Scott Anderson, Ph.D.
Chief Economist
415.765.8020

Instant Analysis of Today's Retail Sales Report for August

Retail Sales Rebound in August; In-Line with my Expectations; +0.6%
Retail Sales (Ex. Autos) Good But Not Great --+0.3%
July Retail Sales Revised Up To +0.3% Gain From +0.0%
Retail Sales Still Slowing Down In Q3 from Q2 Torrid Pace
Most Sales Gains Coming From Motor Vehicles and Building Materials in August
Sales Gains Across-the-Board Except for Gasoline Stations
Market Reaction to Retail Sales; Stocks Slightly Lower 10-Yr Treasury Yield Rising to 2.58%

Bottom-line, retail sales rebounded strongly in August as we expected, but we also got a bonus upward revision to July's retail sales to a positive 0.3% from an originally reported 0.0% reading. The new July retail sales estimate is more in-line with the robust consumer credit growth we saw in July. Retail sales gains were broad-based in August, but remained lumpy in magnitude. The bulk of the retail sales gains in August came from motor vehicles and parts (+1.5%), building materials (+1.4%), eating and drinking establishments (+0.6%), and miscellaneous (+2.5%), suggesting that consumers remain somewhat choosy about where they are spending their income. The increase in consumer confidence and decline in retail gasoline prices have kept consumers spending at a little faster pace so far this year. In general this retail sales report is good news for the economic outlook, indicating real U.S. consumer spending remains largely intact in the third quarter. With that said, it still appears the pace of retail sales growth has slowed down in the third quarter from the second quarter's torrid pace to a still healthy and respectable level. The stock market has traded off on this report today and long-term Treasury bond yields continue to climb- nearing 2.58 percent this morning. Traders see this report as raising the odds of a change in Fed language at the September meeting that may presage an earlier rate hike from the Fed next year. I remain unconvinced. Retail sales were still somewhat weaker in Q3 and recent labor market indicators have been somewhat less encouraging in August and September. This may be enough to keep the doves on the FOMC in wait-and-see mode, not wanting to rock the boat too far in any one direction.