

Retail Trends August 21, 2025

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Overview

Monthly Retail Sales from the US Commerce Department



Retail sales in July 2025 rose **6% year-over-year** to **\$258.22 billion**, with **e-commerce up 8.3%**, **apparel up 7.4%**, and **general merchandise up 3.1%**, while **electronics fell 1.7%** and **department store sales dipped 0.2%**. Analysts attribute the growth to **tariff-related pull-forward spending**, though signs of consumer caution persist, including bargain hunting and increased purchases from value chains. Despite strong spending, experts warn that **retailers—not consumers—are absorbing most tariff costs**, a trend that may not be sustainable as inflationary pressures mount.

Here's the inflation breakdown for July 2025 in one chart



In July 2025, the Consumer Price Index (CPI) rose 2.7% year-over-year, with core CPI (excluding food and energy) climbing 3.1%, marking its fastest annual rate since February. While grocery and gasoline prices fell by 0.1% and 2.2% respectively from June, core commodity inflation rose 1.2% annually, driven by tariff impacts—household furnishings increased 0.7%, apparel 0.1%, and toys 0.2% month-over-month. Economists warn that Trump administration tariffs and immigration policies are contributing to rising prices, with Yale estimating a \$2,400

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short-term cost per household and expectations that core inflation could peak at 3.8% by year-end.

Federal reserve leaves interest rates unchanged due to inflation and ongoing economic conditions



The Federal Reserve voted to keep interest rates unchanged in July 2025, citing persistent inflation remaining above the 2% objective. While the GDP came out stronger than anticipated, the Fed opted to wait to see what impact recently imposed tariffs will have on the economy before making a change.

Brick and Mortar

Consumer sentiment weakens in August; inflation expectations rise



U.S. consumer sentiment declined in August 2025, with the University of Michigan's index falling to **58.6** from **61.7** in July, contrary to economists' expectations of a rise to **62.0**. The drop was driven by concerns over rising prices due to import tariffs, with **buying conditions for durable goods plunging 14%**, the lowest in a year. Inflation expectations also rose, with **12-month forecasts increasing to 4.9%** (up from 4.5%) and **long-run expectations climbing to 3.9%** from 3.4%.

Consumers are nervous about inflation, but for now still spending



Despite persistent inflation concerns, **U.S. consumers continue to spend**, with **retail sales rising 0.5% in July**, driven by gains at **car dealerships (+1.6%)**, **furniture stores (+1.4%)**, and **online retailers (+0.8%)**, while **home improvement (-1%)** and **electronics (-0.6%)** declined. Consumer sentiment fell **5% to 58.6**, but economists note sentiment has been a poor predictor of spending, which still accounts for **about 70% of U.S. economic output**. Businesses have helped contain inflation by delaying inventory orders and negotiating supplier costs, though the **Producer Price Index surged 0.9% in July**, lifting the annual rate to **3.3%**, suggesting tariff impacts may soon reach consumers.

Target sales decline as retailer warns of 'volatile' tariff environment while Lowe's and TJX sales rise

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Target reported a **0.9% decline in quarterly sales**, an improvement from the previous quarter's **2.8% drop**, as CEO Brian Cornell announced his resignation amid ongoing tariff-related challenges. In contrast, **Lowe's posted \$24 billion in sales and \$2.4 billion in net earnings**, while **T.J. Maxx's parent company TJX saw a 7% year-over-year increase**, reaching **\$14.4 billion in net sales**, crediting strategic sourcing for mitigating tariff impacts. Home Depot's **\$45.2 billion in Q2 sales** slightly missed expectations, with executives noting that **foot traffic fell 4.3% in July**, while **digital sales rose 12%**, and cautioning that tariffs and interest rates are steering consumers toward smaller home improvement projects.

JC Penney swings to a loss



J.C. Penney reported a **9% drop in Q4 net sales to \$2.09 billion** and swung to a **\$64 million net loss**, compared to **\$19 million in net income** the previous year. For the full fiscal year, sales fell **8.6% to \$6.3 billion**, and the company posted a **\$177 million net loss**, with **adjusted EBITDA down over 45% to \$172 million**, largely due to inventory write-downs. Despite efforts to reinvent itself under Catalyst Brands and its ties to Authentic Brands Group, analysts say Penney's financial structure is stable but its path to recovery remains uncertain.

