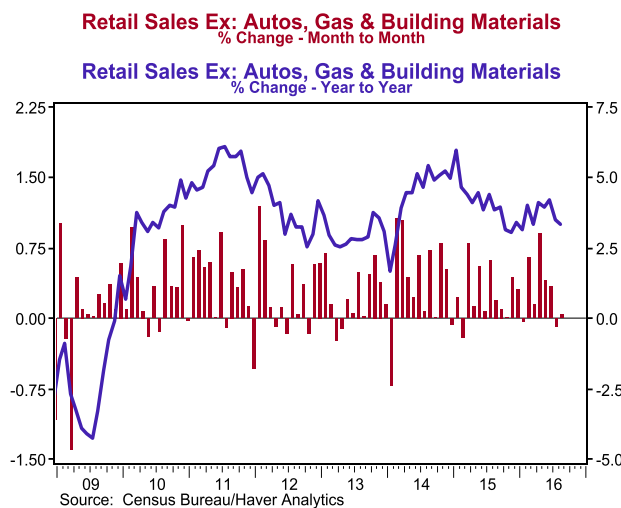
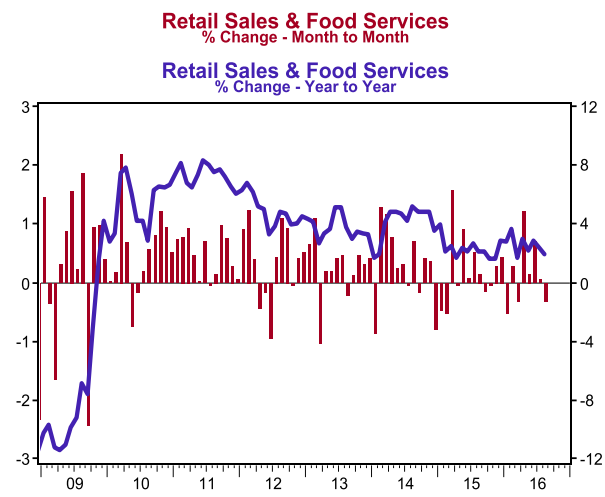


# August Retail Sales

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- Retail sales declined 0.3% in August, coming in below the consensus expected decline of 0.1%. Retail sales are up 1.9% versus a year ago.
- Sales excluding autos declined 0.1% in August, (-0.3% including revisions to prior months), below the consensus expected 0.2% gain. These sales are up 2.0% in the past year. Excluding both autos and gas, sales are up 3.4% versus a year ago.
- The decline in sales in August was led by autos, building materials and gas stations. The largest gain was for restaurants & bars.
- Sales excluding autos, building materials, and gas were unchanged in August. If unchanged in September, these sales will be up at a 1.3% annual rate in Q3 versus the Q2 average.

**Implications:** A disappointing number out of the retail sector today. Overall retail sales declined 0.3% in August, the first decline in five months. Unless we get a very hot consumer inflation report tomorrow, these figures as well as soft data on industrial production mean the Fed is very unlikely to raise rates next week, despite our view that a rate hike is warranted by underlying economic conditions. However, there's no reason to take today's news as a "doom and gloom" report. A one-month slowdown doesn't make a trend. Retail sales are up at a 3.2% annual rate in the past six months. The weakest sectors in August were autos, building materials, and gas, all of which are very volatile month to month. Sales at gasoline stations declined 0.8% in August, and are down 9.5% from a year ago. All of this is a function of lower oil prices, not people consuming less. In fact, vehicle miles driven in the United States are at the highest levels in history over the past twelve months. Stripping out these volatile sectors leaves "core" sales, which were unchanged in August and up a respectable 3.4% from a year ago. Look for continued growth in both real GDP and real consumer spending in the months ahead. Employment continues to expand, while wage growth is accelerating and consumer debt service obligations are low by historical standards. Overall, the economy remains a Plow Horse, but consumer purchasing power and, therefore, spending, should remain one of the bright spots. In other news today, initial unemployment claims increased 1,000 last week to 260,000, the 80<sup>th</sup> consecutive week below 300,000. Meanwhile, continuing claims increased 1,000 to 2.143 million. Plugging these figures into our models suggests payrolls will be up about 170,000 in September, another solid month.



Retail Sales <i>All Data Seasonally Adjusted</i>	Aug-16	Jul-16	Jun-16	3-mo % Ch. <i>annualized</i>	6-mo % Ch. <i>annualized</i>	Yr to Yr <i>% Change</i>
<b>Retail Sales and Food Services</b>	<b>-0.3%</b>	0.1%	0.7%	1.9%	3.2%	1.9%
<b>Ex Autos</b>	<b>-0.1%</b>	-0.4%	0.8%	1.2%	3.9%	2.0%
<b>Ex Autos and Building Materials</b>	<b>0.0%</b>	-0.3%	0.5%	0.7%	4.6%	1.9%
<b>Ex Autos, Building Materials and Gasoline</b>	<b>0.0%</b>	-0.1%	0.4%	1.3%	3.6%	3.4%
<b>Autos</b>	<b>-0.9%</b>	1.7%	0.5%	5.1%	0.5%	1.4%
<b>Building Materials</b>	<b>-1.4%</b>	-0.7%	3.8%	6.3%	-6.2%	2.2%
<b>Gasoline</b>	<b>-0.8%</b>	-2.6%	2.2%	-5.0%	14.4%	-9.5%

Source: Bureau of Census