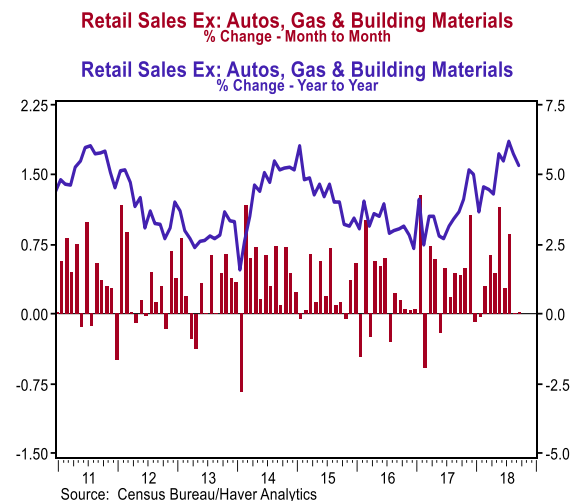
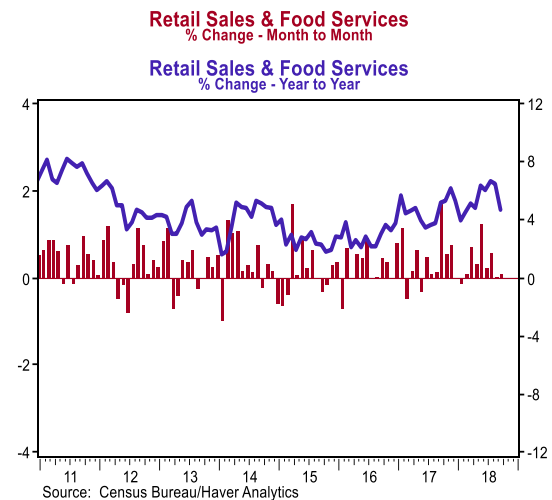


September Retail Sales

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- Retail sales rose 0.1% in September, but were unchanged including revisions to prior months, coming in below the consensus expected gain of 0.6%. Retail sales are up 4.7% versus a year ago.
- Sales excluding autos declined 0.1% in September (-0.3% including revisions to prior months), versus a consensus expected 0.4% gain. These sales are up 5.7% in the past year. Excluding gas, sales were up 0.2% in September and are up 4.1% from a year ago.
- The gain in sales in September was led by sales for autos and non-store retailers (internet & mail order). The largest declines were for restaurants & bars as well as gas stations.
- Sales excluding autos, building materials, and gas were unchanged in September, but down 0.2% including revisions to prior months. These sales were up at a 6.0% annual rate in Q3 versus the Q2 average.

Implications: It looks like Hurricane Florence hit retail sales hard in September, with restaurant & bar sales down 1.8% for the month, the largest drop for any month since late 2016. As a result, retail sales grew less than expected in September, but we wouldn't read too much into today's release. Retail sales still grew 0.1% in September, the eighth consecutive monthly gain. And excluding restaurants & bars, retail sales were up 0.4%, and the gains in September were broad-based, with ten of thirteen major categories showing rising sales, led by autos and non-store retailers (internet & mail order sales). Non-store retailers now make up 11.4% of all retail sales, a record high, and are up 11.4% over the past year. Overall retail sales are up a solid 4.7% from a year ago (and up an even stronger 5.7% excluding auto sales). After plugging in the retail numbers, "real" (inflation-adjusted) consumer spending in the third quarter looks to have grown at about a 3.0% annual rate, supporting our projection of about 4.0% real GDP growth for Q3. Given the tailwinds from deregulation and tax cuts, we expect an average real GDP growth rate of 3%+ in both 2018 and 2019, a pace we haven't seen since 2005. Jobs and wages are moving up, tax cuts have taken effect, consumer balance sheets look healthy, and serious (90+ day) debt delinquencies are down substantially from post-recession highs. Some may point to household debt at a record high as reason to doubt that consumption growth can continue. But household assets are at a record high, as well. Relative to assets, household debt levels are the lowest in more than 30 years. In other words, there's plenty of room for consumer spending – and retail sales – to continue to trend higher in the months to come, but don't be surprised if the series remains choppy in the short-term due to Hurricane Michael. In other news today, the Empire State index, a measure of factory sentiment in New York, rose to a 21.1 in October from 19.0 in September, signaling continued optimism in the region. On the inflation front, import prices rose 0.5% in September, while export prices were unchanged. The large rise in import prices was due to a 4.1% increase in fuel costs. Export prices remained unchanged due to lower prices for farm exports offsetting higher nonagricultural prices. Import prices are up 3.5% in the past year, while export prices are up 2.7%, both signaling the need for continued rate hikes from the Fed.



Retail Sales <i>All Data Seasonally Adjusted</i>	Sep-18	Aug-18	Jul-18	3-mo % Ch. <i>annualized</i>	6-mo % Ch. <i>annualized</i>	Yr to Yr <i>% Change</i>
Retail Sales and Food Services	0.1%	0.1%	0.6%	3.1%	5.3%	4.7%
Ex Autos	-0.1%	0.2%	0.8%	3.6%	6.1%	5.7%
Ex Autos and Building Materials	-0.1%	0.1%	0.8%	3.6%	6.2%	6.0%
Ex Autos, Building Materials and Gasoline	0.0%	0.0%	0.9%	3.7%	5.8%	5.3%
Autos	0.8%	-0.5%	0.0%	1.0%	2.0%	1.1%
Building Materials	0.1%	0.8%	0.3%	5.0%	5.5%	1.5%
Gasoline	-0.8%	1.1%	0.4%	2.9%	9.5%	11.4%

Source: Bureau of Census