

## Datanote: US Retail Sales, July 2024

**In one line: Consumers keep spending, despite deteriorating fundamentals.**

- Headline retail sales surged by 1.0% in July, well above the consensus, 0.4%. Net revisions were -0.2%.

- Sales ex-autos rose by 0.4%, also above the consensus, 0.1%. Net revisions were +0.1%.

- Control retail sales increased by

0.3%, above the consensus, 0.1%. Net revisions were negligible.

This report is not quite as strong as the big headline jump in suggests, given the 0.2% downward revision to June, and because about two-thirds of the headline increase was due to a 3.6% rebound in auto sales. This merely reversed a similar fall in June, following a ransomware attack hitting many auto dealerships. But the control measure of retail sales, a better indication of the underlying trend,

still rose by 0.3%, following a 0.9% gain in June, taking the annualized rate of growth in the three months to July, compared to the previous three months, up to 4.9%. That's the strongest pace since late 2023, casting doubt on the notion that a recession is imminent.

That said, we see some good reasons to think that this strength in underlying retail sales will be short-lived. Warmer-than-usual weather seems to have boosted sales in both June and July,

and that can't last indefinitely. July's 0.9% increase in sales of building materials and garden equipment, following a 1.5% rise in June, pushed the annual growth rate above zero for the first time in a year-and-a-half, despite the depressed level of home sales.

Elsewhere, July's 0.9% jump in food and beverage sales, far stronger than the 0.2% average increase over the previous six months, also looks like noise and will unwind soon. We also

caution against concluding that 0.3% pick-up in food services is a sign that consumers are lifting discretionary spending on services again, given the July increase came alongside a combined downward revision of 0.5% to the previous few months.

Finally, we had been expecting a plunge in nonstore retail sales last month, given the 2.2% surge in June, but this didn't happen, with nonstore sales edging up by 0.2%. Nonstore sales are now well above their trend,

