

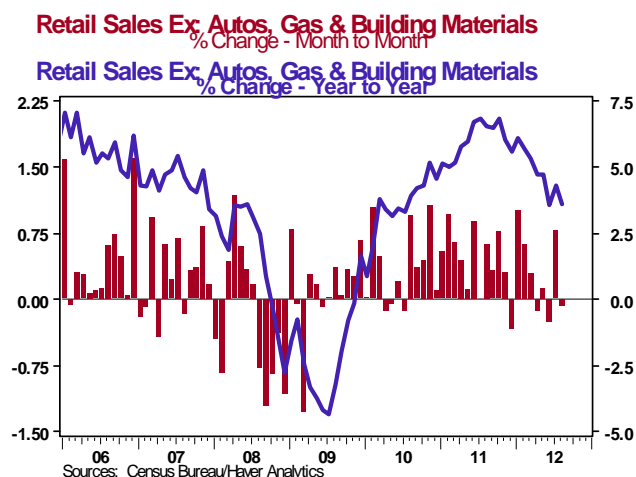
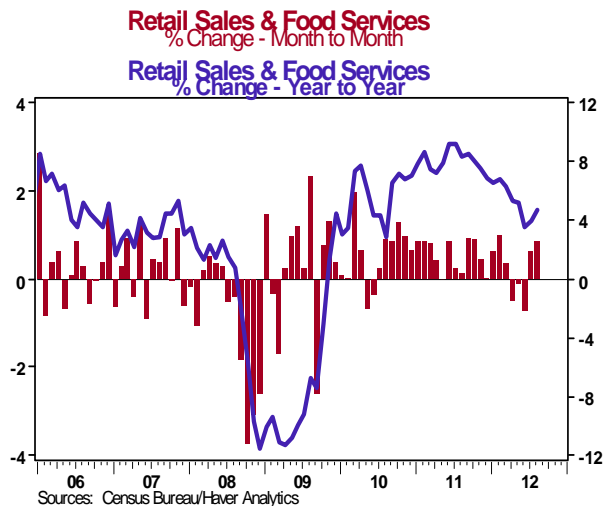
August Retail Sales

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- Retail sales increased 0.9% in July, almost exactly the 0.8% gain the consensus expected. Sales were up 0.7% including revisions for June/July. Retail sales are up 4.7% versus a year ago.
- Sales excluding autos increased 0.8% in August, and were up 0.7% including revisions to June/July, in-line with the 0.7% gain the consensus expected. Sales are up 3.4% in the past year.
- The overall gain in sales in August was led by gas and autos. There were no major changes in other categories of sales.
- Sales excluding autos, building materials, and gas were down 0.1% in August (-0.2% including revisions for June/July). These sales are important for estimating real GDP. If these sales are unchanged in September, they will still be up at a 2.5% annual rate in Q3 versus the Q2 average.

Implications: Overall retail sales were solid in August, but the details of the report were not as strong as the headline. Although auto sales were strong, most of the increase in overall sales was due to higher gas prices. “Core” sales, which exclude autos, building materials, and gas, were down slightly. On net, what we had in August was another month of gradual recovery, what we call a “plow horse economy.” Overall retail sales are up 4.7% from a year ago. With consumer prices up 1.7% over the same timeframe, “real” (inflation-adjusted) retail sales are up a respectable 2.9% in the past year. In other words, despite how consumers respond to “confidence” surveys, they are still expanding their purchases at a trend moderate rate. We anticipate a similar pace of growth in real consumer spending through year end, mainly 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 0.8% in July.

Putting this data together with recent figures on trade, construction, retail sales, and factory orders, suggests real GDP grew at a 1.5% annual rate in Q2, which would be a slight downward revision from the prior government report of 1.7%.



Retail Sales <i>All Data Seasonally Adjusted</i>	Aug-12	Jul-12	Jun-12	3-mo % Ch. <i>annualized</i>	6-mo % Ch. <i>annualized</i>	Yr to Yr <i>% Change</i>
Retail Sales and Food Services	0.9%	0.6%	-0.7%	3.1%	1.0%	4.7%
Ex Autos	0.8%	0.8%	-0.8%	2.9%	0.6%	3.4%
Ex Autos and Building Materials	0.7%	0.7%	-0.7%	2.9%	1.0%	3.4%
Ex Autos, Building Materials and Gasoline	-0.1%	0.8%	-0.3%	1.9%	1.5%	3.6%
Autos	1.3%	0.1%	-0.4%	4.0%	3.1%	10.7%
Building Materials	1.0%	1.2%	-2.1%	0.1%	-7.2%	1.4%
Gasoline	5.5%	0.4%	-3.5%	9.4%	-2.4%	2.5%

Source: Bureau of Census