US retail sales face intensifying headwinds

US retail sales fell sharply in July, but it isn't necessarily a disaster. The resurgence in Covid and anxiety over inflation's impact on spending power has certainly hurt sentiment, but the re-opening, a rebalancing of priorities from goods to services and rising household incomes still means broader spending can continue to grow

17.2%

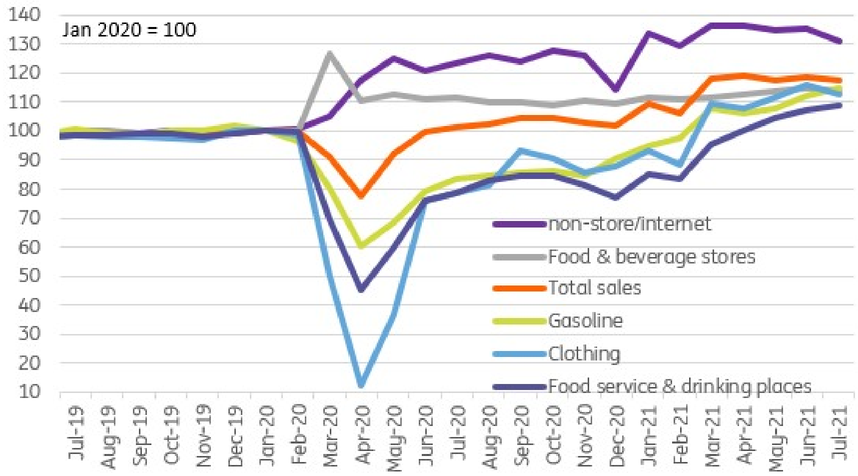
increase in retail sales versus pre-pandemic levels

Retail sales fall, but it's not a calamity

July US retail sales are softer than expected, falling 1.1% month-on-month, primarily because of weaker auto sales. Excluding autos, sales were down 0.4%. Consensus was looking for growth of -0.3% and +0.2% respectively.

There were some upward revisions, but it is still a modestly disappointing outcome, although not a calamity. With the economy having re-opened there are more options on which to spend money. Retail sales only makes up 40-45% of total consumer spending and they are still up 17.2% on pre-pandemic levels. A bit of rebalancing towards services is to be expected and so doesn't mean consumer spending overall will inevitably fall.

Level of retail sales versus January 2020



Source: Macrobond, ING

Autos, internet and clothing the main drags

The details show the value of motor vehicle and parts sales fell 3.9% MoM – the third consecutive monthly fall. This is broadly in line with expectations given we already knew unit volume sales declined from an annualised rate of 15.36mn in June to 14.75mn in July while prices did rise. Nonetheless, softness in auto sales is largely because of the lack of available vehicles to buy given production/supply chain issues, rather than weak demand.

Elsewhere, clothing sales fell 2.6%, sporting goods sales declined 1.9% and non-store retailers (internet) saw sales decline 3.1%. There was also a fourth consecutive decline in building materials while food and beverage sales also fell. On the positive side gasoline station sales rose 2.6% on the back of higher prices and people driving more. Miscellaneous stores saw sales rise 3.5% while electronics rose 0.3% and eating and drinking out rose 1.7%.

Services to take more of the pie, Covid permitting

With the economy re-opening there are a greater number of options on which to spend money. We will increasingly see a rebalancing of consumers' total spend away from "things" that are picked up in retail sales, towards "experiences", such as travel, entertainment and leisure, which are not.

While we suspect retail sales will underperform wider spending patterns, both goods and services can continue to grow. Consumer finances remain in good shape with incomes picking up thanks to rising employment and wages. Meanwhile, the Federal Reserve flow of funds data showed households have seen their wealth surge $20tn since the end of 2019 with $3tn of that increase in liquid cash, checking and time savings deposits.

Admittedly, last Friday's plunge in consumer sentiment is a worry, likely reflecting the Covid resurgence and anxiety over surging inflation's impact on household spending power. So far, evidence of a moderation in high frequency tracking data, restaurant bookings and air travel is only tentative at this stage. Nonetheless, it is something we will need to keep an eye on and already presents downside risks for August activity readings.

Author

James Knightley
Chief International Economist, US
james.knightley@ing.com