

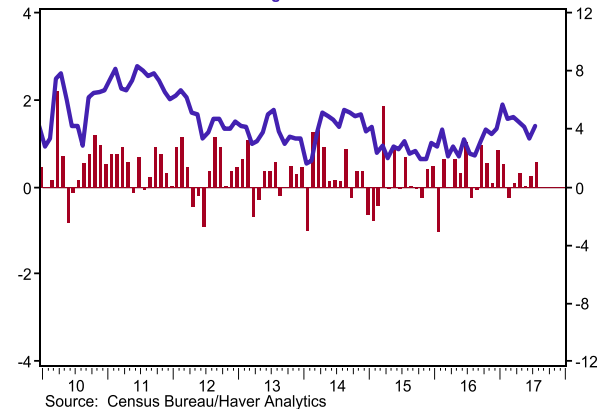
July Retail Sales

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- Retail sales increased 0.6% in July (+1.1% including revisions to prior months), beating the consensus expected gain of 0.3%. Retail sales are up 4.2% versus a year ago.
- Sales excluding autos rose 0.5% in July (+0.8% including revisions to prior months), beating the consensus expected 0.3% gain. These sales are up 3.8% in the past year. Excluding gas, sales were up 0.7% in July and are up 4.4% from a year ago.
- The increase in sales in July was led by autos, non-store retailers (internet & mail-order), and building materials. The largest decline, although minimal, was at gas stations.
- Sales excluding autos, building materials, and gas rose 0.5% in July (+0.9% including revisions to prior months). If unchanged in August/September, these sales will be up at a 2.6% annual rate in Q3 versus the Q2 average.

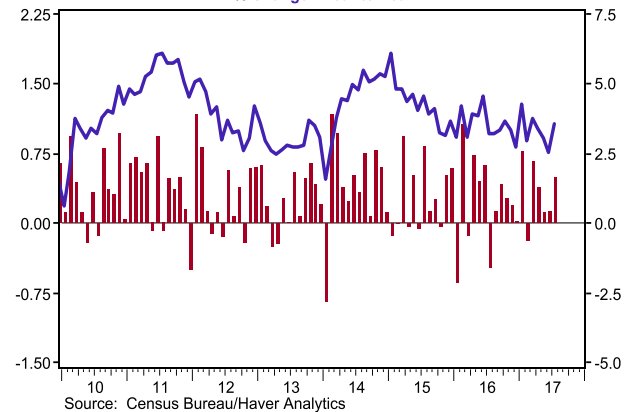
Retail Sales & Food Services
% Change - Month to Month

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: So much for the theory that retail is dead. Retail sales grew 0.6% in July, beating consensus expectations, and were revised up substantially for prior months. Including those upward revisions, sales were up 1.1%. The increase in July itself was broad-based with 10 of the 13 major categories showing gains. Sales of autos led the way rising by 1.2% in July, growing the most for any month this year. Store closures continue to popularize headlines implying a weak consumer. More than 5,400 stores have closed so far in 2017, already more than all of last year, and on pace for more than in 2008 at the height of the Panic! But don't take this as a sign of a weak economy. Consumers are just spending their money differently than in the past, buying more items via the internet. In fact, non-store retail sales grew by 1.3% in July, the largest gain this year and now make up 11% of retail sales in July, the largest portion ever. Just think about Amazon. Do you own an Amazon Prime membership? Chances are you do, and use it frequently. As of the second quarter of 2017, it's estimated there are 85 million Amazon Prime memberships in the United States. Assuming one membership per household that would mean 72% of households are Prime members. What this means for the retail sector is a change in business models, not its demise. "Core" sales, which exclude autos, building materials, and gas, rose 0.5% and were revised higher for previous months. Overall sales are now up 4.2% from a year ago while "core" sales are up 3.6%. Given Plow Horse economic growth, that's about what we'd expect given a 1.7% increase in the consumer price index in the past twelve months. The fundamental trends that drive growth in consumer spending continue to look good. These include healthy job growth, wage growth, and very low consumer financial obligations relative to historical norms. In other news this morning, the Empire State index, a measure of manufacturing sentiment in New York, surged to 25.2 in August – the highest reading in nearly three years - from 9.8 in July. In inflation news, import prices rose 0.1% in July and are up 1.5% from a year ago. Export prices increased 0.4% in July, and have increased 0.8% in the past year. Both figures are a stark contrast to the negative direction of prices in the twelve months ending in July 2016.

Retail Sales <i>All Data Seasonally Adjusted</i>	Jul-17	Jun-17	May-17	3-mo % Ch. <i>annualized</i>	6-mo % Ch. <i>annualized</i>	Yr to Yr <i>% Change</i>
Retail Sales and Food Services	0.6%	0.3%	0.0%	3.7%	2.3%	4.2%
Ex Autos	0.5%	0.1%	-0.2%	1.3%	2.0%	3.8%
Ex Autos and Building Materials	0.4%	0.0%	-0.2%	0.6%	1.6%	3.4%
Ex Autos, Building Materials and Gasoline	0.5%	0.1%	0.1%	3.1%	3.3%	3.6%
Autos	1.2%	0.9%	1.1%	13.6%	3.6%	5.7%
Building Materials	1.2%	1.1%	-0.2%	8.3%	5.7%	8.3%
Gasoline	-0.4%	-1.5%	-3.1%	-18.4%	-12.4%	2.1%

Source: Bureau of Census