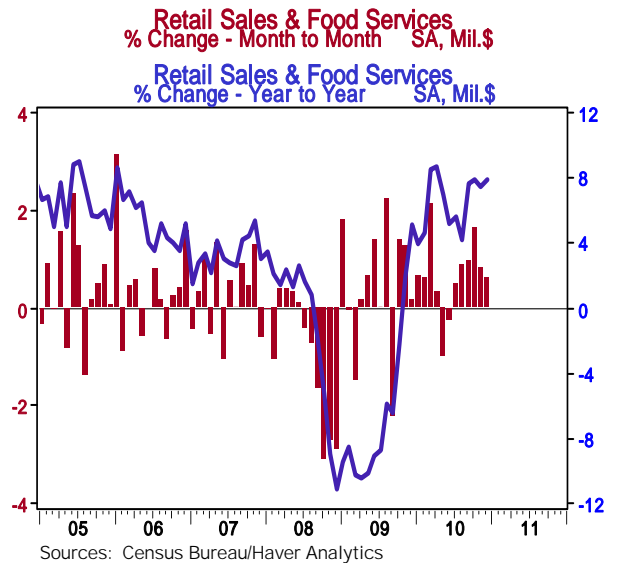


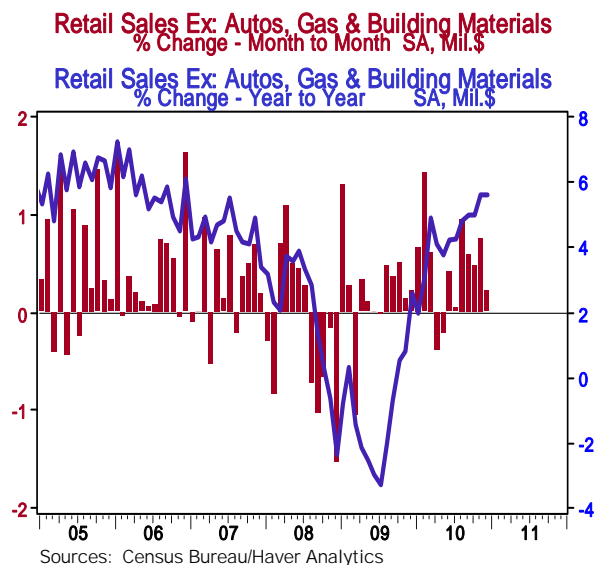
DECEMBER RETAIL SALES

Chief Economist – Brian S. Wesbury
Senior Economist – Robert Stein, CFA

- Retail sales increased 0.6% in December while sales excluding autos rose 0.5%. Both fell slightly short of consensus expectations.
- Including revisions to October/November, sales were still up 0.6% in December while sales ex-autos were up 0.3%. Retail sales are up 7.9% versus a year ago; sales ex-autos are up 6.7%.
- The increase in retail sales for December was led by non-store retailers (internet and mail-order), autos, gas, and building materials. The weakest category of sales was general merchandise stores (department stores).
- Sales excluding autos, building materials, and gas increased 0.2% in December, but were unchanged including downward revisions for October/November. These sales are up 5.6% versus last year. This calculation is important for estimating GDP.



Implications: Despite rising less than the consensus expected, retail sales reached an all-time high in December, eclipsing the mark set in November 2007. Sales are up almost 8% in the past year and were up at a very rapid annual rate of 13% in the past three months. Overall, real (inflation-adjusted) consumer spending likely grew at about a 4% annual rate in the fourth quarter, the fastest pace since 2006. Although retail sales in December were somewhat softer than the consensus anticipated, it's important to remember that these figures come on the heels of two great retail sales reports in a row. And remember, all this strength is coming before the Fed's quantitative easing should be having an impact and before the tax deal in Washington is implemented. We expect sales to continue higher because earnings are up, consumers are paying down debt more slowly, and consumers' financial obligations are now the smallest share of income since the mid-1990s. In other news this morning, business inventories increased only 0.2% in December. Inventories will be a significant drag on the growth rate of real GDP in Q4, but that leaves room for faster growth in 2011.



Retail Sales <i>All Data Seasonally Adjusted</i>	Dec-10	Nov-10	Oct-10	3-mo % Ch. <i>annualized</i>	6-mo % Ch. <i>annualized</i>	Yr to Yr <i>% Change</i>
Retail Sales and Food Services	0.6%	0.8%	1.6%	13.0%	11.2%	7.9%
Ex Autos	0.5%	1.0%	0.8%	9.7%	9.2%	6.7%
Ex Autos and Building Materials	0.4%	1.1%	0.6%	8.8%	8.6%	6.2%
Ex Autos, Building Materials and Gasoline	0.2%	0.8%	0.5%	5.9%	6.2%	5.6%
Autos	1.1%	0.2%	5.4%	29.4%	21.3%	14.2%
Building Materials	2.0%	-1.1%	3.7%	19.7%	16.5%	13.1%
Gasoline	1.6%	3.8%	1.4%	30.4%	26.4%	10.3%

Source: Bureau of Census