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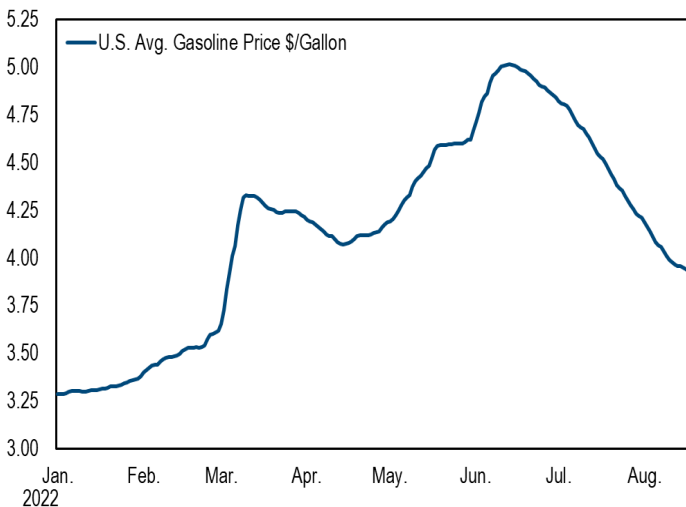
Lower Gasoline Prices Lifted Spending Less than Expected

Despite price relief at the pump, rising costs elsewhere continue to keep spending modest. Consumers are still shopping, but the broad-based increase in inflation has the average American adjusting their spending behaviors, buying fewer and less expensive goods. Investors have hailed the latest inflation report as encouraging with a slower pace of ascent. The typical household, however, has little to celebrate as they spend more to take home less.



LOWER GASOLINE PRICES

Elevated gasoline prices have been taking a significant toll on the household balance sheet. With prices reaching over \$5 a gallon on a national average, consumers were shelling out hundreds of dollars more each month just to fill up the family car. While declining energy costs should free up household dollars for other categories of consumption, the latest spending numbers indicate that was not the case in July amid falling gas prices.



Source: AAA/Department of Energy/Bloomberg

increase in June, perpetuating the violent volatility seen in the index's auto component since March 2020.

July retail sales were unchanged, meaning growth in spending relative to June was zero. At this rate, not only did spending fall short of the 0.1% increase expected, but also spending slowed to the weakest pace since December 2021. That being said, the weakness was somewhat concentrated in two categories, autos and gasoline. Car sales fell 1.6% in July following a 0.5%

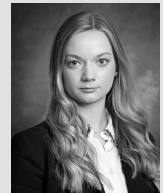
Economic INSIGHT



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Gasoline station sales, meanwhile, fell 1.8% in July following a 2.5% increase the month prior. According to AAA, gasoline prices fell roughly 10% last month from a national peak of \$5.02 in June to an average \$4.53 in July. Without an adjustment in quantity consumed, a lower price resulted in a decline in monthly gasoline sales. Recall, retail sales are reported in dollar figures, meaning it includes the total expenditures on a good, in this case fuel, rather than the number of items or gallons consumed. The report makes no distinction between consumers buying one gallon at \$100 or ten gallons at \$10 each. Total expenditures in either case would be \$100.

Excluding gasoline, retail sales actually rose, albeit it minimally, up 0.2%. Excluding autos, sales gained 0.4%. And, excluding autos and gasoline, retail sales rose 0.7%. Excluding all negative categories, retail sales jumped more than 1% in July.

On the stronger side, non-store retailer sales gained 2.7%, miscellaneous sales rose 1.5%, and eating and drinking sales climbed 0.1% in July. Sporting goods sales rose 0.1%, and food and beverage sales and furniture sales each increased 0.2%. Health and personal care sales rose 0.4%, and building materials sales increased 1.5% in July, a six-month high.

