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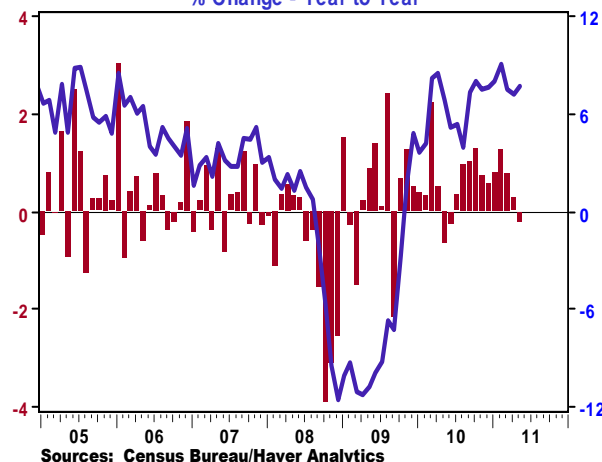
## May Retail Sales

- Retail sales declined 0.2% in May (-0.6% including downward revisions to March/April). The consensus had expected a drop of 0.5%. Retail sales are up 7.7% versus a year ago.
- Sales excluding autos were up 0.3% in May (0.2% including revisions to March/April). The consensus expected a gain of 0.2%. Retail sales ex-autos are up 8.2% in the past year.
- The drop in retail sales for May was led by autos, which fell 2.9%. The largest move outside the auto sector was an upswing in non-store retailers (mail order and internet).
- Sales excluding autos, building materials, and gas increased 0.2% in May and were up 0.4% including revisions for March/April. These sales are up 6.1% versus last year. This calculation is important for estimating GDP.

**Implications:** Despite dire headlines and political rhetoric, the US is nowhere near a double-dip recession. While overall retail sales dipped 0.2% in May, this reflects what we already knew, which is that supply-chain disruptions due to Japan’s disasters have temporarily reduced auto sales. Excluding autos, sales came in very close to consensus expectations. In the past year, total retail sales are up 7.7% and sales excluding autos are up 8.2%. Once the supply-chain issues are resolved, within the next month or so, auto sales will pick up again. The details of the report show strength. “Core” sales (which exclude autos, building materials, and gas) were up a solid 0.4% including upward revisions to prior months. Even if these sales are unchanged for the rest of the second quarter they will still be up at a 5% annual rate in Q2. Factoring-in services as well as inflation, real consumer spending will probably be up at a 2% to 2.5% annual rate in Q2. Consumer spending continues to rise for two key reasons. First, earnings are growing due to more jobs, more wages per hour, and more hours per worker. Second, consumers’ financial obligations (debt service plus other recurring payments like rent, car leases, homeowners’ insurance, and property taxes) are now the smallest share of disposable income since 1995. Add on top of that a recovery in the auto sector as Japan heals, and the future looks bright for retail sales.

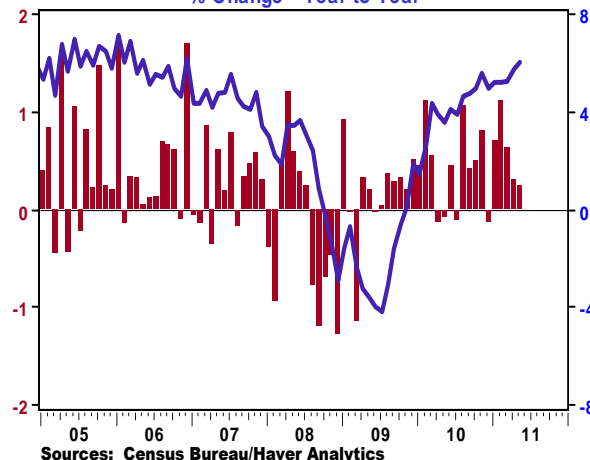
**Retail Sales & Food Services**  
 % Change - Month to Month

**Retail Sales & Food Services**  
 % Change - Year to Year



**Retail Sales Ex Auto, Gas & Building Materials**  
 % Change - Month to Month

**Retail Sales Ex Auto, Gas & Building Materials**  
 % Change - Year to Year



<b>Retail Sales</b> <i>All Data Seasonally Adjusted</i>	<b>May-11</b>	<b>Apr-11</b>	<b>Mar-11</b>	<b>3-mo % Ch.</b> <i>annualized</i>	<b>6-mo % Ch.</b> <i>annualized</i>	<b>Yr to Yr</b> <i>% Change</i>
<b>Retail Sales and Food Services</b>	<b>-0.2%</b>	<b>0.3%</b>	<b>0.8%</b>	<b>3.2%</b>	<b>7.0%</b>	<b>7.7%</b>
<b>Ex Autos</b>	<b>0.3%</b>	<b>0.5%</b>	<b>1.2%</b>	<b>8.4%</b>	<b>8.9%</b>	<b>8.2%</b>
<b>Ex Autos and Building Materials</b>	<b>0.2%</b>	<b>0.5%</b>	<b>1.1%</b>	<b>7.3%</b>	<b>8.8%</b>	<b>8.2%</b>
<b>Ex Autos, Building Materials and Gasoline</b>	<b>0.2%</b>	<b>0.3%</b>	<b>0.6%</b>	<b>4.7%</b>	<b>5.8%</b>	<b>6.1%</b>
<b>Autos</b>	<b>-2.9%</b>	<b>-0.7%</b>	<b>-1.4%</b>	<b>-18.3%</b>	<b>-1.5%</b>	<b>5.4%</b>
<b>Building Materials</b>	<b>1.2%</b>	<b>0.5%</b>	<b>3.0%</b>	<b>20.8%</b>	<b>7.2%</b>	<b>7.0%</b>
<b>Gasoline</b>	<b>0.3%</b>	<b>1.4%</b>	<b>3.8%</b>	<b>24.0%</b>	<b>29.2%</b>	<b>22.3%</b>

Source: Bureau of Census