When Doing Nothing is Really Something

Retail sales stalled in June, but that was actually a lot better than expected. For starters, the consensus expectation was for 0.3% decline, and on top of that, last month's modest 0.1% increase was revised up to a 0.3% increase which should have set up a more difficult base for the June change.

The rationale for such low expectations was rooted in expectation for some distortions this month. For starters, some softness is price related, particularly in gas prices which were down about 14¢ from May. There was also further price declines in the auto sector, but remember that dealers were also contending with a major cyber-attack on a software firm that supports auto dealers across the country. Ex-autos and gas, retail sales were up 0.8%. That is the biggest monthly gain since January 2023.

In stripping out a few more components, like restaurants and building materials, the control group measure of sales came in even stronger, rising 0.9% last month. Recall that this measure feeds directly into the BEA's calculation of real goods spending in the GDP accounts, and while retail growth has outpaced broader goods spending recently ([chart](#)), the better-than-expected outturn positions for a rebound in Q2 goods consumption after a weak first quarter. Real goods spending slipped at a 2.3% annualized rate in Q1, and today's data present some upside to our [estimate](#) for total real personal consumption expenditures to rise at a 1.6% annualized rate in Q2.

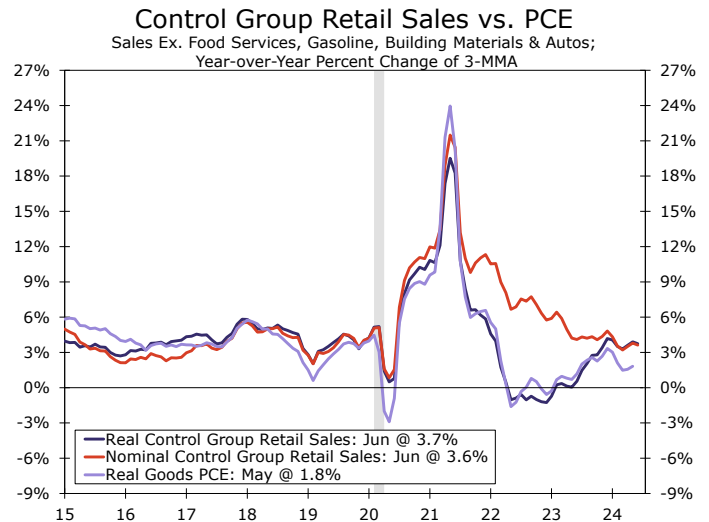
Should Have Left at Halftime

This is not exactly the sort of moderation in consumer activity that tends to get a warm reception from financial markets these days. A softening in consumer spending signals the demand pressure sustaining prices is abating and clearing the path for rate cuts later this year.

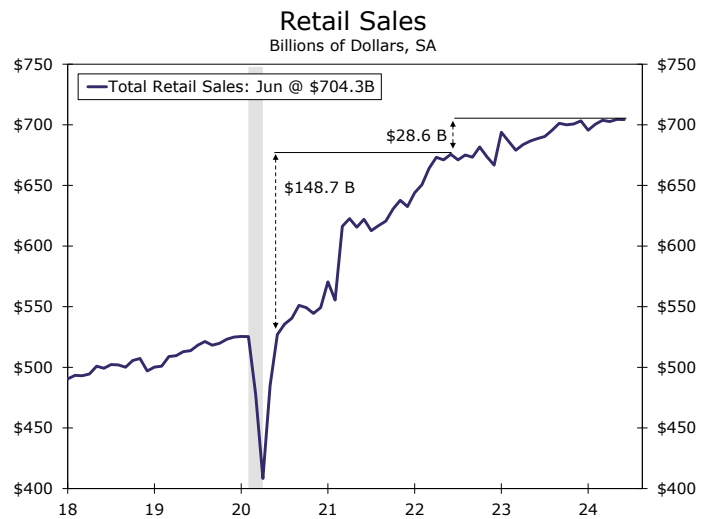
Yet, our sense is that retail sales may not offer all that much perspective on this issue, simply because the moderation in goods spending has long since revealed itself in retail sales.

Consider for a moment the remarkable rebound in retail sales in the wake of the sharp drop that came with the pandemic. The bottom fell out beneath sales in March and April 2020, but as stimulus checks arrived, sales rebounded with a vengeance. By June 2020, the level of retail sales was already back above its pre-pandemic peak.

Today's data mark the four-year anniversary of cresting above the pre-pandemic peak ([chart](#)). Retailers have increased their trade by more than a third (\$177.4 billion) during that four-year stretch. But the thing to know is that most of the points were scored in the first half. More than 83% of the gain in retail sales happened in the first two years. The pace of spending has really tapered off the past couple of years.



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

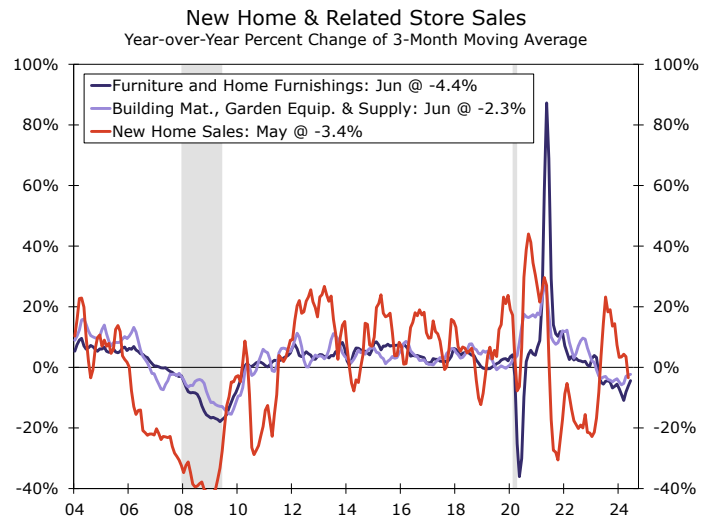


Source: U.S. Department of Commerce and Wells Fargo Economics

Waiting for a Rebound in New Home Sales

While consumer spending is holding up across many store-types, not all retailers are in a celebratory mood. Retail businesses that are tied to the housing sector have been struggling ([chart](#)). Stores that specialize in building materials and garden supplies were the second-biggest gainer during the month of June, up 1.4%. But after several declines in prior months, this category is still down 3.5% year-to-date.

The store type down the most year-to-date is furniture stores where sales are down 7.0% through the first six months of 2024. An incremental shift may be underway here as furniture retailers have now stretched together three consecutive months of increased sales. Admittedly, those gains are coming off a low level, but these green shoots could really begin to sprout if rate cuts spur a rebound in housing activity later this year.



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

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