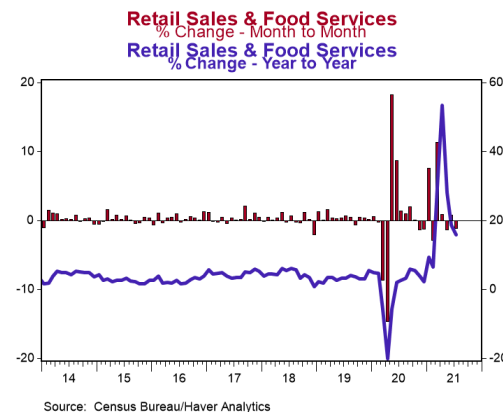


**Brian S. Wesbury** – Chief Economist  
**Robert Stein, CFA** – Dep. Chief Economist  
**Strider Ellass** – Senior Economist  
**Andrew Opdyke, CFA** – Senior Economist

## July Retail Sales

- Retail sales declined 1.1% in July (-0.6% including revisions to prior months). The consensus expected a decline of 0.3%. Retail sales are up 15.8% versus a year ago.
- Sales excluding autos declined 0.4% in July (+0.4% including revisions to prior months). The consensus expected a gain of 0.2%. These sales are up 15.8% in the past year. Excluding gas, sales declined 1.4% in July, but are up 14.2% from a year ago.
- The decline in sales in July was led by autos and non-store retailers (internet & mail-order). The largest increase was for restaurants & bars.
- Sales excluding autos, building materials, and gas fell 0.6% in July. If unchanged in August/September, these sales will be up at a 1.5% annual rate in Q3 versus the Q2 average.

**Implications:** Don't fret over the recent drop in retail sales. Sales rose well above pre-COVID levels due to massive fiscal stimulus and, as that stimulus gets further in the rear-view mirror, some (continuing) downward normalization in sales should be expected. Retail sales declined 1.1% in July, coming in lower than the consensus expected decline of 0.3%. Eight of thirteen major categories declined in July, with autos leading the way as supply issues continue to wreak havoc on that sector. Overall sales are still up a robust 15.8% from a year ago. Another way to look at it is that sales are up 17.5% versus February 2020, which was pre-COVID. “Core” sales, which exclude the most volatile categories of autos, building materials, and gas station sales, fell 0.6% in July, but are up 14.3% from a year ago and up 16.6% versus February 2020. In other words, due to temporary government support, retail sales are running hotter than they would have in the absence of COVID, even as the level of output (real GDP) is still running lower than it would have been in the absence of COVID. It has not been an even recovery for all major categories, though. For instance, sporting goods stores (+36.3%), non-store retailers (+30.2%), and auto sales (+20.1%) have all grown significantly faster than overall retail sales since February 2020. The last category of sales to get above February 2020 levels was restaurants & bars, which finally moved into the green in April and are now up 9.1% from 17 months ago. Looking ahead, given that overall retail sales are still far above the pre-COVID trend, we expect a modest trend decline in the year ahead. However, as long as policymakers don't completely panic because of the Delta variant, we also expect sales at restaurants & bars to buck that trend and move higher, along with sales of services not counted by the retail trade report, as America gets back toward normal. In the months ahead, the path of retail sales will be a battle between a number of opposing factors. Rising wages, jobs and inflation will all be tailwinds for retail sales, while the waning of the temporary and artificial boost from “stimulus” checks along with the end to overly excessive jobless benefits will be headwinds.



<b>Retail Sales</b> <i>All Data Seasonally Adjusted</i>	<b>Jul-21</b>	<b>Jun-21</b>	<b>May-21</b>	<b>3-mo % Ch.</b> <i>Annualized</i>	<b>6-mo % Ch.</b> <i>annualized</i>	<b>Yr to Yr</b> <i>% Change</i>
<b>Retail Sales and Food Services</b>	<b>-1.1%</b>	0.7%	-1.4%	-6.8%	14.8%	15.8%
<b>Ex Autos</b>	<b>-0.4%</b>	1.6%	-0.4%	3.0%	15.7%	15.8%
<b>Ex Autos and Building Materials</b>	<b>0.0%</b>	1.8%	0.0%	6.1%	18.0%	16.4%
<b>Ex Autos, Building Materials and Gasoline</b>	<b>-0.6%</b>	1.5%	-0.2%	3.1%	15.2%	14.3%
<b>Autos</b>	<b>-3.9%</b>	-2.2%	-4.6%	-35.4%	11.4%	15.7%
<b>Building Materials</b>	<b>-1.2%</b>	-1.4%	-5.7%	-28.8%	-6.8%	7.5%
<b>Gasoline</b>	<b>2.4%</b>	3.6%	1.8%	36.2%	46.4%	37.5%

Source: Bureau of Census