

Discretionary spending, consumer confidence boost June retail sales

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By Evan Fallor

Strong discretionary spending brought on by federal tax cuts and higher wages boosted retail sales in June, according to several economists.

The U.S. Census Bureau on July 16 reported a 0.5% seasonally adjusted month-over-month increase in retail sales to \$506.8 billion in June, largely driven by sales increases at the gas pump as well as strong online and restaurant sales.

Upward revisions to the May retail sales report were notable and representative of a strong recent pattern of discretionary spending, according to Rajeev Dhawan, director of the Economic Forecasting Center at Georgia State University's Robinson College of Business.

The Census Bureau revised its May figures to a 1.3% month-over-month rise from the previously estimated 0.8% increase. Dhawan attributed this stronger number as well as strong gains in June in part to federal tax cuts.

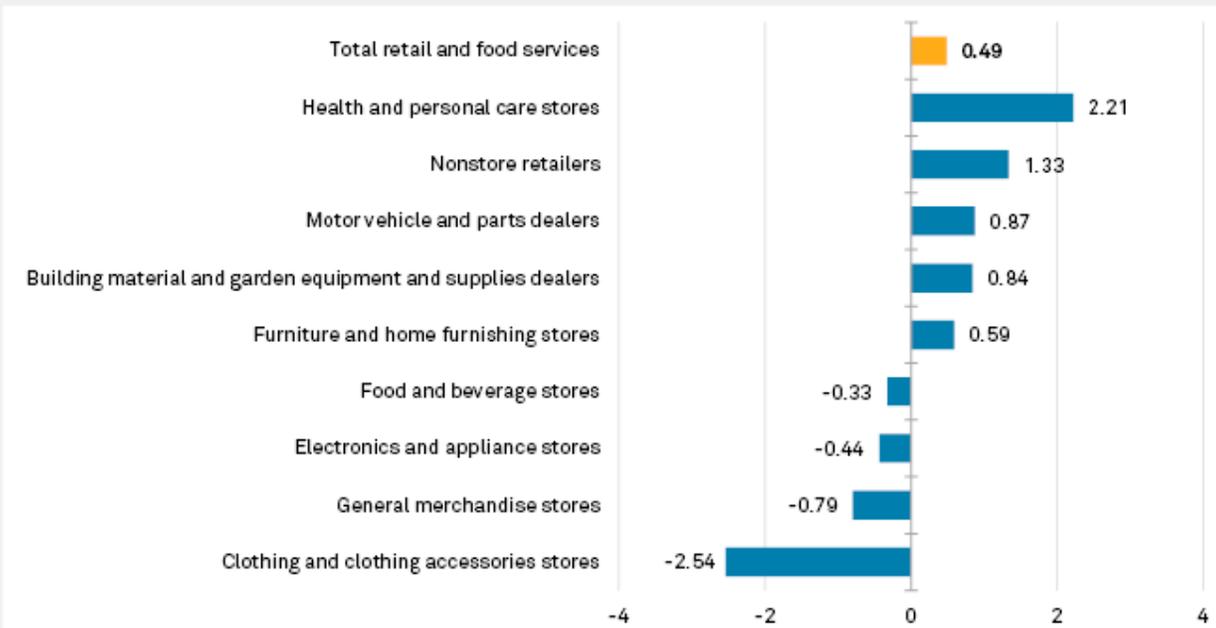
The 1.0% rise in June gas sales, however, could be due in part to rising prices of the product, Dhawan noted.

"We were expecting the consumer to come out and play as they have more disposable income from the tax cuts," Dhawan said. "Now they're finally beginning to show it. It's showing up in the discretionary spending categories — furniture, clothing and nonstore are doing very well in the last three months."

Sales at nonstore retailers, which includes e-commerce, rose 1.3% month over month in June, complementing the 2.2% rise at health and personal care stores and 1.5% rise at food services and drinking places.

MOM change in seasonally adjusted store sales (%)

June 2018



Based on data released July 16, 2018.

MOM = month over month

Source: U.S. Census Bureau

The 0.5% overall monthly rise in retail sales came in softer than the 0.8% that Morgan Stanley had predicted for June. The firm noted that it expects the strong consumer discretionary spending to continue despite higher gas prices, which should be offset by federal tax cuts.

Month-over-month dips in sales were seen at clothing and clothing accessories stores. Decreases also were reported at sporting goods, hobby and musical instrument stores and bookstores, possibly due to the liquidation of former brick-and-mortar toy giant Toys R Us Inc., said Ryan Sweet, director of real-time analytics for Moody's Analytics.

"Significant discounting weighs on nominal retail sales," Sweet said in an interview.

 SNL Image

However, Sweet said the 0.5% overall rise was consistent with Moody's predictions.

"Overall, there is nothing to gripe about," he added. "The consumer has plenty of tailwinds due to strong wage growth ... and you also have the tax cuts."

Increases in home purchases have helped boost sales of furniture and home furnishings, said Naveen Jaggi, president of retail services for JLL. He said he expects the lower taxes and strong job growth that have boosted home purchases to continue to strengthen consumer confidence.

"New homes typically lead to additional purchases, especially in the furniture and home furnishings and home improvement categories — which have done well recently," Jaggi said in a note. "The consumer is continuing to drive the economy and we expect this momentum to continue into the back-half of the year."