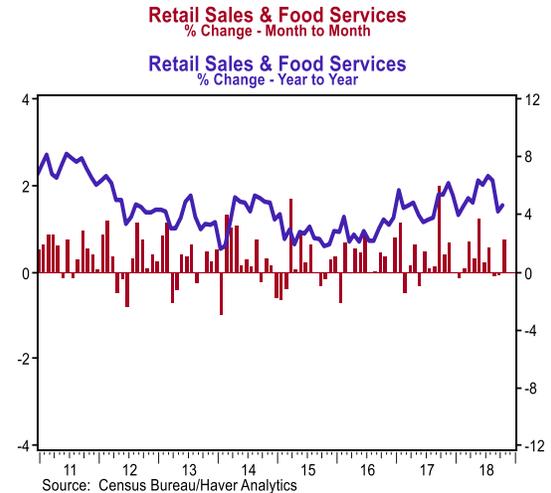


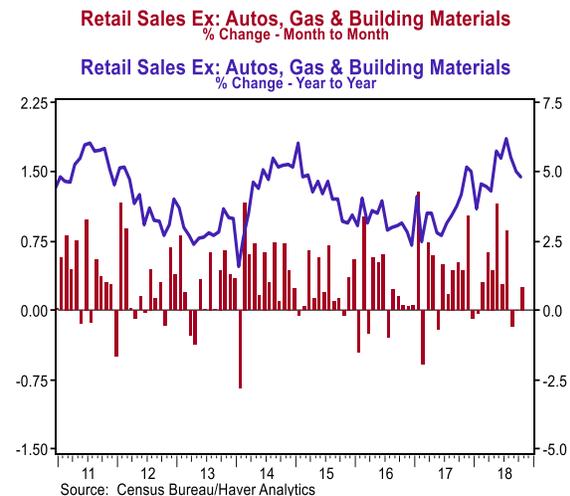
October Retail Sales

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- Retail sales rose 0.8% in October (+0.5% including revisions to prior months), versus a consensus expected gain of 0.5%. Retail sales are up 4.6% versus a year ago.
- Sales excluding autos rose 0.7% in October (+0.6% including revisions to prior months), versus a consensus expected 0.5% gain. These sales are up 5.9% in the past year. Excluding gas, sales were up 0.5% in October and are up 3.6% from a year ago.
- The gain in sales in October was led by sales for gas stations and autos. The largest decline was for restaurants & bars.
- Sales excluding autos, building materials, and gas rose 0.3% in October, but were unchanged including revisions to prior months. If unchanged in November/December these sales will be up at a 0.8% annual rate in Q4 versus the Q3 average.



Implications: Retail sales surged in October, rising by the most in five months and bouncing back from September’s hurricane-related decline. Retail sales grew 0.8% in October beating expectations, with broad-based gains, as ten of thirteen major categories showed rising sales, led by gas stations and autos. Don’t be surprised if the series remains choppy in the short-term due to the lingering effects of hurricane season. Overall retail sales are up a solid 4.6% from a year ago (and up an even stronger 5.9% excluding auto sales). “Core” sales, which exclude autos, building materials, and gas stations (the most volatile sectors) were up 0.3% in October, and are up 4.8% from a year ago. Plugging today’s report into our models suggests “real” (inflation-adjusted) consumer spending, on goods and services combined, will be up at a 2.0 – 2.5% annual rate in Q4 while real GDP grows at around a 2.0% rate. 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 near a record high, as well. Relative to assets, household debt levels are near 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. In other news today, initial jobless claims rose 2,000 last week to 216,000. Meanwhile, continuing claims rose 46,000 to 1.68 million. These figures are consistent with continued robust job gains in November. On the manufacturing front, the Empire State index, a measure of factory sentiment in New York, rose to a 23.3 in November from 21.1 in October, while the Philly Fed Index, a measure of East Coast factory sentiment, fell to +12.9 in November from +22.2 in October. Both measures signal continued optimism among manufacturers. On the inflation front, import prices rose 0.5% in October, while export prices rose 0.4%, both exceeding consensus expectations. The large rise in import prices was led by a 3.3% increase in fuel costs. Export prices rose 0.4% in October due to higher prices for nonagricultural exports more than fully offsetting a decline in prices for farm exports. Import prices are up 3.5% in the past year, while export prices are up 3.1%, both signaling the need for continued rate hikes from the Fed.



Retail Sales <i>All Data Seasonally Adjusted</i>	Oct-18	Sep-18	Aug-18	3-mo % Ch. <i>annualized</i>	6-mo % Ch. <i>annualized</i>	Yr to Yr <i>% Change</i>
Retail Sales and Food Services	0.8%	-0.1%	-0.1%	2.6%	5.6%	4.6%
Ex Autos	0.7%	-0.1%	0.1%	2.9%	6.6%	5.9%
Ex Autos and Building Materials	0.6%	-0.1%	0.0%	2.5%	6.4%	6.0%
Ex Autos, Building Materials and Gasoline	0.3%	0.0%	-0.2%	0.4%	4.9%	4.8%
Autos	1.1%	-0.1%	-0.7%	1.4%	1.8%	-0.3%
Building Materials	1.0%	0.1%	0.8%	8.2%	9.0%	3.6%
Gasoline	3.5%	-0.4%	1.6%	20.3%	18.4%	16.2%

Source: Bureau of Census