

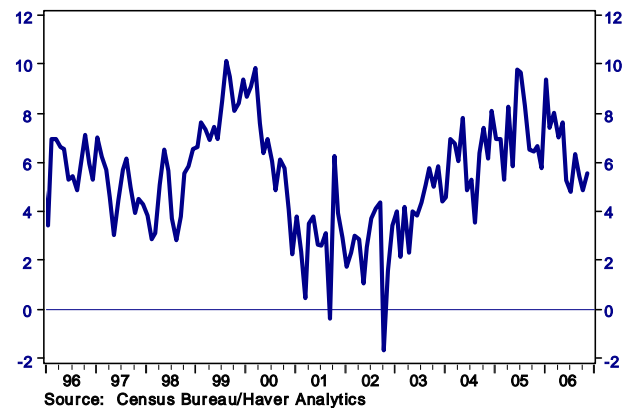
## NOVEMBER RETAIL SALES

Chief Economist - Brian S. Wesbury  
Senior Economist - Robert S. Stein  
Economic Research Assistant - Trevor D. Scott

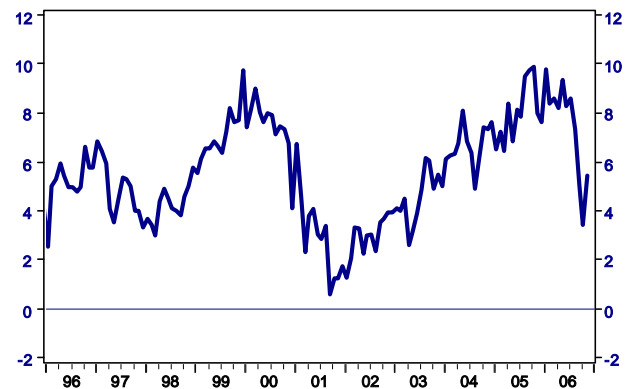
- November retail sales were much stronger than expected, rising a robust 1.0% in November versus a consensus expectation of 0.2%. October data was also upwardly revised and now shows a 0.1% drop instead of the originally reported decline of 0.4%. Retail sales are up 5.6% versus November 2005.
- November sales grew across the board. Only one sub-category, furniture, fell, and that decline was a small 0.1%. Auto sales jumped 0.9%, but after excluding autos, sales increased 1.1% (versus a market consensus of 0.3%), and were up 5.3% versus November 2005.
- Building materials spending increased 1.8%, and after excluding both autos and building materials, sales were up 1.0%, the largest gain since April.

**Implications:** For the first time in three months, retail sales data were not dragged lower by plummeting energy prices. As a result, headline data, which showed a 1.0% jump in November retail sales, immediately put a dagger into the heart of pessimistic economic forecasts. Weakness in the housing sector has not hurt the holiday shopping season and fourth quarter real GDP forecasts are being furiously revised in the upward direction. Retail sales, excluding autos and building materials, are a direct feed into GDP data (auto sales data come from another source and building materials are counted as investment). With these sales up 1.0% in November, real consumption growth will likely increase 3.5% at an annual rate in the fourth quarter. Our forecast for fourth quarter real GDP growth is now 3.1%, a significant improvement from the second and third quarter average growth rate of 2.4%. Moreover, with the Fed assuming potential growth of just 2.75%, the odds of any near-term rate cut have diminished significantly.

**Retail Sales & Food Services**  
% Change - Year to Year SA, Mil. \$



**Retail Sales and Food Services EX: Autos and Building Materials**  
% Change - Year to Year millions



<b>Retail Sales</b> <i>All data seasonally adjusted</i>	<b>Nov-06</b>	<b>Oct-06</b>	<b>Sep-06</b>	<b>3-mo % Ch. annualized</b>	<b>6-mo % Ch. annualized</b>	<b>Yr over Yr % Ch</b>
<b>Retail Sales and Food Services</b>	<b>1.0%</b>	-0.1%	-0.6%	1.5%	3.6%	5.6%
<b>Ex Autos</b>	<b>1.1%</b>	-0.3%	-1.0%	-1.0%	1.0%	5.3%
<b>Ex Autos and Building Materials</b>	<b>1.0%</b>	-0.4%	-0.9%	-1.4%	1.0%	5.4%
<b>Ex Autos, Building Materials and Gasoline</b>	<b>0.8%</b>	0.3%	0.6%	7.0%	5.5%	6.7%
<b>Autos</b>	<b>0.9%</b>	1.0%	0.9%	11.7%	14.0%	6.4%
<b>Building Materials</b>	<b>1.8%</b>	0.5%	-1.7%	2.4%	1.2%	4.2%
<b>Gasoline</b>	<b>2.3%</b>	-5.3%	-9.8%	-41.8%	-23.4%	-2.3%

Source: Bureau of Census