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US retail sales (Aug): Can anything break the consumer's stride?

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Retail Sales (monthly % chg, unless otherwise noted)	Aug	Jul	Jun	May	Apr	Aug YoY SA
Retail & food service	0.6%	0.6%	1.0%	-0.8%	-0.1%	5.0%
• Ex-autos	0.7%	0.4%	0.9%	-0.1%	0.0%	4.9%
Control Group[1]	0.7%	0.5%	0.9%	0.3%	-0.2%	5.9%
Motor vehicles, parts	0.5%	1.7%	1.2%	-3.8%	-0.7%	5.6%
Furniture	-0.3%	1.6%	0.1%	-0.5%	0.0%	5.2%
Electronics	0.3%	1.2%	0.4%	-0.4%	0.1%	3.7%
Building materials	0.1%	-0.9%	1.4%	-2.7%	0.5%	-2.3%
Food, beverages	0.3%	0.5%	0.8%	-0.6%	0.0%	3.2%
Health, personal care	-0.1%	0.4%	1.1%	0.6%	-0.3%	5.1%
Gasoline stations	0.5%	0.9%	0.7%	-0.7%	-0.4%	-0.7%
Clothing	1.0%	1.4%	1.4%	0.5%	0.2%	8.3%
Sporting goods	0.8%	1.6%	-0.1%	0.9%	-2.9%	4.7%
General merchandise	-0.1%	0.0%	0.1%	-0.1%	0.0%	1.9%
• Department stores	-0.8%	1.1%	-0.9%	-0.1%	-1.1%	-1.0%
Miscellaneous	-1.1%	-0.2%	3.0%	4.6%	-3.4%	10.7%
Non-store retailers	2.0%	0.6%	1.3%	0.7%	0.1%	10.1%
Eating, drinking	0.7%	-0.1%	0.8%	-0.2%	0.8%	6.5%

Source: Haver Analytics.

- Despite softer job market conditions, there doesn't look like much that can break the consumer's stride. In August, headline retail sales gained 0.6%, four ticks above consensus, and the prior month was also revised higher one tick by 0.6%. The control group of sales, which feeds more directly into non-auto goods consumption in GDP, posted a strong 0.7% advance (vs. 0.4% consensus). In volume terms, the control group is now tracking just under 6% growth on a three-month annualized basis, compared to close to 5% last month. Today's report was fairly broad-based with 9 out 13 categories posting gains, with non-store retailers, clothing, sporting goods and restaurant spending leading the way. Today's report shouldn't be too much of a surprise – while the job market has cooled, it's far from showing major slack, and wage and wealth gains are still solid. This report, along with other evidence that the economy is still resilient, should gradually temper expectations of a bigger step. We expect the Fed to cut rates this week and again in October, followed by two more cuts in the first half of 2026 to bring rates back to a neutral range.

[1] This calculation removes food services, gas, building materials & autos from total retail & food service sales.

- The pace of retail sales has reaccelerated since May of this year, with year-over-year headline sales now back to 5% and the control group at almost 6%. The big shocks and their symptoms -- tariffs, immigration controls and slower job growth -- are not making a material dent in consumer momentum. And today's report suggests that consumers are spending on items that likely have been bit with tariffs. That being said, companies have been careful about price increases so far, with core goods ex-car prices rising only about 1% in annual terms, suggesting tariffs are likely not a major deterrent at this point. The spending pickup could be in anticipation of even higher price increases to come.
- But even as those tariffs pass through more, it may not undermine consumption growth all that much. Recent research from the Boston Fed shows that higher-income households (those with incomes 121K or higher) have been driving consumer growth since 2022 (Hagler and Patki, 2025). And part of that increase is due to lower debt levels as pandemic-era excess savings where used to pay down hefty loan balances, pushing debt levels below pre-pandemic thresholds for these households. The categories of spending also suggest a preference shift towards durable goods and recreation, as wealthy households (many of whom are retiring boomers) show a preference for leisure. Enjoying strong wage growth and historical wealth gains, a one percent or so rise in the price level isn't likely to crimp their lifestyles or cause a big slowdown in consumption.
- Today's data suggests a healthy pace of consumption growth in Q3, now above a 2% annualized pace and pushes up our nowcast tracking of growth to 2.6% in the quarter.

Implications & actions

Re: Economic forecast — We expect the Fed to cut in September and December, but today's data should temper expectations of the need for a larger step. Growth in Q3 looks healthy, tracking above potential output growth.

Re: Markets — Bond yields and the dollar whipsawed around this morning, and are now back close to their pre-data starting point..

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