



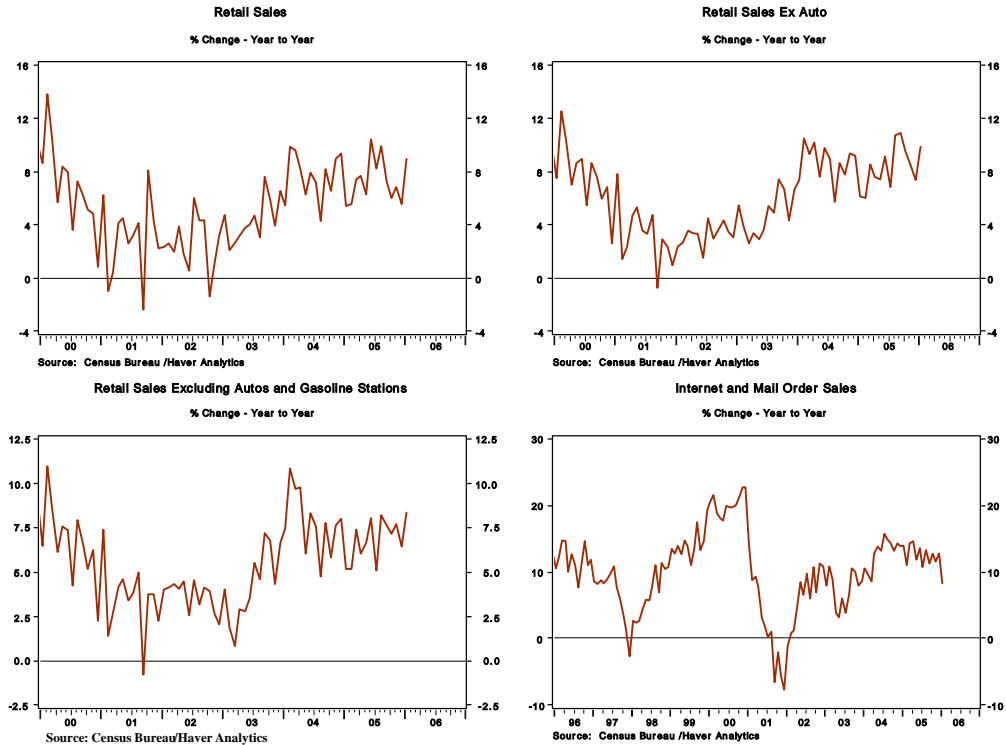
JANUARY RETAIL SALES

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- Retail sales surged 2.3% in January, well above the consensus forecast of a 0.8% gain. This is the largest one-month gain since the October 2001 – following 9/11. Retail sales are up 8.8% in the past year.
- Auto sales increased 2.9% in January. Excluding autos, non-auto sales jumped 2.2% last month. Non-auto sales are up 9.9% on a year-over-year basis.
- Gasoline service station sales rose 5.5%, after declining for three consecutive months. Retail sales excluding autos and gasoline increased 1.7% in January, and are up 8.3% on a YOY basis.

Implications: Ignoring pessimism, the consumer continues to shrug off fears about debt or high energy prices. Retail sales jumped 2.3% in January – the largest gain in over four years.

Some of this surge can be attributed to the use of gift cards from the holiday season, suggesting that holiday spending was even higher than originally reported, and strength was strong across sectors. Only Internet and mail order sales showed weakness. With nominal growth in retail sales reaching toward 9%, it is clear that aggregate demand is strong. Aggregate demand (or nominal growth) is a function of monetary policy and the acceleration in retail sales over recent years indicates an extremely accommodative policy. With underlying productivity growing at 3% and the labor force expanding at 1.25%, potential real GDP or aggregate supply is growing at roughly 4.25%. The difference between aggregate demand and potential real GDP determines inflation, which we now estimate is running at an underlying rate of 3% to 3.5%. With this in mind, we continue to forecast a 5.0% fed funds rate by May of this year and the potential for even higher rates by year-end or early 2007. The economy remains strong and resilient.



Retail Sales <i>All data seasonally adjusted</i>	Jan/06	Dec/05	Nov/05	3-mo % Ch. annualized	6-mo % Ch. annualized	Yr over Yr % Ch
Retail Sales and Food Services	2.3%	0.4%	0.9%	15.4%	4.6%	8.8%
Ex Autos	2.2%	0.2%	-0.3%	8.5%	11.2%	9.9%
Ex Autos and Gasoline	1.7%	0.3%	0.5%	10.6%	10.6%	8.3%
Motor Vehicle and Parts Dealers	2.9%	1.2%	5.5%	45.5%	-15.2%	4.9%
Building Materials and Supply	3.4%	-0.2%	2.0%	22.9%	21.0%	14.7%
Furniture, Home Furnishings, and Electronics	2.9%	-1.0%	0.7%	10.8%	8.9%	7.9%
General Merchandise	2.1%	0.0%	0.3%	10.1%	9.3%	7.4%
Food and Beverage	3.2%	0.8%	1.1%	22.4%	16.2%	11.1%
Gas Service Stations	5.5%	-0.7%	-5.8%	-5.1%	15.6%	22.7%
Health and Personal Care	1.4%	0.3%	1.1%	11.9%	8.4%	7.3%
Clothing and Accessories	4.2%	-0.1%	0.0%	17.5%	16.0%	10.0%
Internet and Mail Order	-2.6%	1.9%	0.2%	-2.1%	8.4%	8.3%

Source: Bureau of Census

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