Home Depot retains annual forecasts, flags 'modest' price hikes due to tariffs



Home Depot reported **1.4% growth in U.S. comparable sales** for Q2 2025, marking its third consecutive quarter of gains, driven by strong July performance and sustained demand from professional contractors. Despite missing analyst expectations with **\$45.28 billion in net sales** and **\$4.68 adjusted earnings per share**, the company maintained its full-year forecast, projecting **2.8% overall sales growth** and a **2% decline in adjusted profit**. Executives noted **modest price hikes** in some imported goods due to tariffs and a cautious outlook for major home renovations amid economic uncertainty and a sluggish housing market.

Chili's same-store sales growth tops 20%, again



U.S. tariffs on Chinese imports are forcing small and midsize manufacturers to choose between paying steep tariffs or facing significantly higher domestic production costs. Companies like Plufl, Moment, and Bugaboo are struggling to absorb these costs, with some exploring alternative manufacturing locations or passing costs onto consumers. Despite efforts to mitigate the impact, many businesses are finding it challenging to maintain profitability and competitiveness in the face of these tariffs.

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Ford's \$5 billion model T moment aims to turn EV operation profitable



Ford announced a **\$5 billion investment** to overhaul its electric vehicle (EV) operations after reporting a **\$1.3 billion Q2 loss**, aiming to produce more affordable EVs with a radically redesigned assembly system. The new **Ford Universal EV Platform** and **Universal Production System** will reduce parts by **20%**, fasteners by **25%**, and assembly time by **40%**, starting with a **\$30,000 midsize electric pickup** launching in 2027. Combined with a **\$3 billion battery investment** in Michigan, Ford hopes these changes will reverse losses and compete globally as federal EV incentives phase out and tariff pressures rise.

Ecommerce

Holiday shopping goes AI-first this Black Friday, Cyber Monday



According to Klaviyo's 2025 Black Friday Cyber Monday Forecast, 54% of consumers plan to use AI for comparing prices, searching products, and getting personalized recommendations, with 62% preferring AI tools over sales associates. Holiday shopping is starting earlier, with 20% beginning between June and August, and Gen Z leading the trend, while Mother's Day and Prime Day have become the 4th and 5th biggest shopping events after Christmas, Black Friday, and Cyber Monday. Despite inflation influencing 81% of shoppers, personalized deals—especially on items browsed multiple times—are the most effective in driving purchases, with more than three-quarters planning to spend the same or more this season.

Google makes payments play



Google is expanding its payments ecosystem by integrating **remittance services** into Google Pay and adding **buy now, pay later (BNPL)** options like Affirm, Klarna, and Afterpay to Chrome's autofill feature, aiming to reduce friction and boost transaction completion. Initially, **cross-border payments** will be available to **India, Brazil, Mexico, and the Philippines**, with **Stripe** handling processing, while BNPL autofill options are expected to roll out "in the coming months." Analysts suggest these moves are designed to make Chrome more competitive amid emerging threats like **OpenAI's upcoming browser**, and to enhance user convenience by streamlining the checkout experience.

Trade

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US hikes steel, aluminum tariffs on imported appliances, railcars, EV parts



The U.S. Commerce Department has imposed new tariffs on **407 steel and aluminum product categories**, including appliances, EV parts, and heavy equipment, with a **50% tariff on metal content** plus country-specific rates on other components. These tariffs affect over **\$200 billion in imports** and are expected to raise the overall effective tariff rate by **about 1 percentage point**, according to Evercore ISI. Despite opposition from companies like Tesla and foreign automakers citing **insufficient domestic capacity**, the tariffs took effect immediately to curb circumvention and bolster U.S. steel and aluminum industries.

What We're Reading

American consumers are getting thrifty again



Consumer spending in the U.S. stalled in the first half of 2025, as Americans increasingly opt for generic brands, bulk buying, and fewer discretionary purchases. Major retailers like Chipotle, Kroger, and Procter & Gamble report that customers are either financially strained or behaving more cautiously. This shift reflects growing economic uncertainty and a return to thriftier habits, with impulse buys and premium purchases on the decline.

Divisions grow inside Fed ahead of September rate cut decision



Federal Reserve officials are divided over whether to cut interest rates at the upcoming September 16–17 meeting, with Cleveland Fed President Beth Hammack opposing a cut due to rising inflation, while Boston Fed President Susan Collins remains open to one amid labor market concerns. Hammack cited inflation moving in the wrong direction and a stable labor market, saying, “I would not be supportive with the current data that I have today of reducing interest rates.” Meanwhile, Collins flagged risks of weakening employment and consumer spending, noting that if data worsens, “it may be appropriate soon to begin dialing back” rates.