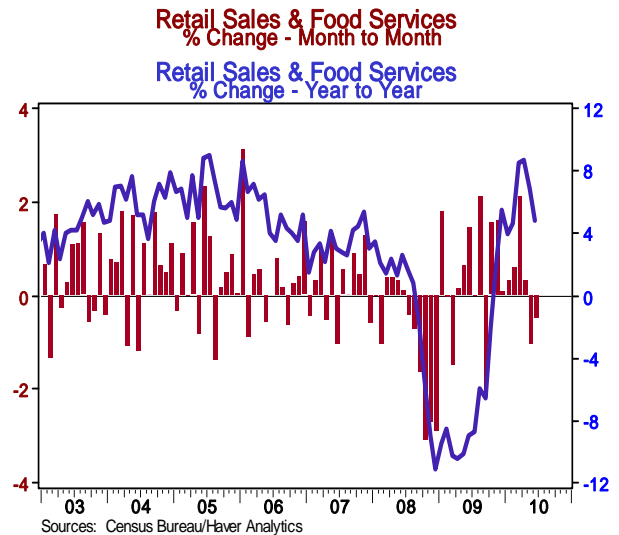


JUNE RETAIL SALES

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- Retail sales declined 0.5% in June versus a consensus expected dip of 0.3%. Sales excluding autos fell 0.1%, exactly as the consensus expected. Including downward revisions to April/May, overall sales were down 0.7% in June and down 0.5% excluding autos.
- Even with the decline in June, retail sales are up 4.8% versus a year ago; sales ex-autos are up 4.4%.
- The decline in retail sales in June was concentrated in autos and gas. Excluding those two categories, sales were up due to small gains in most sectors.
- Sales excluding autos, building materials, and gas were up 0.2% in June (-0.3% including revisions to April/May) and are up 3.9% versus last year. This calculation is important for estimating GDP.

Implications: Retail sales were soft in June but the underlying trend is still upward and we expect to see renewed gains in sales starting next month. It is not unusual for recoveries to exhibit two-month periods when the pace of consumer spending temporarily slows down, particularly after a series of strong increases. During the sales surge that ended in April, retail sales increased at an 11.7% annual rate in seven months. That pace of increase was not going to last. Now, two months later, after a normal pullback, the annualized rate of increase for the past nine months is still a decent 6.7%. Notably, “core” sales were up in June after two straight declines. Core sales strip out autos, gas, and building materials. When estimating GDP, the government gets data on autos from a different source, not the retail sales report. Movements in gas sales are mostly price related, which means they tell us little about activity. And building materials reflect home building, not consumption. In other news this morning, business inventories increased 0.1% in May, which was less than the consensus expected. On the inflation front, import prices fell 1.3% in June, but are still up 4.5% versus a year ago. Most, but not all, of the May decline was due to oil. Excluding petroleum, import prices declined 0.5% in June but are still up 3.1% in the past year. Export prices declined 0.2% in June, both including and excluding farm products. In the past year, export prices are up 4.3% overall and 5.1% excluding farm products. Look for a rebound in trade prices next month.



Retail Sales <i>All Data Seasonally Adjusted</i>	Jun-10	May-10	Apr-10	3-mo % Ch. <i>annualized</i>	6-mo % Ch. <i>annualized</i>	Yr to Yr <i>% Change</i>
Retail Sales and Food Services	-0.5%	-1.1%	0.3%	-5.0%	3.5%	4.8%
Ex Autos	-0.1%	-1.2%	0.3%	-4.1%	3.7%	4.4%
Ex Autos and Building Materials	-0.1%	-0.5%	-0.4%	-3.5%	3.3%	4.5%
Ex Autos, Building Materials and Gasoline	0.2%	-0.2%	-0.4%	-1.5%	4.5%	3.9%
Autos	-2.3%	-0.6%	0.5%	-9.3%	2.3%	6.8%
Building Materials	-1.0%	-9.0%	8.0%	-10.1%	9.3%	2.7%
Gasoline	-2.0%	-2.5%	0.1%	-16.5%	-4.7%	8.8%

Source: Bureau of Census