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US retail sales (July): Consumers are starting to feel the pinch

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Retail Sales (monthly % chg, unless otherwise noted)	July	Jun	May	Apr	Mar	July YoY SA
Retail & food service	-0.6%	0.2%	0.9%	0.7%	1.7%	5.0%
• Ex-autos	-0.3%	-0.2%	0.9%	0.9%	2.0%	5.8%
Control Group[1]	-0.4%	0.4%	0.6%	0.6%	0.9%	4.6%
Motor vehicles, parts	-1.8%	2.4%	1.0%	-0.4%	0.6%	1.9%
Furniture	0.3%	-0.1%	1.6%	-1.2%	2.4%	-1.2%
Electronics	-0.5%	0.0%	-0.6%	1.6%	1.5%	4.7%
Building materials	0.3%	1.2%	0.2%	0.1%	1.3%	6.7%
Food, beverages	0.0%	-0.1%	0.2%	0.6%	1.1%	0.9%
Health, personal care	0.7%	-0.4%	0.7%	-0.2%	1.3%	1.1%
Gasoline stations	-0.9%	-5.8%	2.8%	3.7%	14.2%	16.2%
Clothing	1.9%	-0.7%	1.0%	-0.5%	0.2%	5.0%
Sporting goods	0.0%	0.5%	0.1%	2.6%	0.3%	10.1%
General merchandise	0.3%	0.2%	0.4%	0.0%	1.6%	3.7%
• Department stores	0.1%	0.0%	1.2%	-0.2%	4.9%	2.5%
Miscellaneous	0.5%	2.1%	4.2%	-1.0%	-1.8%	10.7%
Non-store retailers	-2.2%	0.9%	0.5%	1.5%	0.8%	7.7%
Eating, drinking	0.5%	0.4%	1.3%	1.0%	0.0%	5.0%

Source: Haver Analytics.

- Retail sales slid off in July. Total retail sales contracted 0.6% m/m, quite a bit below consensus expectation (0.1%). This was the biggest monthly decline in retail sales since May 2025. Year-over-year sales are still up 5%, although down from 6.8% in June. The monthly contraction was somewhat broad-based, led by a 2.2% contraction in nonstore retailers. This decline could partly be related to a large online retailer moving their bi-annual sales from July to June. Other notable declines include motor vehicle and parts dealers, gasoline stations (due mostly to lower gasoline prices), electronics, and grocery stores. Partially offsetting these declines were clothing, health and personal care stores and building materials and supply dealers. The only services category, food services and drinking places, posted a steady 0.5% monthly gain, partly helped by the FIFA World Cup. The control group of sales (ex. gasoline, restaurants, building materials, and autos) that feeds more directly into non-auto goods consumption in GDP also posted a 0.4% monthly contraction, much lower than consensus expectation (0.3%). This was the largest monthly contraction in the control group seen since January 2025; the large drop in online sales and MV and parts dealers were the main contributors to the drop. With easing wage growth and the effects of larger tax refunds this year

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

waning, households are facing more of the pinch from inflation. This release suggests that consumption is slowing in the beginning of Q3.

- The contraction in the July headline retail sales was driven by large declines in non-store and motor vehicle and parts dealers; the non-store decline was the largest drop since 2021. Although part of this reflects a drop off from the sales in June, the magnitude of the decline this month was greater than the increase from last month, suggesting that there was some genuine pull back in sales. The decline in gasoline station sales was mostly due to lower gasoline prices. Prices of motor vehicles and parts increased in July from the CPI data, which means the decline in sales from MV and parts dealers was not due to lower prices.
- Food services posted a steady 0.5% monthly gain, helped by the FIFA World Cup. The control group retail sales (ex. gasoline, restaurants, building materials, and autos) also contracted in the month mainly due to lower nonstore and MV and parts sales.

Implications & actions

Re: Economic forecast — The weaker than expected retail reports suggests that Q3 consumption is off to a soft start. Waning effects from larger than last year's tax funds, combined with easing wage growth and higher inflation is starting to constrain spending by households. We also expect the wealth effect, though still positive and supporting consumption, is starting to ease this year. With slowing consumption and July CPI showing no signs of pick up in pace of inflation, we continue to believe the Fed will stay on hold for their upcoming September FOMC meeting.

Re: Markets — Following this weaker than expected consumer data, the front-end Treasury yields decreased as the rate-hike expectations for September declined but long-end yields were little changed.

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