



Economics Group

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Retail Sales Indicated Solid Start to Q3 Consumer Spending

Despite worries about spending fatigue after a strong Q2 and hand-wringing about auto sales, the July retail sales report was solid in most areas. Still, rising prices are a headwind, evident in gas sales' outsized gains.

No Signs of Third Quarter Spending Slowdown

Retailers reported a 0.5 percent monthly sales increase in July, and the growth was not concentrated in any particular area. There were more packages on porches and stoops as non-store retailers notched a 0.8 percent increase during the month. Although, in a bit of a temporary trend reversal, online retailers were outpaced for once by more traditional retailers, which also did well in July, with department store sales up 1.2 percent and clothing stores up 1.3 percent.

After consumer spending surged in the second quarter, there was concern that fatigue might set in during the third quarter, but that was not evident in today's report for July retail sales. Despite a downward revision to June's increase to just 0.2 percent from an initially reported 0.5 percent, the rest of the report offered an upbeat assessment of the state of U.S. consumers during the summer quarter.

Too Hot to Cook, Let's Go Out

Not everybody was shopping for merchandise though. The growing trend of experience-oriented consumer behavior was on display again at restaurants and bars across the country in July. The monthly increase of 1.3 percent at eating and drinking places was more than twice the 0.6 percent increase in the "off-premise" category of food and beverages, which includes grocery stores and liquor stores.

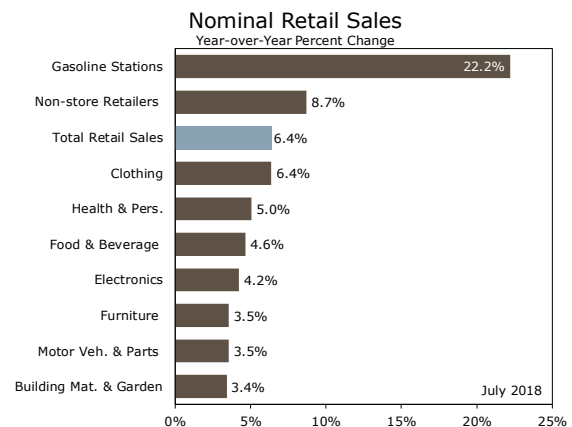
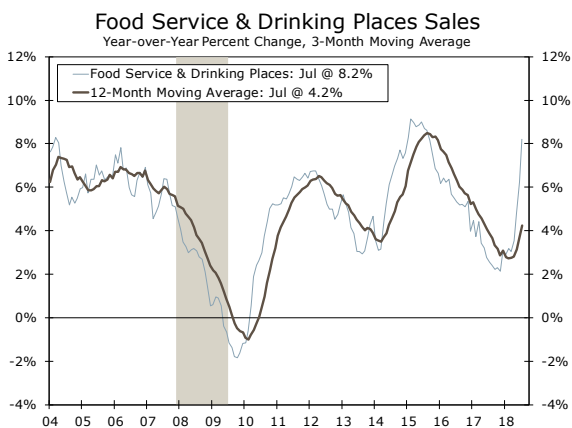
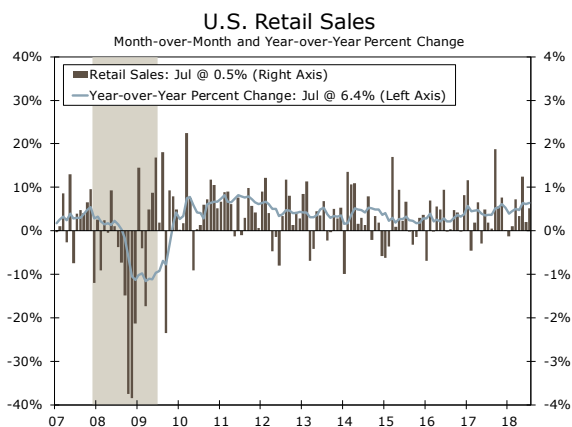
Need the Keys and Some Gas Money

Going into today's release, we already knew that auto sales from manufacturers to dealers slipped in July, slowing to an annualized pace of just 16.68 million—the slowest in almost a year. So we were braced for a bit of a retrenchment in this big-ticket category of spending. But retail auto sales actually notched a 0.2 percent increase in the month.

At the margin, there could be some boost to auto sales from all the tariff discussion in the news. Some auto dealers have reported that on-the-fence buyers have found some motivation in the recent tariff talk, reckoning prices may go up if sweeping auto tariffs went into effect.

Old or new, most cars still run on gasoline, and in the first seven months of the year, no retail category has reported a bigger increase than gas stations, which are up a whopping 14.8 percent in January-July versus the same period last year. On a year-over-year basis, gas station sales are up 22.2 percent. Since people typically use more-or-less the same amount of gas, this is a price story, with the gains here coming at the expense of another category of spending or saving.

To get a sense of spending outside of autos and gas (as well as building materials), we look to the "control group" category which excludes these items, and, in July, that category increased 0.5 percent.



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