Lower Gas Prices Slow June Retail Sales

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After this week's cooler-than-expected CPI and PPI reports, June retail sales delivered another signal that inflation pressures may be easing. Retail and food services sales, released by the U.S. Census Bureau, rose 0.2% in June to just under $769 billion, matching expectations but slowing from May's upwardly revised 1.0% gain. Sales were up 6.7% from a year earlier.

The headline increase was the weakest monthly gain in six months, but the details paint a better picture. Most of the slowdown was driven by falling gasoline prices, which resulted in a sharp 5.3% decline in gas station sales during the month. Lower fuel costs appear to have freed up household budgets for spending elsewhere, supporting activity across several retail categories.

Underlying demand remains solid. Retail sales excluding gas stations increased 0.7% in June, while sales excluding autos and gas rose 0.4%. Core retail sales, a closely watched measure excluding autos, gasoline, building materials, and food services that feeds directly into GDP calculations, advanced a healthy 0.5% during the month. Meanwhile, the Chicago Fed's Advance Retail Trade Summary estimated that inflation-adjusted retail sales excluding vehicles increased 1.6%, suggesting consumer spending strengthened as inflation moderated.

Seven of thirteen major retail categories posted gains in June. Motor vehicle and parts dealers rose 1.9%, matching a 1.9% increase among online retailers. The latter likely benefited from early summer promotional activity, including Amazon Prime Day. Food services and drinking places also edged higher, indicating consumers continue to spend on discretionary purchases.

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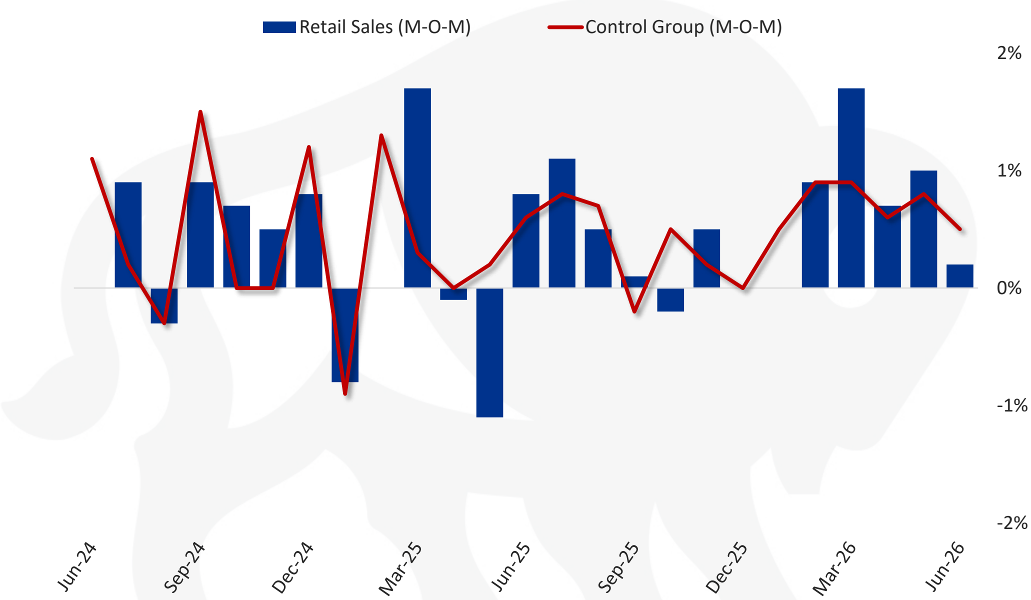
Retail Sales (Month-over-Month Percent Change)



Source: US Census Bureau

The June report supports the idea that the consumer remains on decent footing heading into the second half of the year. While spending growth has moderated from the stronger pace seen earlier this spring, lower gas prices have provided households with greater purchasing power versus a pullback in demand. The stronger retail sales data also contributed to an upward revision in the Atlanta Fed's GDPNow estimate for second-quarter growth to **1.7% from 1.3%**, suggesting overall economic activity remains resilient. Initial jobless claims fell to 208k this week, the lowest level since May, while the Philadelphia Fed Manufacturing Index surged to 41.4 in July from 10.3 in June, pointing to a surprising acceleration in regional manufacturing activity.

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Looking ahead, import and export price data, housing starts, and building permits are scheduled for release tomorrow, followed by the preliminary University of Michigan consumer sentiment survey on Friday. On Fed watch, we have Vice Chair Philip Jefferson speaking tonight, followed next week by Governor Christopher Waller and congressional testimony from Chair Kevin Warsh. Their remarks will come as the Federal Reserve approaches its next policy meeting on July 28-29, where officials will once again assess the outlook for inflation, growth, and interest rates.

Market Indications as of 11:21 A.M. Central Time

DOW	Down -41 to 52,617 (HIGH: 53,056)
NASDAQ	Down -276 to 25,993 (HIGH: 27,094)
S&P 500	Down -23 to 7,549 (HIGH: 7,610)
1-Yr T-bill	current yield 3.99%; opening yield 3.96%
2-Yr T-note	current yield 4.17%; opening yield 4.14%
3-Yr T-note	current yield 4.22%; opening yield 4.19%
5-Yr T-note	current yield 4.30%; opening yield 4.26%
10-Yr T-note	current yield 4.58%; opening yield 4.55%
30-Yr T-bond	current yield 5.11%; opening yield 5.08%