Financial Markets This Week

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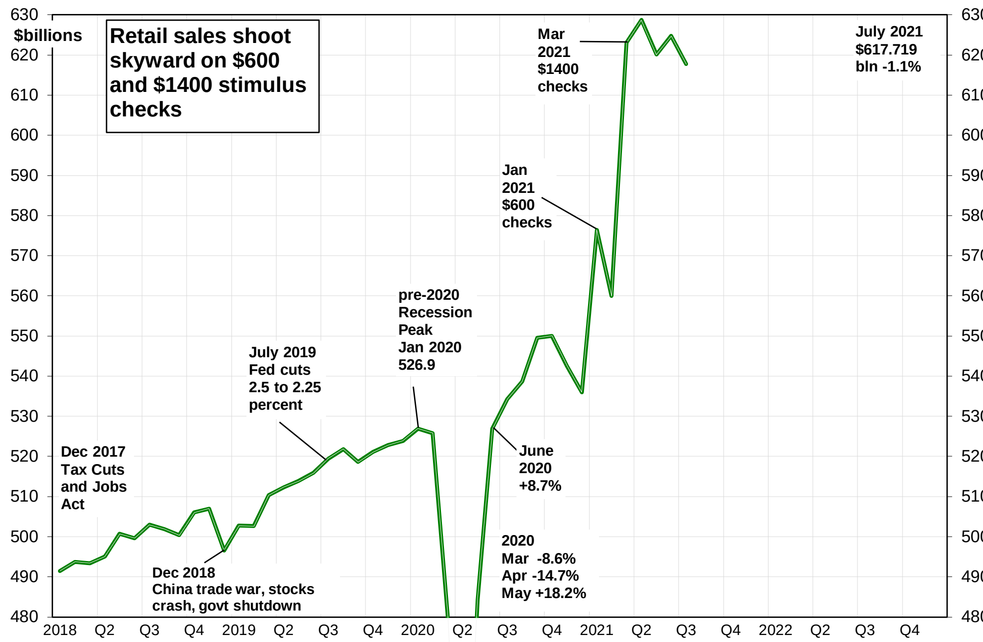
CONSUMER STOPS SHOPPING THREATENING THE RECOVERY

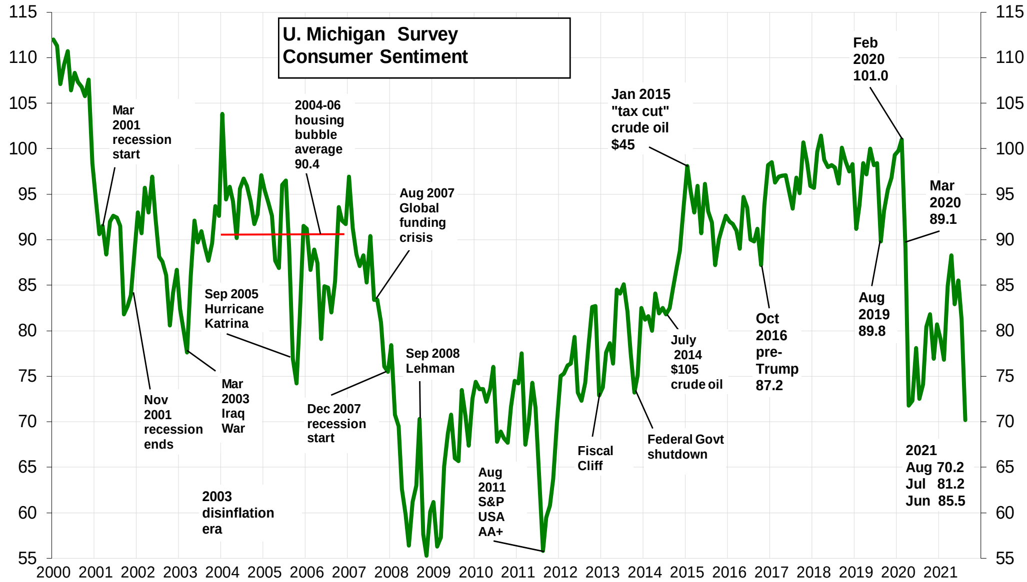
Consumer sentiment was gloomy in a report out last week and sure enough July retail sales fell 1.1% in Tuesday's report this week and is now down 1.8% from the record sales in April. We could blame it on the spread of the Delta variant and new mask mandates in many parts of the country, although we have always wondered why retail spending did not already drop back earlier this year after those huge Economic Impact Payments from the Federal government were spent; retail sales were $617.7 billion just in the one month of July and the $600 checks in January pumped in $139 billion into the economy, and the $1400 checks in March totaled $339 billion. Peak growth for this recovery from the recession is clearly over if the consumer does not return to the shops and malls. The real GDP growth of 6.3% in Q1 2021 and 6.5% in Q2 2021 will prove to be the highwater mark for growth this year and perhaps for years to come, especially if the Federal Reserve halts its QE purchases later this year which total ($120 billion X 12) $1.44 trillion annually. Nominal GDP spending only rose $3.24 trillion in the year ending Q2 2021 to $22.722 trillion, so the central bank support was a big part of that spend. It can't mean nothing.



