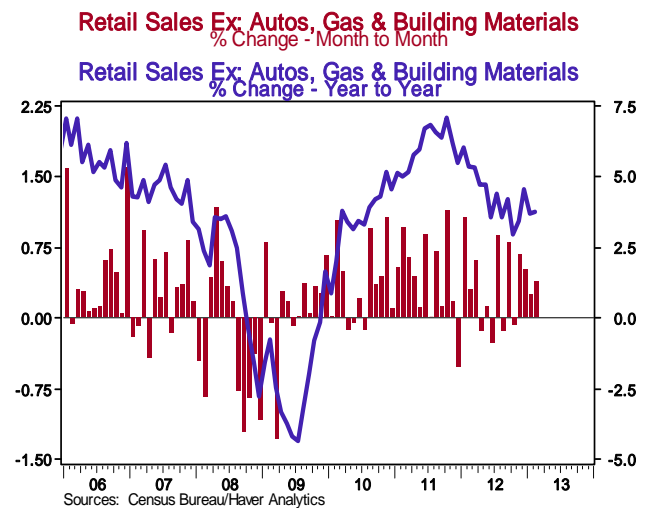
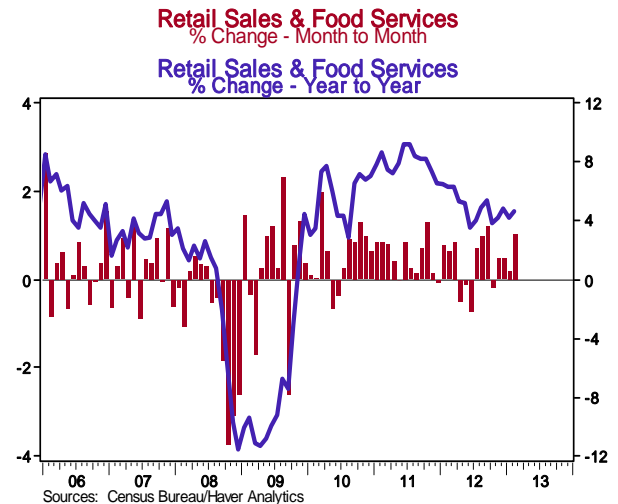


February Retail Sales

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- Retail sales increased 1.1% in February, easily beating the consensus expected 0.5%, and are up 4.6% versus a year ago.
- Sales excluding autos were up 1.0% in February (1.2% including revisions for December/January), beating the consensus expected 0.5%. Sales ex-autos are up 3.9% in the past year.
- The gain in sales in February was led by gas, autos, and non-store retailers (internet/mail-order). The largest declines were for restaurant/bars and furniture.
- Sales excluding autos, building materials, and gas were up 0.4% in February. Even if unchanged in March, these sales will be up at a 4.5% annual rate in Q1 versus the Q4 average.

Implications: So much for the theory that the end of the payroll tax cut was going to kill the consumer. Instead of being focused on relatively small changes in tax policy, analysts need to focus on the very loose stance of monetary policy, which is now gaining traction. Overall retail sales increased the most in five months in February and were revised up for January. Yes, much of the gain was due to higher gas prices, but even “core” sales, which exclude autos, building materials, and gas, rose a healthy 0.4% in February. These figures are consistent with our forecast that both real GDP growth and real (inflation-adjusted) consumer spending increase at about a 2.5% annual rate in Q1, a noticeable acceleration from the end of last year. For 2013, we still expect two major themes to play out for the consumer: first, an acceleration in consumer spending growth despite the recent tax hike; second, a transition away from growth in auto sales and toward other areas, like furniture, appliances, and building materials. Consumer spending should accelerate because of continued growth in jobs, hours, and wages. In addition, households have the lowest financial obligations ratio since the early 1980s. (The share of after-tax income they need 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.) Meanwhile, the upturn in home building in the past 18+ months means more rooms for appliances, electronics, and furniture. In other news this morning, import prices were up 1.1% in February. The gain was all due to oil; import prices excluding petroleum were unchanged. In the past year, import prices are down 0.3% overall and up 0.3% ex-petroleum, so little change. Export prices were up 0.8% in February and up 1.5% versus a year ago. Farm products are leading the rise in export prices. Ex-agriculture, prices were up 0.6% in February and are unchanged in the past year. We still expect more inflation in the trade sector in the year ahead due to loose monetary policy.



Retail Sales <i>All Data Seasonally Adjusted</i>	Feb-13	Jan-13	Dec-12	3-mo % Ch. <i>annualized</i>	6-mo % Ch. <i>annualized</i>	Yr to Yr % Change
Retail Sales and Food Services	1.1%	0.2%	0.5%	7.3%	6.8%	4.6%
Ex Autos	1.0%	0.4%	0.3%	6.9%	6.0%	3.9%
Ex Autos and Building Materials	1.0%	0.3%	0.2%	6.6%	5.6%	3.7%
Ex Autos, Building Materials and Gasoline	0.4%	0.3%	0.5%	4.8%	5.3%	3.8%
Autos	1.1%	-0.3%	1.4%	8.9%	10.6%	7.8%
Building Materials	1.1%	0.8%	0.9%	12.1%	11.1%	4.5%
Gasoline	5.0%	0.7%	-1.6%	17.4%	7.3%	3.6%

Source: Bureau of Census