



Economics Group

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August Retail Sales Slump Is Offset by Upward Revisions

Take the disappointing print for August retail sales with a grain of salt. Prior data got a boost from revisions. There is legitimate weakness in auto sales, but aside from that consumer spending is still on track in Q3.

Nobody on the Road, Nobody on the Beach

Motor vehicle sales comprise roughly one fifth of all consumer spending in the retail sales report and this category has been a weak link in recent months, particularly here with this 0.8% decline in August. It marks the third straight monthly decline for autos. In separately reported data, we had already learned that sales from auto manufacturers to dealers declined in both July and August, which in this case at least alleviates concern about too much old inventory on dealer lots.

Going into today's report one theme that had been underpinning the solid retail sales numbers had been consumers' increased proclivity to spend on experiences. In the three months leading up to this report, spending at bars and restaurants increased by 1.6% or more each month. Spending in this category still picked up in August, but the 0.2% increase was small by comparison to recent momentum.

Clothing store sales (down 1.7%) and department store sales (off 1.0%) also gave back most of the increase reported in the prior month. Sales stalled at stores that provide building materials and garden supplies with virtually no change in this category for August; that follows a scant 0.1% increase in the prior month. With Hurricane Florence currently lashing the Carolinas and bringing potentially damaging rain and winds across the East coast, there is scope for this category to drive growth in retail sales in the months ahead...at least potentially. For that to actually happen, the increased storm-related spending would have to outpace the gains in prior years, which have also seen lots of storm activity.

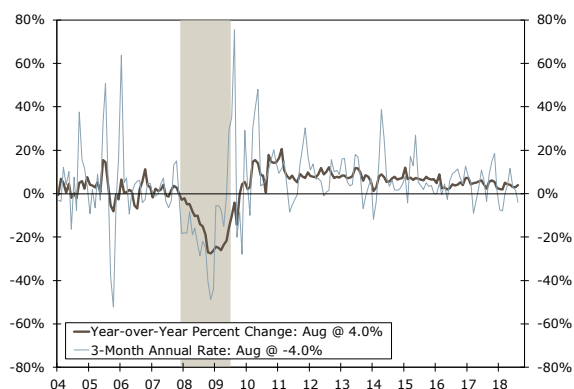
Don't Look Back, You Can Never Look Back

While today's report was broadly disappointing, there were significant upward revisions to prior data, which on balance suggest that consumer spending is still on track to be supportive of GDP growth in the third quarter. The headline print of 0.1% was well short of the 0.4% that had been expected, but July's initially reported 0.5% gain was bumped up to 0.7% in the revision. The revisions were even more pronounced for control group retail sales, which offer a better early read for the consumption figures in the GDP report. This category was also up just 0.1%, but the revision lifted the prior month's increase to 0.8% from 0.5%.

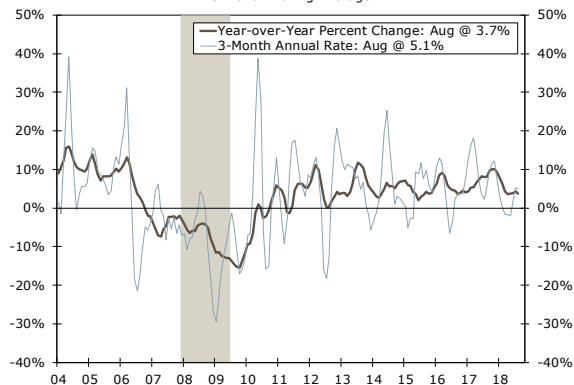
Smiling at Everyone

The boost from tax cuts will eventually start to fade for consumers and this is occurring amid rising prices and only modest wage growth, at least for now. The silver lining to all that is that measures of consumer confidence still remain at or near levels last seen roughly 17 years ago. This gives us a degree of confidence in our forecast for solid consumer spending in the second half.

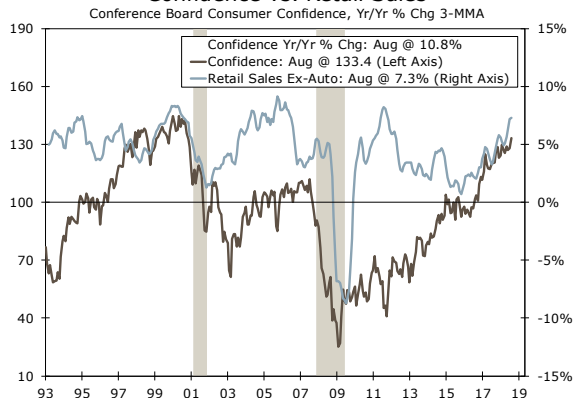
Motor Vehicle & Parts Dealers Sales



Building Material, Garden Equip. & Supply Stores
3-Month Moving Average



Confidence vs. Retail Sales



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