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## **TD Economics**

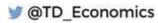
### Data Release: Retail spending stalls in July despite strong auto and e-commerce results

- Retail sales remained flat in July according to the advance Census Bureau report. This was a worse than
  expected result, with the street eyeing a 0.4% rise. However, the gain comes atop of an upwardly revised
  0.8% gain in June (previously 0.6%).
- Sales at gasoline stations (-2.7% m/m) weighed on the headline as gas prices fell on the month. Ex-gas sales were up 0.2%. Auto dealers benefitted, on the other hand, with sales up 1.1% in nominal terms. Excluding both autos and gasoline, core retail sales were down 0.1% on the month.
- Excluding gas, autos as well as building materials (-0.5%) and food services (-0.2%), the so called 'control group' used in calculating GDP was flat on the month. Core sales were dragged down by sporting goods (-2.2%), food/beverage (-0.6%) and clothing (-0.5%). Most other categories were more or less flat, with e-commerce sales the sole outperformer up 1.3% on the month.

#### **Key Implications**

- In contrast to the scorching July temperatures, spending by American consumers cooled during the month. Some of the weakness can be chalked up to the exceptional strength in the previous month, made all the more apparent by the upward revision to June sales, as well as falling gasoline prices. But, the broader weakness is somewhat concerning with consumer spending looking likely to decelerate from the 4.2% q/q annualized pace during Q2 to about 3% this quarter. This will provide less support to GDP growth in Q3 now tracking 2.5% annualized.
- Despite the flat reading in July we expect the consumer will come back to the malls, both brick-and-mortar
  and virtual, in the coming months. Job prospects remain resilient with wages beginning to rise in earnest.
  Accumulated savings from cheap gas over the previous quarters should provide an additional fillip to
  disposable income.
- While we don't expect retail spending to stall and increasingly turn up, the July report won't inspire much
  confidence in the economic momentum at this point. As such, the poor showing makes any likelihood of a
  rate-hike this year all the more distant. Alongside significant global risks, the Fed isn't likely to rush into
  raising rates, instead waiting until next year to adjust the policy rate.

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