August Retail Sales

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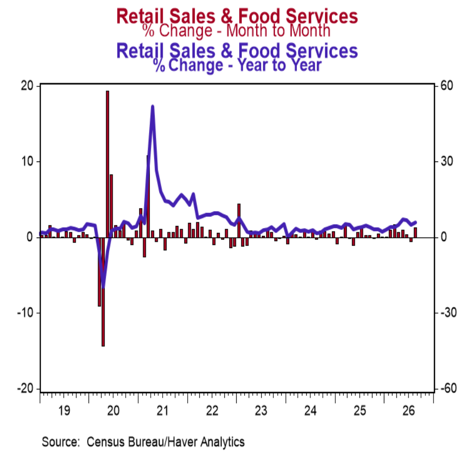
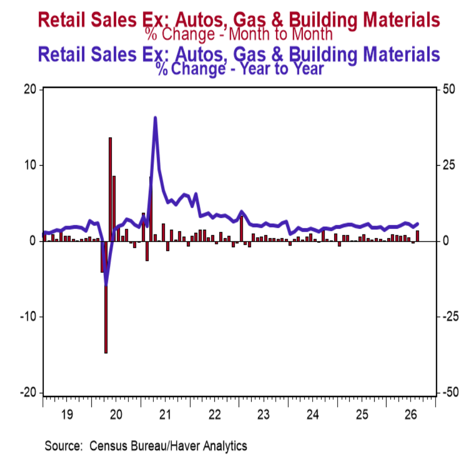
- Retail sales increased 1.2% in August (+1.4% including revisions to prior months), beating the consensus expected +0.8%. Retail sales are up 6.0% versus a year ago.

- Sales excluding autos increased 1.4% in August (+1.5% including revisions to prior months), easily beating the consensus expected +0.6%. These sales are up 6.9% in the past year.

- The largest increases in August were nonstore retailers (internet and mail-order), gasoline stations, and restaurant & bars. The only decline was for building materials.

- Sales excluding autos, building materials, and gas increased 1.3% in August (+1.4% including revisions to prior months). If unchanged in September, these sales will be up at a 4.8% annual rate in Q3 versus the Q2 average.





Implications: The resiliency of the US consumer was on display once again in August as retail sales rebounded from a fall in July by rising the most in five months. Looking at the details, the 1.2% headline advance was broad-based with eleven of the twelve major categories rising for the month. The gain was led by nonstore retailers, which recovered from an unfavorable comparison month in July after Amazon moved their Prime Day sales event this summer, posting a robust 2.6% gain in August. Gasoline stations also contributed with a 3.1% increase, but that was driven by a rise in gasoline prices over the month and should not be interpreted as a boost in economic activity. The good news was that the modest 0.2% drop in building materials was the only major category to decline. We like to follow "core" sales, which strip out the volatile categories for autos, building materials, and gas stations and is important for estimating GDP. This measure rose 1.3% in August, and if unchanged in September, will rise at a 4.8% annualized rate in the third quarter versus the second quarter average. This is consistent with our view that third quarter real GDP is growing at about a 3.5% annual rate. Another bright spot in today's report came from sales at restaurants & bars (the only glimpse we get at services in this report), which jumped 1.2% in August and has now shown healthy growth over the past five months. It's important to remember that none of these figures are adjusted for inflation. Nominal retail sales have risen 6.0% in the past year, but factoring in inflation, "real" inflation-adjusted sales are up 2.6% in the past twelve months. However, the continued resilience of the consumer, alongside inflation that remains above the Fed's target, reinforces our expectation that the Fed will raise rates at its meeting this afternoon. In other recent news, the Empire State Index – a measure of factory sentiment in the New York region – dropped to +7.6 in September from +20.6 in August. On the inflation front, import prices rose 0.7% in August and export prices rose 0.6%. In the past year, import prices are up 7.0%, while export prices have risen 8.6%.

Retail Sales *All Data Seasonally Adjusted*	**Aug-26**	**Jul-26**	**Jun-26**	**3-mo % Ch.** *Annualized*	**6-mo % Ch.** *annualized*	**Yr to Yr** *% Change*
Retail Sales and Food Services	**1.2%**	-0.5%	0.3%	4.1%	9.0%	6.0%
Ex Autos	**1.4%**	-0.2%	-0.2%	3.9%	10.0%	6.9%
Ex Autos and Building Materials	**1.5%**	-0.2%	-0.2%	4.3%	10.3%	7.1%
Ex Autos, Building Materials and Gasoline	**1.3%**	-0.2%	0.4%	6.2%	7.5%	5.7%
Autos	**0.6%**	-1.8%	2.5%	4.9%	4.9%	2.1%
Building Materials	**-0.2%**	-0.1%	1.0%	2.6%	4.6%	5.1%
Gasoline	**3.1%**	-0.2%	-5.5%	-11.0%	40.0%	21.0%

Source: U.S. Census Bureau