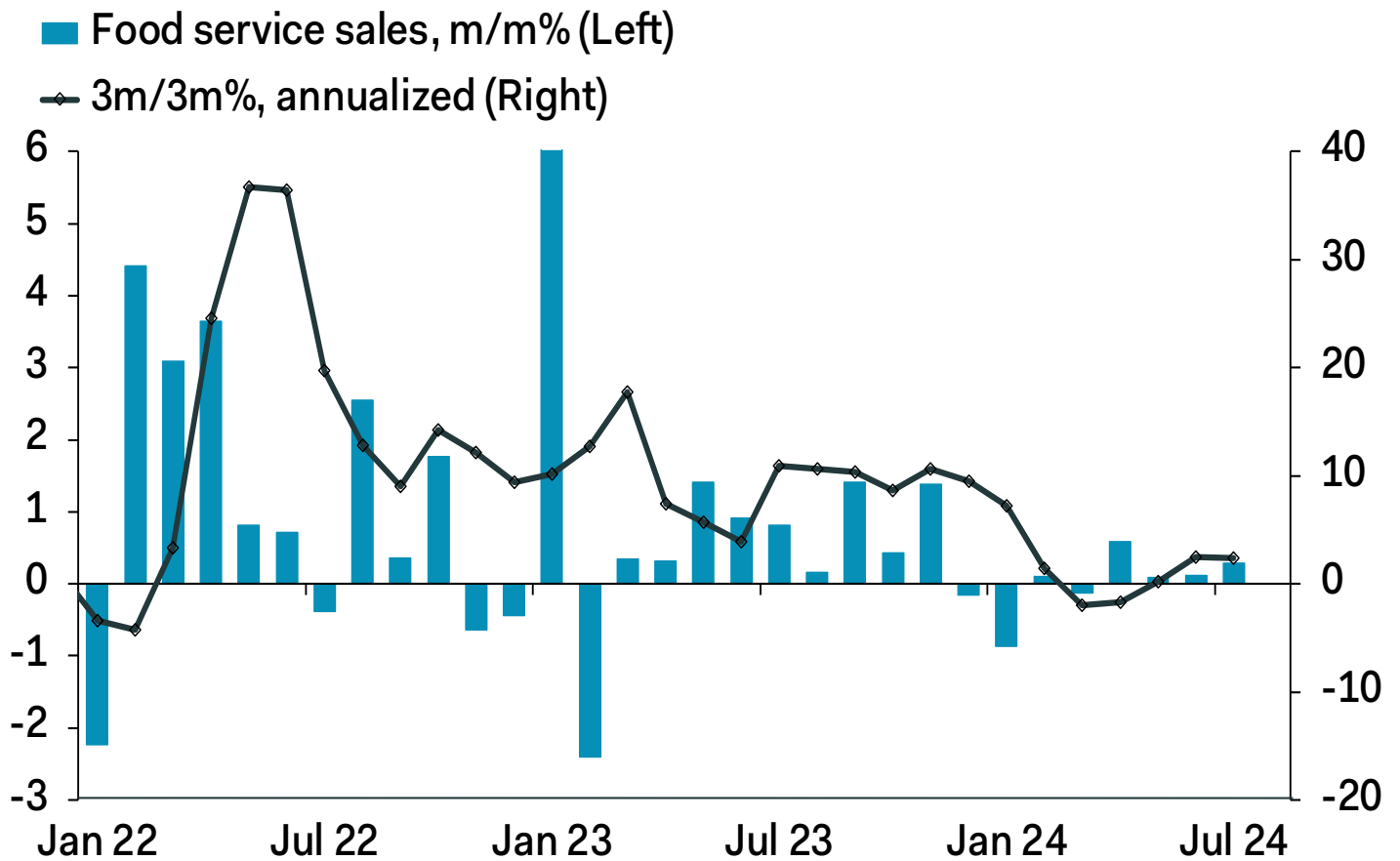
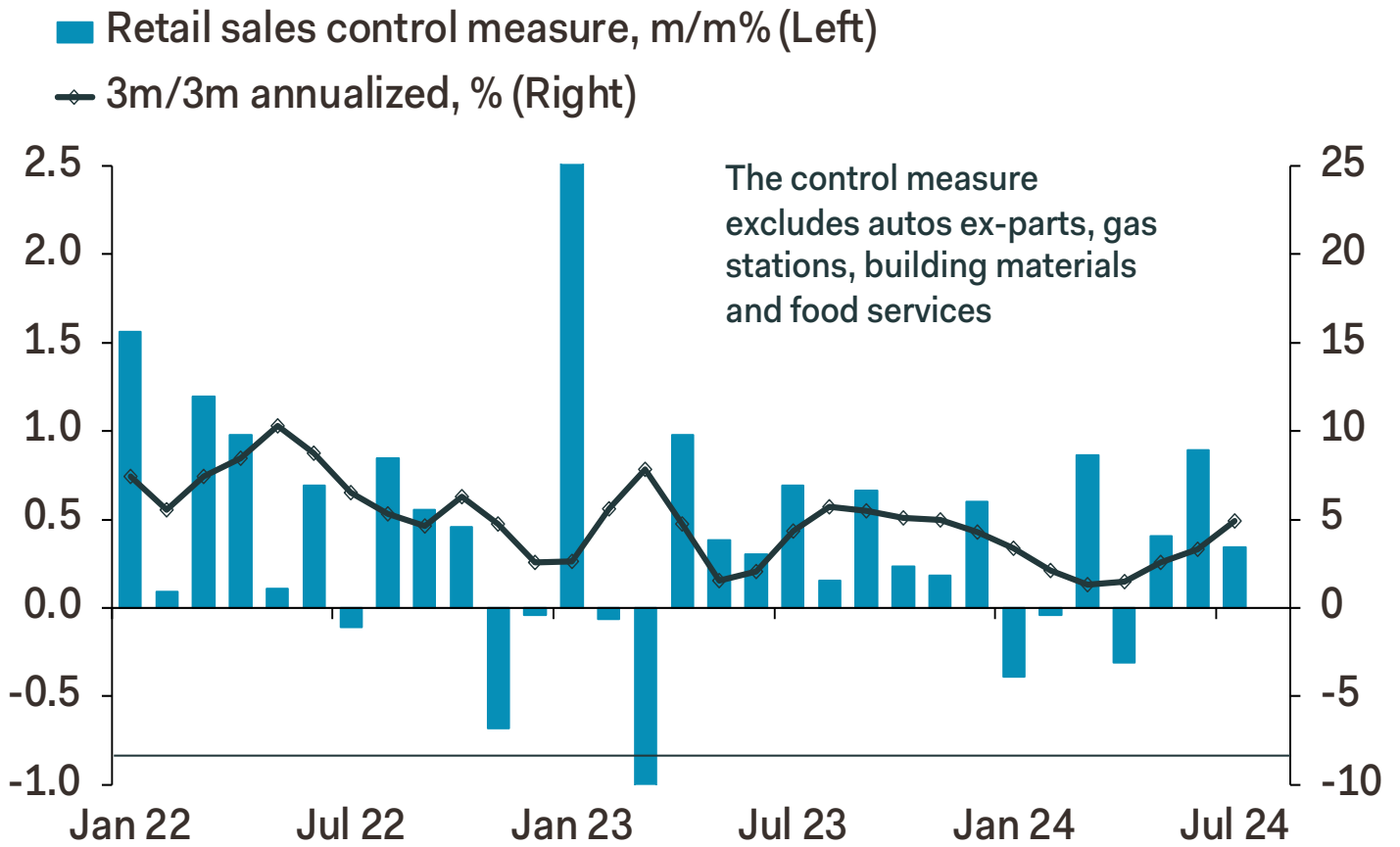
and previous overshoots typically have unwound in short order. The resilience in nonstore sales in July might partly reflect Amazon's "Prime Day" sales, which fell in July this year, although the typical effect on the seasonally adjusted numbers in the past has usually been small, 2021 aside.