Retail spending, actual dollars, each month

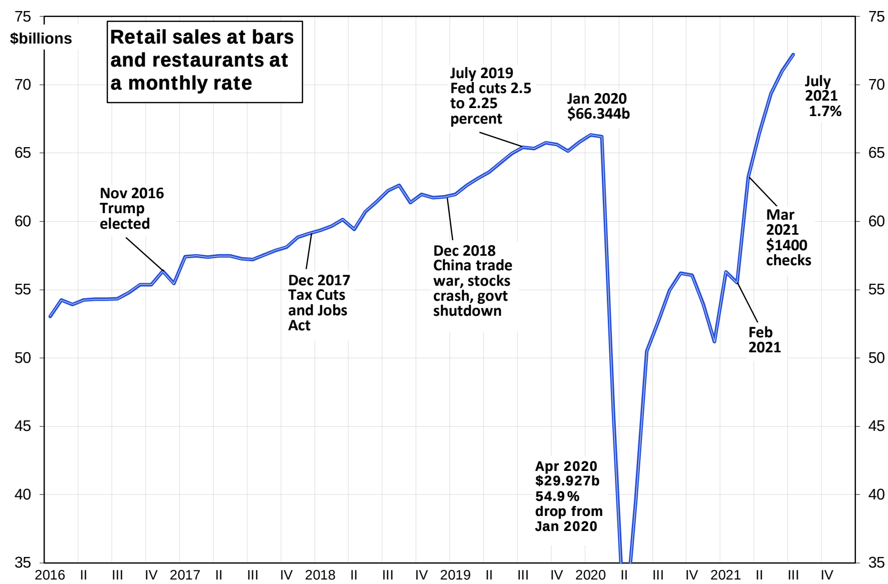
	$million Jul 2021	% to Total	Percent Changes % Jul	Jun	Year/year
Total Retail Sales	617,719	100.0	-1.1	0.7	15.8
Motor vehicles/parts	126,732	20.5	-3.9	-2.2	15.7
Furniture/furnishings	11,947	1.9	-0.6	-2.2	15.6
Electronics/appliances	8,626	1.4	0.3	4.5	23.6
Building materials/garden	38,615	6.3	-1.2	-1.4	7.5
Food & beverage	74,409	12.0	-0.7	0.8	2.3
Health/personal care	32,567	5.3	0.1	4.5	9.2
Gasoline stations	49,487	8.0	2.4	3.6	37.5
Clothing/accessories	25,839	4.2	-2.6	3.7	43.4
Sporting goods, books	9,227	1.5	-1.9	-1.8	13.8
General merchandise	68,480	11.1	-0.1	1.7	10.9
Department stores	12,070	2.0	-0.3	5.7	24.3
Miscellaneous retailers	14,172	2.3	3.5	4.0	22.8
Nonstore retailers (internet)	85,401	13.8	-3.1	0.2	5.9
Eating & drinking places	72,217	11.7	1.7	2.4	38.4

Sometimes a sudden jump in inflation can make the consumer pull back from purchasing higher priced store bought goods. This month however it is motor vehicle sales that dragged down total retail spending as retail sales excluding motor vehicles only fell 0.4% in July after rising 1.6% in June.



We were overdue for weakness in this category as unit car sales have been well off their earlier pace with annual sales rates of 14.8 million in July, 15.4 million in June, 16.9 million in May, 18.3 million in April… you get the picture. Weak. Motor vehicles count for a big chunk of the consumer's wallet at 20.5% of total retail sales in July, but so do the things consumers bought online where so-called nonstore retailers saw their sales drop 3.1% in July after increasing 0.2% in June. Maybe it is true that internet sales weakness was in part due to Amazon Prime Day coming a month earlier in June this year. Nonstore retailers are 13.8% of total retail sales.

Our favorite category of retail sales is food services & drinking places which saw big gains of 1.7% in July and 2.4% in June. Dining out sales are 38.4% higher than a year ago, but don't forget part of the reason is inflation: food away from home in the July 2021 CPI data is 4.6% higher than a year ago. The spread of the Delta variant could impact August restaurant and bar sales significantly.



To conclude, the economy is in a new phase of slower growth as the reopening splurge following the pandemic is now behind us. There were 943 thousand new jobs created in July and those new paychecks will support the economy in the second half of the year, but the growth rate will drop back to a normal pace of something that has a 2.x in front of it earlier than the markets think. Don't forget the gloomy forecasters at the Federal Reserve, the bank presidents and governors, think potential GDP growth is just 1.8% for the long run. We'll get there. It's just a matter of time. Stay tuned. Story developing.

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