A LONGER-TERM TREND

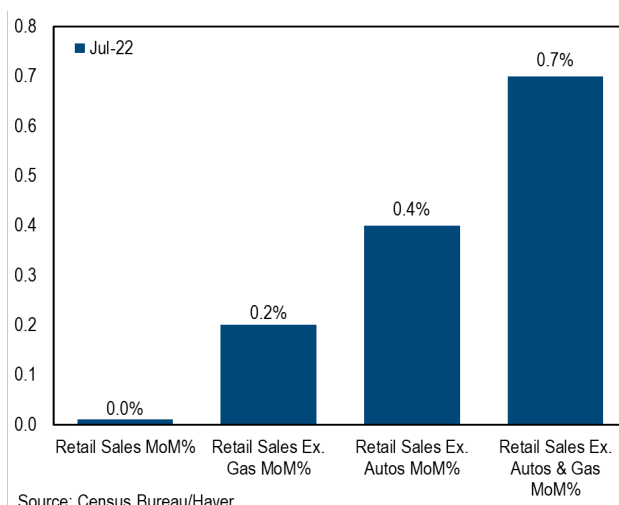
Consumers are under pressure as real income growth continues to trend negative and rising inflation erodes consumers' purchasing power. Month-to-month volatility aside, with or without gasoline sales included, the consumer has clearly established a downward trajectory in spending. While still positive, the average American appears to be spending just enough to keep up with inflation and not much more, increasingly turning to dwindling savings, credit cards and other sources of debt to supplement spending habits as fiscal stimulus wanes.

Already several large retailers have noted a significant change in consumer behavior as the household balance sheet is becoming increasingly fragile amid rising costs and higher interest rates. For some, this means cutting back altogether, and for others it means reducing the quality of what they are purchasing. Independent of the form, shoppers are dramatically shifting the goods and services in their basket each month. This is something consumers do when they are increasingly unsure about their financial footing.

GLOSSARY

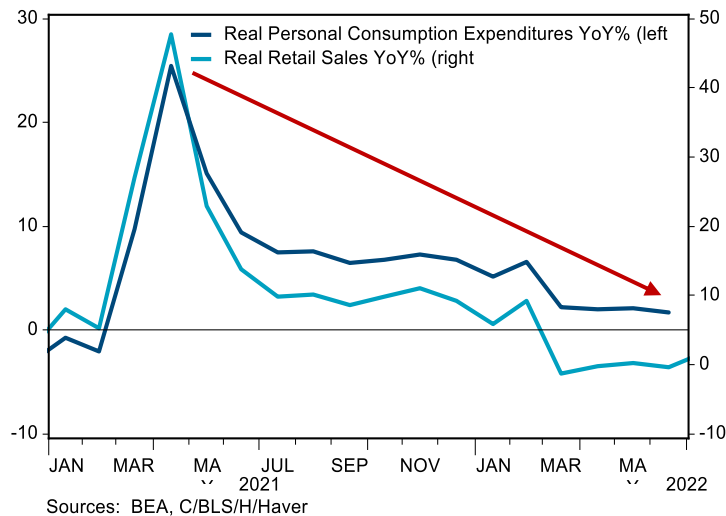
MoM – Month over Month

YoY – Year over Year



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Declining prices at the pump helped buoy the latest read on consumer confidence, showing a modest improvement in current conditions. However, even with a rise from 51.5 to 55.1 in August, confidence remains historically low.



BOTTOM LINE

While market participants and members of the central bank hailed the recent read on inflation as a step in the right direction, with prices still near a four-decade high, the average consumer who is still struggling to make ends meet sees less to be hopeful about. After all, while any reprieve at the pump is welcome, particularly with gas prices reaching an all-time national high in June, lower fuel costs that are still up more than 20% from one year prior are not enough to offset rising costs in other key categories of expenditures. As their purchasing power continues to be eroded by elevated inflation, consumers are cutting back.

Lower gas prices have helped boost sentiment, and at least some consumers were eager to spend the extra cash. However, with income growth falling short of inflation and consumers increasingly leaning on credit, rising inflation is going to make it difficult for consumers to maintain even these reduced levels of spending heading further into the second half of the year and the holiday shopping season.

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