The auto, control and food services components of this report are all direct inputs into the real consumption data in the national accounts. Our mapping of the retail sales numbers onto the

consumption data, when combined with reliable leading indicators for several other components points to a gain of just shy of 0.3% in real consumption in July, along with some small downward revisions to Q2's numbers. If so, that would mean the annualized growth rate in the three months to July, compared to the previous three months, ticking up to 2.7%, from 2.2% in June, reaching the fastest pace since January. Even if real consumption were then flat in August and September, it would still

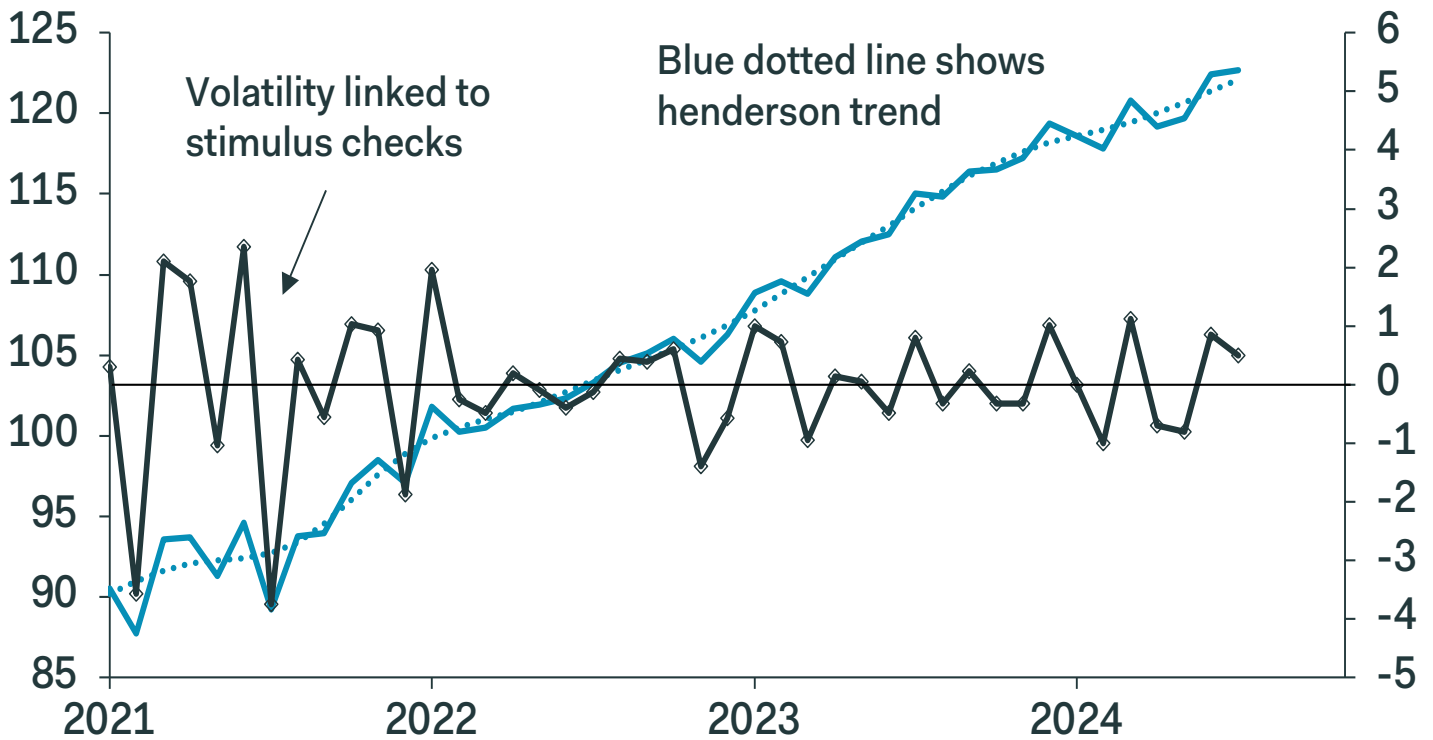
increase by 2.1% in Q3 overall. This early in the quarter, however, a lot can change. Moreover, consumers cannot indefinitely outrun the combined headwinds of higher rates, weak real income growth, a deteriorating labor market and very low savings rate. Spending won't roll over, but sustained strength seems unlikely.





