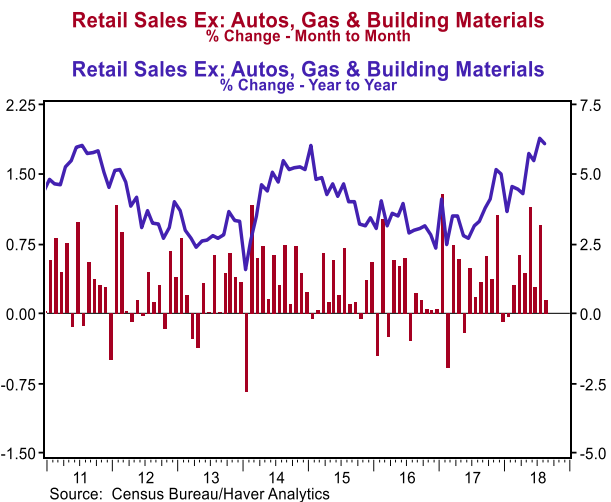
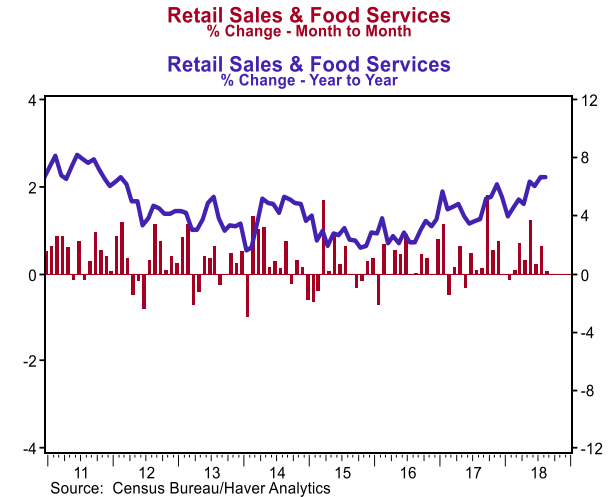


August Retail Sales

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- Retail sales rose 0.1% in August (+0.3% including revisions to prior months) coming in below the consensus expected gain of 0.4%. Retail sales are up 6.6% versus a year ago.
- Sales excluding autos increased 0.3% in August (+0.7% including revisions to prior months), versus a consensus expected 0.5% gain. These sales are up 7.3% in the past year. Excluding gas, sales were down 0.1% in August but are up 5.5% from a year ago.
- The gain in sales in August was led by sales at gas stations and non-store retailers (internet & mail order). The largest decline was for autos.
- Sales excluding autos, building materials, and gas rose 0.2% in August, but were up 0.6% including revisions to prior months. If unchanged in September, these sales will be up at a 6.7% annual rate in Q3 versus the Q2 average.



Implications: Retail sales grew for the seventh consecutive month, rising 0.1% in August. You may think 0.1% is nothing to write home about, but that came on top of upward revisions for July. And the gains in August were broad-based, with nine of thirteen major categories showing rising sales, led by sales at gas stations and non-store retailers (internet & mail order sales). Non-store retailers now make up 11.3% of overall retail sales, a new record high, and are up 10.4% over the past year. Overall retail sales are up a strong 6.6% from a year ago (and up an even stronger 7.3% excluding auto sales). After plugging in the retail numbers along with other data out today, real consumer spending in the third quarter looks to be growing at around a 3% annualized rate, supporting our projection of 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 becomes a little more volatile over the short term as Hurricane Florence may skew the numbers in both directions over the following months. On the inflation front, import prices declined 0.6% in August, while export prices declined 0.1%. The large decline in import prices was due to a 3.9% drop in fuel prices. The drop in export prices was due to lower prices for nonagricultural exports more than offsetting higher agricultural prices. However, the trend in import and export prices is still upward. Import prices are up 3.7% in the past year, versus a 2.0% gain the year ending August 2017; export prices are up 3.6% in the past year versus a 2.3% increase in the year ending August 2017. Cutting through recent gyrations, more inflation is on the way.

Retail Sales <i>All Data Seasonally Adjusted</i>	Aug-18	Jul-18	Jun-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%	0.7%	0.2%	4.1%	6.8%	6.6%
Ex Autos	0.3%	0.9%	0.3%	6.2%	7.7%	7.3%
Ex Autos and Building Materials	0.3%	0.9%	0.3%	6.5%	8.2%	7.5%
Ex Autos, Building Materials and Gasoline	0.2%	1.0%	0.3%	5.7%	7.5%	6.1%
Autos	-0.8%	-0.1%	-0.1%	-4.0%	3.5%	4.0%
Building Materials	0.0%	0.1%	0.0%	0.4%	0.6%	3.3%
Gasoline	1.7%	0.8%	0.6%	12.8%	13.4%	20.3%

Source: Bureau of Census

This report was prepared by First Trust Advisors L. P., and reflects the current opinion of the authors. It is based upon sources and data believed to be accurate and reliable. Opinions and forward looking statements expressed are subject to change without notice. This information does not constitute a solicitation or an offer to buy or sell any security.