

Economic Indicator — July 16, 2021

Goods Spending Holds Up Even Amid Pivot to Services

Summary

The takeaway from the June retail sales report is that while some demand was clearly pulled forward over the past year in categories like sporting goods, building materials & garden supplies and (to a lesser extent) autos, consumers' transition to spending more on services need not come with a sharp decline in goods outlays.

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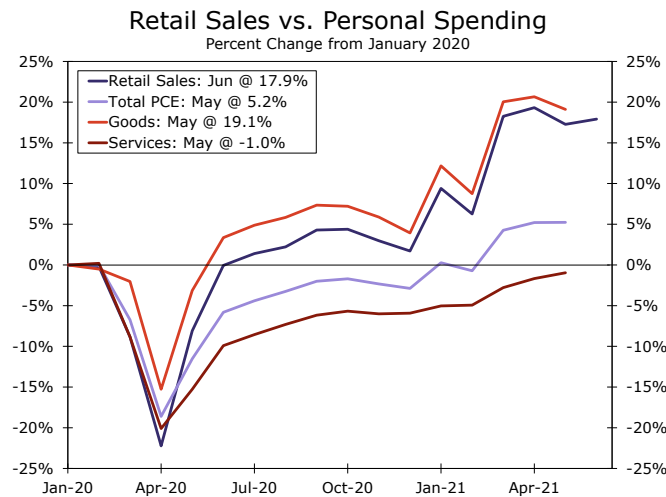
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| U.S. Retail Sales: June 2021 | | | | | | | | | | | | |
|-------------------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|-------------|
| | Jul-20 | Aug-20 | Sep-20 | Oct-20 | Nov-20 | Dec-20 | Jan-21 | Feb-21 | Mar-21 | Apr-21 | May-21 | Jun-21 |
| Retail Sales (MoM) | 1.4 | 0.8 | 2.0 | 0.1 | -1.4 | -1.2 | 7.6 | -2.9 | 11.3 | 0.9 | -1.7 | 0.6 |
| Retail Sales (YoY) | 2.9 | 3.2 | 6.0 | 5.6 | 3.8 | 2.3 | 9.4 | 6.5 | 29.7 | 53.4 | 27.6 | 18.0 |
| Retail Sales (% Change from Jan-20) | 1.4 | 2.2 | 4.3 | 4.4 | 3.0 | 1.7 | 9.4 | 6.3 | 18.3 | 19.3 | 17.3 | 17.9 |
| Retail Sales, Ex. Autos (MoM) | 2.1 | 0.9 | 1.6 | 0.1 | -1.2 | -2.1 | 8.3 | -2.7 | 9.8 | -0.1 | -0.9 | 1.3 |
| Retail Sales, Ex. Autos (YoY) | 2.1 | 2.9 | 4.9 | 4.5 | 3.4 | 0.6 | 8.2 | 5.7 | 21.2 | 42.7 | 26.0 | 17.6 |
| Control Group Sales (MoM) | 1.8 | 0.1 | 1.6 | 0.2 | -0.9 | -2.9 | 8.5 | -3.4 | 8.5 | -0.4 | -1.4 | 1.2 |
| Control Group Sales (YoY) | 8.7 | 8.5 | 10.7 | 10.4 | 9.6 | 6.1 | 14.3 | 10.3 | 15.9 | 31.4 | 18.1 | 12.8 |

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

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



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

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Pivot to Services Is a Headwind for Retailers, but not Insurmountable

Retail sales increased 0.6% in June despite consensus expectations for a second straight monthly *decline*. There has been a lot of hand-wringing in recent weeks over whether the pivot from spending on *things* to spending on *experiences* would cause an air-pocket in goods spending. We have maintained the view that even though services will be the primary driver of consumer spending this year, goods spending can still hold up. Despite the headline gain, today's report is not a complete vindication for our view on this. Some of the categories that drove the post-pandemic spending surge last year were the very ones to post declines this month.

Last summer parents were trying to get their hands on basketball hoops and trampolines, and spending more time working in the yard or fixing up the house. This summer, the kids are headed back to camp or the family is ready to hit the road. Amid this shift, we find that sporting goods & hobby stores posted the third straight monthly decline while building materials & garden equipment stores also fell for a third straight month. Meanwhile, bigger ticket durable goods items like furniture and motor vehicles both posted back-to-back monthly declines. In the case of autos, the problem is ongoing supply chain problems. The demand is there. Just look at the spike used auto prices for proof.