— Nonstore retail sales, \$B (Left)

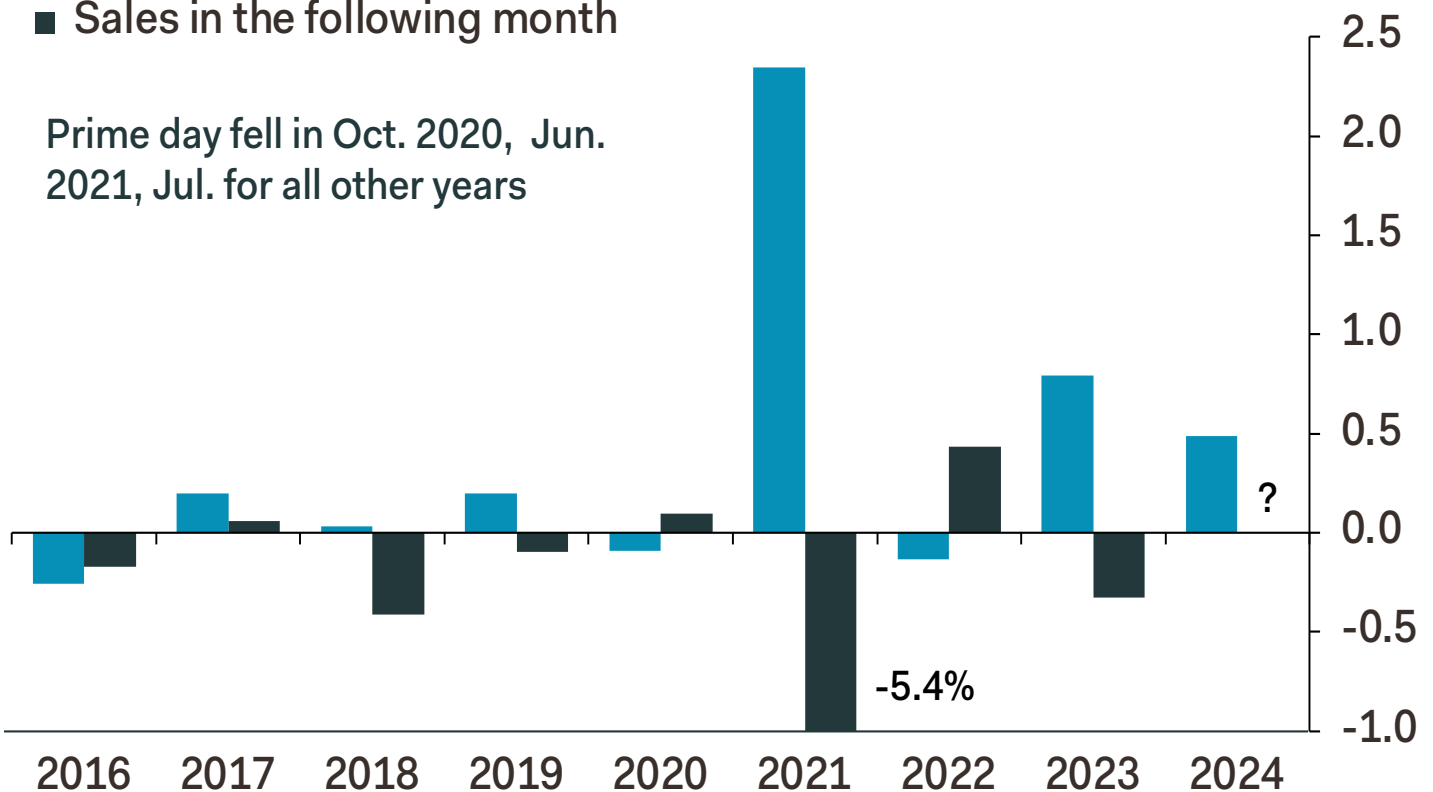
◆ Deviation of nonstore sales from henderson trend, % (Right)



■ Non-store sales during month of Amazon Prime Day, m/m%

■ Sales in the following month

Prime day fell in Oct. 2020, Jun. 2021, Jul. for all other years



- Real consumption, latest published, 3m/3m annualized, %
- ◇— After estimated revisions & projections

