



Economics Group

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Retail Sales Point to More Solid Consumer Spending in Q3

A better than expected August retail sales report shows core consumer spending is on pace to deliver another boost to GDP growth in Q3. But a pumpkin smashing mood could hit in Q4 when October tariffs bite harder.

Headlights Pointed at the Dawn

Retail sales increased 0.4% in August, which was double the 0.2% increase that had been expected. The headline beat was largely a function of a 1.8% increase at motor vehicle & parts dealers, where vehicles were moving off the lots faster than they have since March.

Sales across all other retailers, ex-autos, were unchanged, though there was plenty of variability in individual categories that offers clues as to how consumers are faring in the context of the ongoing trade war. Clothing, furniture and general merchandise stores all stand out as places where goods could be impacted by tariffs, and all three saw sales decline in August.

The “control group” of retail sales, which excludes a number of volatile categories and serves as a proxy for consumer spending in the GDP report, increased 0.3% in August; the increase in the prior month was revised lower.

Today is the Greatest...Day I’ve Ever Known

At a time when recession risk dominates most economic discussions, the strength of the U.S. consumer is among the more compelling examples of an economy that is still firing on all cylinders. Setting aside for now the fact that consumer spending can be among the last categories to contract in a downturn, the strength here is undeniable.

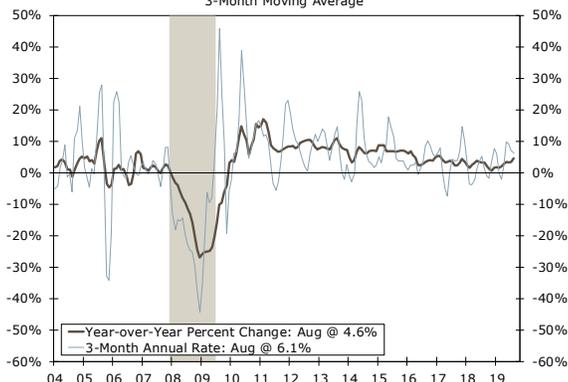
Real personal consumption (PCE) came in at a blistering 4.7% pace in the second quarter, and with a couple of months of data for the current quarter, it is now becoming increasingly apparent there is upside risk to our forecast of 2.9% PCE growth in Q3.

One puzzling development for which we have no handy explanation is the substantial revisions to online spending. In the inimitable parlance of the Department of Commerce, online spending is simply referred to as “non-store retailers,” and a 2.8% monthly surge in July was revised sharply lower to a gain of just 1.7%. In August, online spending was up another 1.6%. Our best guess here is that Amazon Prime Day and the associated special offers at other retailers with it is creating some increased activity and with it perhaps some reporting lags.

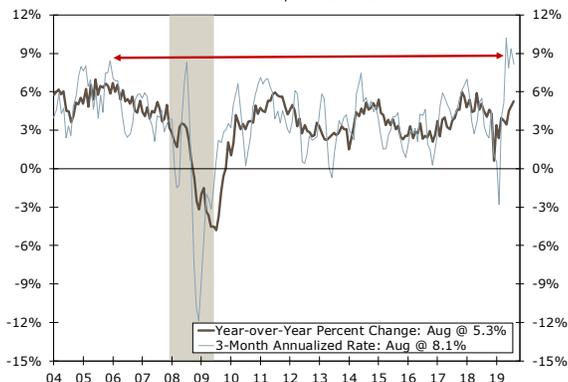
We Don’t Even Care, as Restless as We Are

The factors that typically impact consumer spending are things like how much consumers are making, how the stock market is doing (because bull markets tend to boost the wealth effect) and how consumers feel about things going forward. The still-healthy job market is keeping incomes steadily rising, and the stock market, while choppy, is grinding higher. Some measures of confidence remain near cycle highs, but other measures are starting to slip. The University of Michigan’s survey of consumer sentiment saw steep declines in August with the expectations component falling sharply. We will get preliminary September figures later this morning.

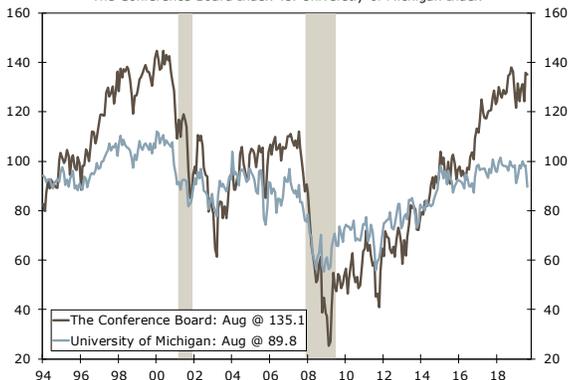
Motor Vehicle & Parts Dealers Sales
3-Month Moving Average



Retail Sales Ex-Food, Autos, Gas & Building Materials
“Control Group” Retail Sales



Consumer Confidence
The Conference Board Index vs. University of Michigan Index



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