First Trust DATAWATCH

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July Retail Sales

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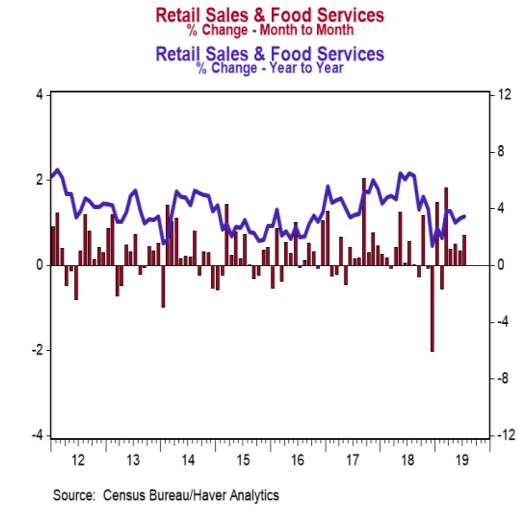
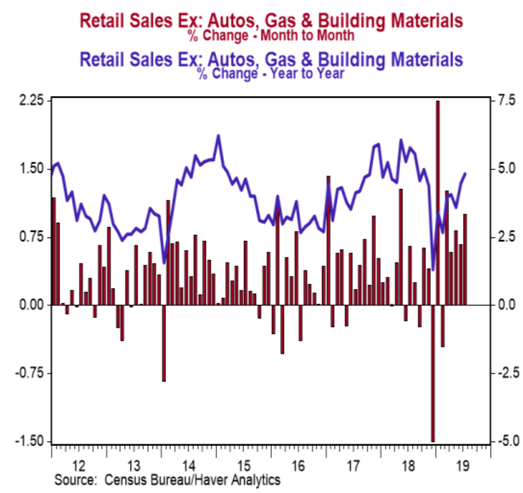
- Retail sales increased 0.7% in July, easily beating the consensus expected gain of 0.3%. Retail sales are up 3.4% versus a year ago.
- Sales excluding autos rose 1.0% in July, easily beating the consensus expected 0.4% gain. These sales are up 3.7% in the past year. Excluding gas, sales rose 0.6% in July and are up 3.8% from a year ago.
- The increase in sales in July was led by non-store retailers (internet & mail order), gas stations and restaurants & bars. Auto sales were the only major decline.
- Sales excluding autos, building materials, and gas rose 1.0% in July (+1.1% including revisions to prior months). If unchanged in August/September, these sales will be up at a 7.1% annual rate in Q3 versus the Q2 average.





Implications: Tell us again why the Fed should be cutting rates? Add today's retail sales report to the litany of other positive news coming out of the US economy over the past few months. A truly "data dependent" Fed should not have cut rates in late July and would not be heading for another rate cut in September, like it has signaled and as the financial markets fully anticipate. Today's retail sales report shows the consumer is doing very well. Sales increased 0.7% in July, rising for the fifth consecutive month and beating even the most optimistic forecast on Bloomberg. Ten of the thirteen major categories had higher sales, led by non-store retailers (think internet & mail order), gas stations, and restaurants & bars. Powered by "Prime Day," non-store sales were up 16.0% from a year ago, sit at record highs, and now make up 12.8% of overall retail sales, also a record. The only significant decline in today's report was for autos. "Core" sales, which exclude autos, building materials, and gas stations (the most volatile sectors) were up 1.0% in July, up 1.1% including revisions to prior months, and are up 4.8% from a year ago. Jobs and wages are moving up, companies and consumers continue to benefit from tax cuts, consumer balance sheets look healthy, and serious (90+ day) debt delinquencies are down substantially from post-recession highs. For these reasons, expect continued solid gains in retail sales in the year ahead. In other news today, nonfarm productivity (output per hour) rose at a 2.3% annual rate in the second quarter, coming in well above the consensus expected increase of 1.4%. The rise in nonfarm productivity came as output rose while hours worked declined, pushing *output per hour* higher. Nonfarm productivity is up 1.8% in the past year and up 1.7% at an annualized rate over the past two years. This is the fastest two-year increase since 2011, which was early in the recovery, when it's normal for productivity growth to surge as firms increase output while still reluctant to add hours. The recent gain, however, comes deep in an economic recovery, which suggests tax cuts and deregulation are the key drivers. We expect productivity will remain elevated in 2019, as the investments in machinery and R&D continue to come online. Meanwhile, the tight labor market will encourage firms to keep looking for more efficient ways to produce. Also today, initial jobless claims rose 9,000 last week to 220,000. Continuing claims rose 39,000 to 1.726 million. Plugging these figures into our model suggests nonfarm payrolls continue to grow at a healthy pace in August. In other news yesterday, on the inflation front, both import and export prices rose 0.2% July. In the past year, import prices are down 1.8%, while export prices are down 0.9%. We expect these inflation figures to continue to head north in the coming months.

Retail Sales *All Data Seasonally Adjusted*	Jul-19	Jun-19	May-19	3-mo % Ch. *Annualized*	6-mo % Ch. *annualized*	Yr to Yr *% Change*
Retail Sales and Food Services	**0.7%**	0.3%	0.5%	6.3%	6.5%	3.4%
Ex Autos	**1.0%**	0.3%	0.5%	7.8%	6.8%	3.7%
Ex Autos and Building Materials	**0.0%**	0.3%	0.7%	8.8%	8.8%	4.3%
Ex Autos, Building Materials and Gasoline	**1.0%**	0.7%	0.8%	10.4%	8.0%	4.8%
Autos	**-0.6%**	0.3%	0.4%	0.5%	5.6%	2.3%
Building Materials	**0.2%**	0.2%	-1.8%	-5.5%	-14.9%	-2.9%
Gasoline	**1.8%**	-2.3%	-0.2%	-3.0%	16.1%	0.0%

Source: Bureau of Census