U.S. Data Review

- Retail sales: modest advance constrained by lower gasoline prices

Lawrence Werther
lawrence.werther@us.daiwacm.com
+1-212-612-6393
Brendan Stuart
brendan.stuart@us.daiwacm.com
+1-212-612-6172

Retail Sales

- Following an upward-revised advance of 1.0 percent in the prior month, retail sales rose 0.2 percent in June (a result in line with market expectations), with seven of the 13 broad categories included in the report registering increases. On a year-over-year basis, headline activity was up 6.7 percent – down 0.6 percentage point from May's 40-month high. On the other hand, transactions excluding motor vehicles and parts dealers, which had recorded gains of 0.9 percent or higher in each of the past four months, eased 0.2 percent in June (+6.9 percent year-over-year versus +7.9 percent in May). Excluding autos and gasoline, activity rose 0.4 percent (+5.7 percent year-over-year versus +6.1 percent previously). Concurrently, transactions in the retail control group, which correlates with goods outlays in the GDP accounts, matched expectations with an increase of 0.5 percent in the final month of Q2 (+6.4 percent year-over-year, essentially unchanged from May). While the latest results, on face, suggest that consumer spending remained resilient at the end of 26-H1, we suspect that purchases could decelerate into the back half of the year (see below).

Retail Sales -- Monthly Percent Change

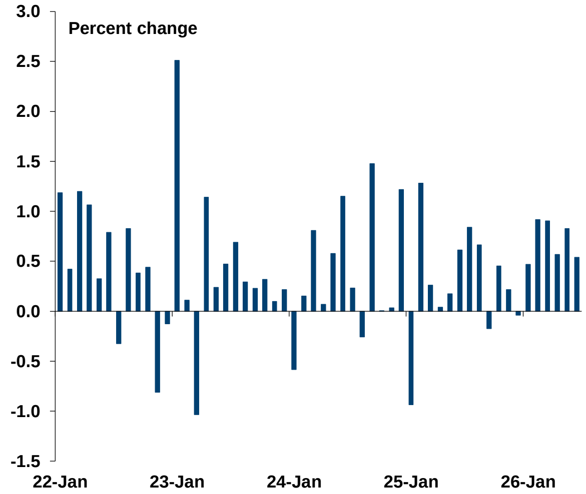
	Feb-26	Mar-26	Apr-26	May-26	Jun-26
Total	0.9	1.7	0.7	1.0	0.2
Ex.-Autos	0.9	2.0	0.9	1.0	-0.2
Ex.-Autos, Ex.-Gas	0.8	0.8	0.6	0.8	0.4
Retail Control*	0.9	0.9	0.6	0.8	0.5
Autos	1.0	0.6	-0.4	1.1	1.9
Gasoline	1.7	14.2	3.7	2.6	-5.3
Clothing	2.6	0.2	-0.5	0.9	-0.3
General Merchandise	0.1	1.6	0.0	0.4	0.1
Nonstore**	1.8	0.8	1.5	1.4	1.9

** Retail sales excluding those from food services and drinking places; motor vehicle dealers; gasoline stations; and building materials, garden equipment, and supply dealers.*

*** Primarily online and catalog sales; also includes sales by fuel-oil dealers.*

Source: U.S. Census Bureau via Haver Analytics

Retail Sales: Control Group



Source: U.S. Census Bureau via Haver Analytics

- Looking at the internals of the report, the auto component accounted for a significant portion of the advance in the headline, rising 1.9 percent (+5.7 percent year-over-year). The latest shift was consistent with an acceleration in the pace of lightweight vehicle sales to 16.5 million units, annual rate, from 16.1 million in May. However, and perhaps more salient, sales at gasoline stations fell 5.3 percent (the largest one-month decline since December 2022; +19.8 percent year-over-year). Following substantial increases in each of the prior three months, June's easing was reflective of the signing of the US-Iran memorandum of understanding on June 17 (and the attendant easing in oil prices). Relatedly, the gasoline component of the CPI declined 9.7 percent in the same month. Thus, adjusting monthly sales for inflation suggests that price effects skewed the latest results (i.e., the drop in transactions was due to lower prices rather than softening in real activity).

- Performance across categories outside of autos and gasoline was mixed, but they still (on balance) indicated solid consumer spending. Standing out on the firm side, sales at nonstore retailers jumped 1.9 percent in June (+14.2 percent year-over-year) – potentially a function of increased activity at Amazon spurred by Prime Day discounts. Moreover, activity at sporting goods, hobby, musical instrument, and book stores and electronics appliance stores posted increases of 1.3 and 0.8 percent, respectively (+15.2 and +8.6 percent year-over-year). On the other side of the coin, sales at miscellaneous store retailers and clothing stores each eased 0.3 percent (+6.0 and +4.8 percent year-over-year). Meanwhile, transactions at food services and drinking places – the only service-related area in the retail sales report – registered a subdued increase of 0.1 percent (+3.8 percent year-over-year). While we and some other analysts had anticipated this component to receive a boost from World Cup traffic, the latest advance followed above-one-percent increases in each of the prior two months.

- All told, after taking the latest results into consideration, we expect growth in real consumer spending in Q2 to be in the 1.75-2.00 percent range (annual rate). That expectation, if realized, would be consistent with GDP growth somewhere in the low-one-percent area. Broadly speaking, we remain hesitant in extrapolating the current momentum in consumer spending over the remainder of 2026 for several reasons. Namely, with President Trump's official notice of a resumption of hostilities with Iran, the risk of another surge in oil prices (which has already seen the price of West Texas Intermediate breach above $80 per barrel) threatens to further hamper household budgets. In addition to that possibility, at least a subset of consumers is contending with tight budgets as the tailwind from tax refunds fade, while also remaining concerned about potential softening in underlying labor market conditions. In essence, depressed sentiment measures suggest that heightened unease about the economic backdrop portend possible cautious spending in the back half of 2026.