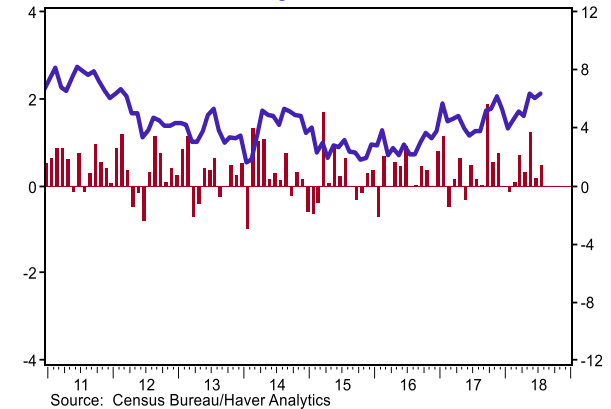


July Retail Sales

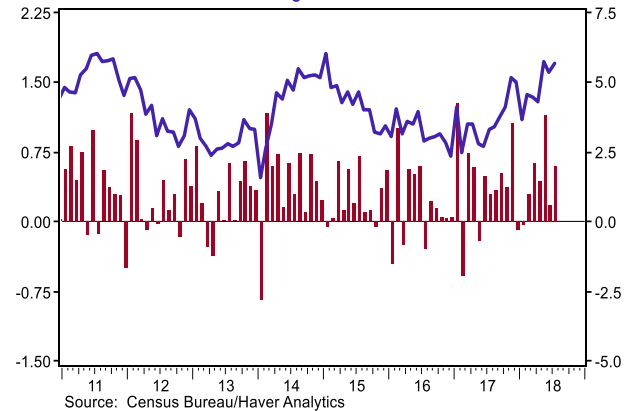
Brian S. Wesbury – Chief Economist
 Robert Stein, CFA – Dep. Chief Economist
 Strider Elass – Senior Economist

- Retail sales rose 0.5% in July (+0.1% including revisions to prior months) versus a consensus expected gain of 0.1%. Retail sales are up 6.4% versus a year ago.
- Sales excluding autos increased 0.6% in July (+0.4% including revisions to prior months), beating the consensus expected 0.3% gain. These sales are up 7.2% in the past year. Excluding gas, sales were up 0.5% in July and are up 5.1% from a year ago.
- The gain in sales in July was led by restaurants & bars, non-store retailers (internet & mail order), and general merchandise stores. The largest decline was for health & personal care stores.
- Sales excluding autos, building materials, and gas rose 0.6% in July. If unchanged in August/September, these sales will be up at a 4.6% annual rate in Q3 versus the Q2 average.

Retail Sales & Food Services
 % Change - Month to Month
Retail Sales & Food Services
 % Change - Year to Year



Retail Sales Ex: Autos, Gas & Building Materials
 % Change - Month to Month
Retail Sales Ex: Autos, Gas & Building Materials
 % Change - Year to Year



Implications: A strong jobs market, growing economy, and higher take-home pay thanks to the tax cuts have consumers feeling great. Retail sales grew for the sixth consecutive month, rising 0.5% in July. And the gains in July were broad-based, with nine of thirteen major categories showing rising sales, led by restaurants & bars, internet & mail order sales, and general merchandise stores. Retail sales are up a strong 6.4% from a year ago (and up an even stronger 7.2% excluding auto sales). Today's report suggests consumer spending started off the third quarter on a strong note, supporting our projection of 4.0 - 4.5% 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 yesterday's NY Federal Reserve Bank report showing household debts at a record high as reason to doubt that consumption growth can continue. But what the negative headlines didn't mention is that 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. In other news today, the preliminary reading on Q2 nonfarm productivity growth came in at a 2.9% annual rate, beating the consensus expected 2.4%. Productivity is up 1.3% versus a year ago and we expect it to accelerate in the year ahead. Companies have increased business investment, which should generate more output per hour. Meanwhile, the tight labor market should encourage firms to find more efficient ways to produce. On the inflation front, import prices were unchanged in July, while export prices declined 0.5%. The drop in export prices was due to farm products, with soybean prices falling 14.1% and farm products down 5.3% overall, likely the result of recent trade disputes. However, the trend in import and export prices is still upward. Import prices are up 4.8% in the past year, versus a 1.2% gain the year ending July 2017; export prices are up 4.3% in the past year versus a 0.9% increase in the year ending July 2017. Cutting through recent gyrations, more inflation is on the way.

Retail Sales <i>All Data Seasonally Adjusted</i>	Jul-18	Jun-18	May-18	3-mo % Ch. <i>annualized</i>	6-mo % Ch. <i>annualized</i>	Yr to Yr <i>% Change</i>
Retail Sales and Food Services	0.5%	0.2%	1.2%	8.1%	6.4%	6.4%
Ex Autos	0.6%	0.2%	1.4%	9.2%	7.0%	7.2%
Ex Autos and Building Materials	0.6%	0.2%	1.3%	9.1%	7.2%	7.4%
Ex Autos, Building Materials and Gasoline	0.6%	0.2%	1.2%	8.1%	6.9%	5.7%
Autos	0.2%	0.1%	0.6%	3.7%	4.1%	3.5%
Building Materials	0.0%	0.1%	2.1%	9.3%	3.6%	3.4%
Gasoline	0.8%	0.3%	2.9%	17.1%	9.6%	22.2%

Source: Bureau of Census