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Americans spend less at the pump, more elsewhere in July

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Retail Sales (monthly % chg, unless otherwise noted)	July 2022	June 2022	May 2022	Apr 2022	Mar 2022	July YoY SA
Retail & food service	0.0%	0.8%	0.4%	0.7%	1.2%	10%
• Ex-autos	0.4%	0.9%	1.3%	0.5%	2.0%	12%
Control Group[1]	0.8%	0.7%	0.8%	0.5%	0.6%	9%
Motor vehicles, parts	-1.6%	0.5%	-3.4%	1.8%	-2.2%	2%
Furniture	0.2%	-0.4%	-1.1%	1.5%	0.0%	2%
Electronics	0.4%	-0.1%	-2.6%	1.6%	2.1%	-10%
Building materials	1.5%	-0.5%	0.2%	-0.9%	0.6%	10%
Food, beverages	0.2%	0.9%	1.1%	0.0%	1.0%	8%
Health, personal care	0.4%	1.5%	0.1%	0.6%	1.0%	3%
Gasoline stations	-1.8%	2.5%	5.0%	-1.3%	10.7%	40%
Clothing	-0.6%	0.9%	-1.4%	0.0%	2.7%	2%
Sporting goods	0.1%	0.6%	0.9%	0.7%	1.0%	4%
General merchandise	-0.7%	-0.4%	0.0%	-0.6%	1.3%	0%
• Department stores	-0.5%	-2.4%	0.9%	0.2%	0.0%	-1%
Miscellaneous	1.5%	3.7%	-2.2%	2.4%	3.4%	18%
Non-store retailers	2.7%	0.9%	2.7%	1.1%	-1.2%	20%
Eating, drinking	0.1%	0.8%	1.0%	2.5%	2.3%	12%

Source: Haver Analytics.

- Retail sales made no progress in the US in July, as the drop in gasoline prices limited sales, along with a fall in auto sales. That was slightly below the consensus expectation for a 0.1% advance, and a downward revision to the June data compounded the slight downside miss (now +0.8% vs. +1.0% previously). However, things looked better elsewhere as lower gas prices opened up room for spending in other categories. The control group of sales, which excludes gasoline, autos, restaurants, and building materials, rose by 0.8%, above the consensus expectation of 0.6%, driven by a jump in online shopping. That implies moderate growth in that group in volume terms, which feeds more directly into ex. autos goods consumption in GDP. Looking ahead, while the fall in gasoline prices will continue to provide relief to consumers, spending is expected to increasingly be directed towards services, rather than goods categories where excesses in spending remain.
- Accounting for price increases, real spending in the control group of sales appears to have grown by roughly 0.4%, leaving that group 8% above its pre-pandemic trendline. Online shopping more than accounted for the rise in nominal spending in the control group, which masked drops in department and clothing stores, while other categories mostly posted modest advances. With some major retailers reporting consumer resistance to prices lately, prices were cut to

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

clear unwanted inventory, which could partly explain the retreat in nominal spending at department and clothing stores. Still, real incomes declined further in the second quarter, and prices of discretionary goods including apparel are still up strongly over the last twelve months, showing that consumers are still under pressure from higher prices.

- The drop in vehicle sales was in contrast to the earlier reported growth in unit sales, highlighting either a shift in demand to lower priced cars, or the decline in used car prices that reduced nominal spending on such vehicles. Demand for vehicles has generally moved higher when inventories have lately, as there remains pent-up demand due to ongoing supply chain issues. While vehicle availability could remain an issue for a while, it appears to be improving, which will boost unit auto sales ahead. Still, the erosion in purchasing power due to high prices and rising borrowing costs will be a limiting factor.
- The sluggish 0.1% advance in restaurant sales will represent a decline in volume terms. Interestingly, that wasn't supplemented by a surge in nominal sales at grocery stores, even with prices climbing in July. Traffic at restaurants has improved so far in August, and could support higher receipts at restaurants during the month.
- Despite the cooling in the housing market, building material sales rose strongly in July, but we don't expect that momentum to be sustained, as interest rates are set to climb further over the rest of the year, dampening housing market activity, which may have seen some respite from the recent stabilization in mortgage rates. That will also hold back sales of furniture and appliances.

Implications & actions

Re: Economic forecast — Goods consumption appears to be off to a solid start in the third quarter, but we don't expect the momentum to be sustained, particularly once we get past clearance sales on overstocked items. Auto sales could be an outlier as supply chain issues abate.

Re: Markets — The downside miss on the headline and downward revision to June initially caused bond yields and the USD to drop, but the moves were mostly reversed, as things looked better in the control group.

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