Retail Sales Stumble in July

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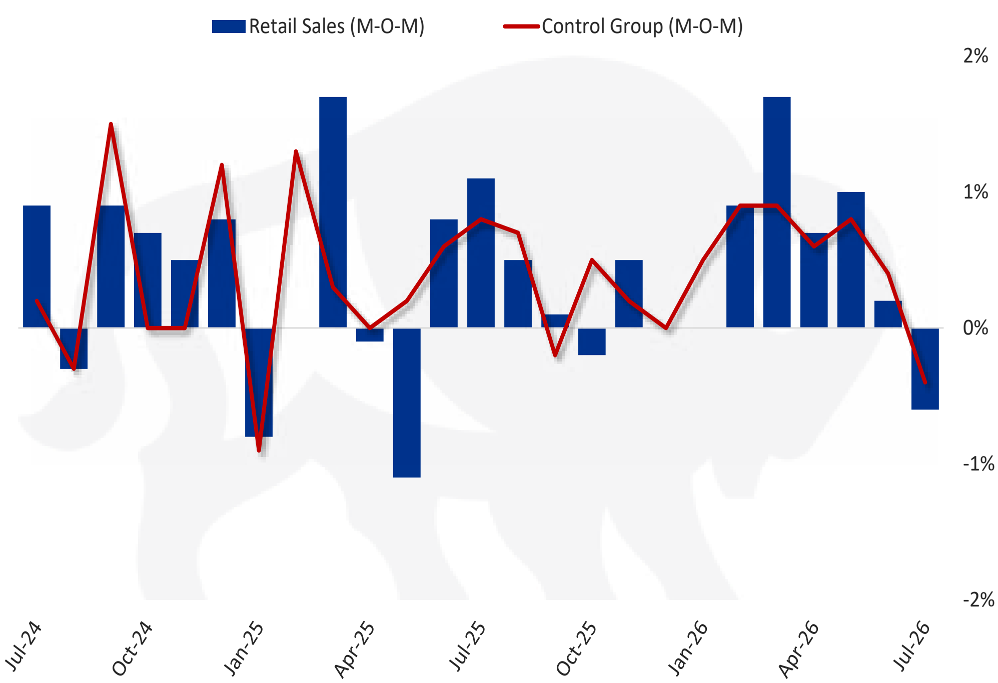
Last week's disappointing jobs report raised questions about the strength of the labor market, while Wednesday's Consumer Price Index release met expectations, showing some moderation in the inflation outlook. Heading into the final trading session of the week, the market turns its attention to the July Retail Sales report.

According to the Census Bureau, advance retail and food services sales fell 0.6% in July, marking the largest monthly decline in more than a year and coming in well below expectations for a 0.1% increase. Sales excluding autos and gasoline declined 0.2%, while the closely watched retail control group fell 0.4%, missing forecasts for a 0.3% gain.

Retail sales are reported in nominal dollars and are not adjusted for inflation. Because of that, monthly fluctuations can reflect both changes in consumer demand and changes in prices. Prior to July's weakness, inflation-adjusted consumer spending had remained relatively resilient in recent months. The latest GDP report showed real personal consumption expenditures growing at a 3.2% annualized pace during the second quarter, helping support overall economic growth despite ongoing concerns about the consumer. Data from the Chicago Fed's inflation-adjusted retail sales tracker has pointed to stronger underlying spending trends than headline retail sales alone may suggest.

Retail Sales (Month-over-Month Percent Change)



Source: US Census Bureau

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The weakness in July was broad. Of the thirteen major retail categories tracked by the Census Bureau, eight posted monthly declines while five increased. Motor vehicle and parts dealers led the downside, falling 1.8% after a strong first half of the year. Online retailers declined 2.2%. Electronics and appliance stores fell 0.5%, while gasoline station sales dropped 0.9%.

On the positive side, clothing and accessory stores rose 1.9%, health and personal care stores increased 0.7%, miscellaneous retailers gained 0.5%, and food service and drinking establishments advanced 0.5%. General merchandise stores posted a modest 0.3% increase.

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It’s worth noting the decline in the retail control group, which fell 0.4% during the month. The control group excludes automobiles, gasoline stations, building materials, and restaurants, making it a better measure of consumer demand. Economists closely watch this number because it is the same spending categories used by the Bureau of Economic Analysis when calculating Personal Consumption Expenditures, the largest component of GDP. The July drop was the largest decline in the control group since January 2025 and suggests consumers may be becoming more cautious after a stronger first half of the year.

Earlier this year, spending received support from unusually large tax refunds and a declining personal saving rate. With those tailwinds fading and labor market growth showing signs of slowing, economists will be monitoring if July represents a temporary pause or the beginning of a broader slowdown in consumer activity.

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July's combination of softer retail sales, a weaker employment report, and lower inflation backs up the idea that economic growth is moderating versus accelerating. While one month's data does not make a trend, the retail sales numbers suggest the economy entered the second half of the year with less momentum than many had anticipated, giving the Fed additional time to assess incoming labor market and inflation data before considering their next move.

Market Indications as of 9:36 A.M. Central Time

DOW	Down -70 to 53,770 (HIGH: 54,349)
NASDAQ	Down -57 to 26,746 (HIGH: 27,094)
S&P 500	Down -1 to 7,798 (HIGH: 7,799)
1-Yr T-bill	current yield 3.94%; opening yield 3.95%
2-Yr T-note	current yield 4.14%; opening yield 4.14%
3-Yr T-note	current yield 4.22%; opening yield 4.21%
5-Yr T-note	current yield 4.34%; opening yield 4.32%
10-Yr T-note	current yield 4.67%; opening yield 4.65%
30-Yr T-bond	current yield 5.25%; opening yield 5.22%