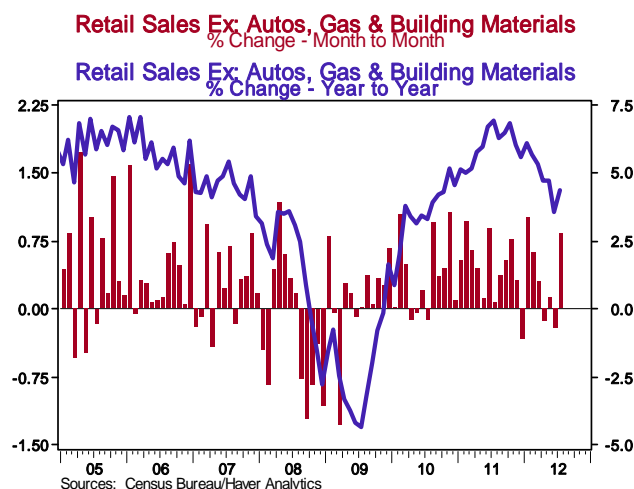
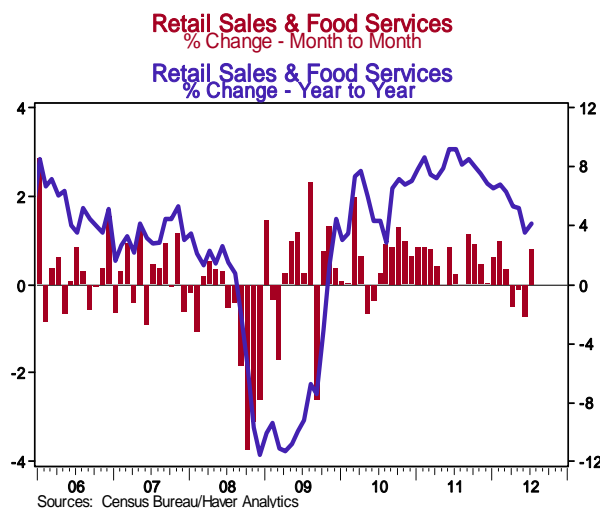


## July Retail Sales

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- Retail sales increased 0.8% in July, beating the consensus expected gain of 0.3%. Sales were up 0.6% including revisions for May/June. Retail sales are up 4.1% versus a year ago.
- Sales excluding autos increased 0.8% in July, beating the consensus expected gain of 0.4%. These sales were up 0.5% including downward revisions for May/June and are up 3.2% in the past year.
- Every major category of sales increased in July. The largest gains were in autos and non-store retailers (internet/mail-order).
- Sales excluding autos, building materials, and gas were up 0.9% in July (0.8% including revisions for May/June). These sales are important for estimating real GDP. Even if they are unchanged in August and September, they will still be up at a 3.1% annual rate in Q3 versus the Q2 average.

**Implications:** After declining for three months in a row, retail sales rebounded sharply in July and are up 4.1% from a year ago. Consumer prices are up only about 1.6% from a year ago, which means “real” (inflation-adjusted) retail sales are up about 2.5% in the past year. That’s about what we should expect in a plow horse economy. Both overall retail sales and sales ex-autos were up 0.8% in July. *Most remarkably, every major category of sales was up.* “Core” sales, which exclude autos, building materials, and gas, were up 0.9%. The bottom line is that despite how consumers are responding to “confidence” surveys, they are still expanding their purchases at a trend moderate rate. We expect this to continue, mainly as a by-product of job gains and wage gains. In addition, households have the lowest financial obligations ratio since the early 1990s. (This ratio is the share of after-tax income needed to make recurring monthly payments, such as mortgages, rent, car loans/leases, as well as debt service on credit cards, student loans and other lending arrangements.) In other news this morning, business inventories increased 0.1% in June, the smallest increase in nine months. Putting this data together with recent figures on trade, construction, retail sales, factory orders, suggests real GDP grew at a 2.2% annual rate in Q2, which would be an upward revision from the original government report of 1.5%.



<b>Retail Sales</b> <i>All Data Seasonally Adjusted</i>	Jul-12	Jun-12	May-12	3-mo % Ch. annualized	6-mo % Ch. annualized	Yr to Yr % Change
<b>Retail Sales and Food Services</b>	0.8%	-0.7%	-0.1%	-0.2%	1.7%	4.1%
<b>Ex Autos</b>	0.8%	-0.8%	-0.3%	-1.2%	1.1%	3.2%
<b>Ex Autos and Building Materials</b>	0.8%	-0.7%	-0.2%	-0.3%	1.8%	3.4%
<b>Ex Autos, Building Materials and Gasoline</b>	0.9%	-0.2%	0.1%	3.1%	3.2%	4.4%
<b>Autos</b>	0.8%	-0.5%	0.8%	4.6%	4.5%	8.2%
<b>Building Materials</b>	1.0%	-2.3%	-2.1%	-13.1%	-9.8%	1.0%
<b>Gasoline</b>	0.5%	-3.4%	-2.2%	-18.8%	-6.2%	-2.6%

Source: Bureau of Census