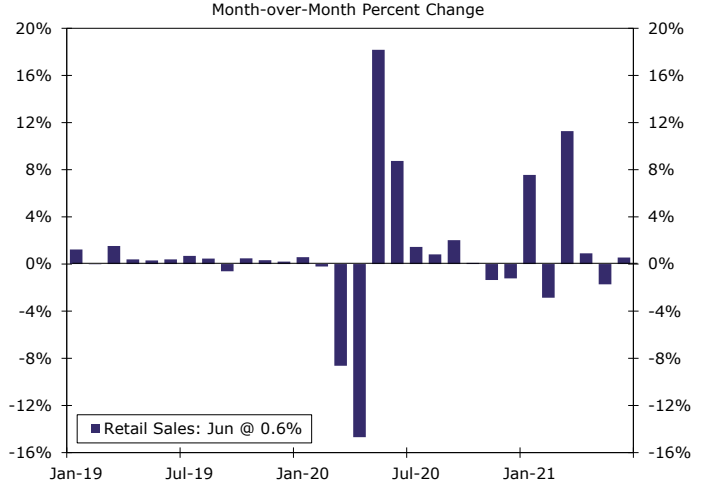
Getting Back in the Swing of Things

Getting into the details, the growth in retail sales was pretty broad based with nine of 13 retailers reporting stronger sales during the month of June. Restaurant sales are really our only look at the services side of the economy in the retail sales report and with sales up 2.3% during June is a good sign for services spending. Our [above consensus](#) forecast for Q2 PCE spending is predicated on a big pickup in June services spending so the gain here for restaurants puts wind in our sails on that call.

Elsewhere what emerges in the details of this report is a return to normal life. As people get back to working in offices or just going out to see friends, many apparently needed to find stuff that fits; clothing stores posted a 2.6% increase and general merchandise stores, which also sell apparel, saw a 1.9% monthly gain. Consumers were on the move as evidenced by the 2.5% monthly gain in sales at gas stations, though inflation is playing a supporting role here, as gas prices were high in June.

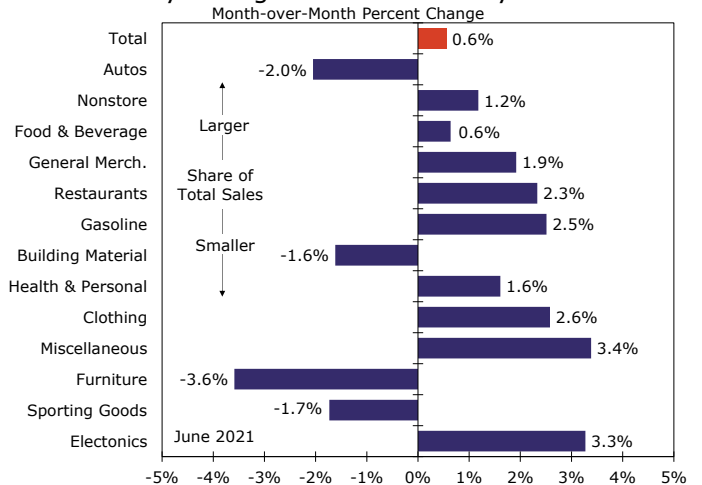
Nonstore retailers, or more commonly thought of as e-commerce, saw sales rise 1.2% pushing sales 34.8% above pre-pandemic January 2020 levels. This pandemic performance is only second to sales at sporting goods & hobby stores, which despite slipping in nine of the past 12 months remain nearly 40% above pre-pandemic levels. In other words, sales still remain at an elevated level compared to prior to the pandemic.

Monthly Change in Retail Sales



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

Monthly Change in Retail Sales by Retailer



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

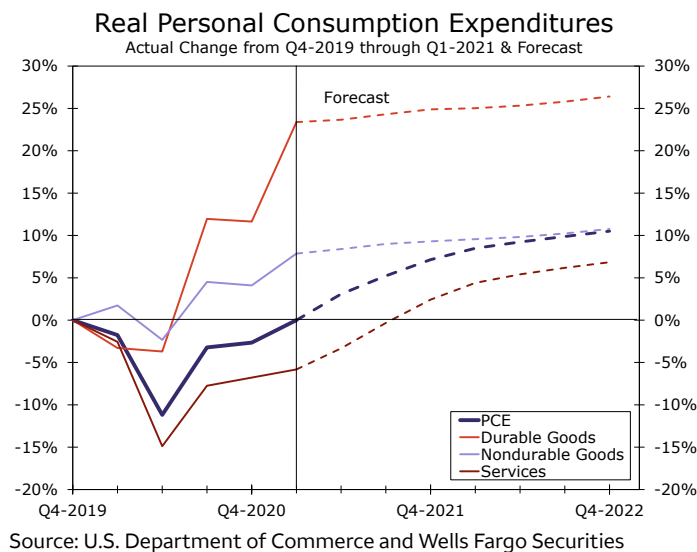
Get Real

Overall today's report bodes well for our above-consensus call for real PCE to rise at an annualized pace of 12.9% in the second quarter, but for that pace to be realized it ultimately comes down to two things: services spending and inflation.

Using restaurant sales as a guide for services, as well as high-frequency indications, such as TSA throughput and hotel occupancy, activity has certainly picked up, and we remain confident in a solid month for services consumption.

But it is worth emphasizing that the retail sales report is in nominal dollars, or is not adjusted for inflation. So if we square today's release with [this week's](#) CPI report for June, price increases are playing a part in some of the monthly gain in sales. For example, while grocery sales were up 0.6% during the month, prices of food at home in the CPI rose 0.8% and sales at gasoline stations (+2.5%) matched the rise in prices. It's not just goods prices either. While restaurant sales were strong, prices also rose by the most in 40 years during June. In other words, prices may be eating into consumers purchasing power and could weigh on *real* spending.

While we remain cautious on the goods spending outlook, we maintain the notion that pent-up demand for services matched with the *more than* \$2.4 trillion accumulated on household balance sheets over the past 15 months can help cushion the downside.



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