

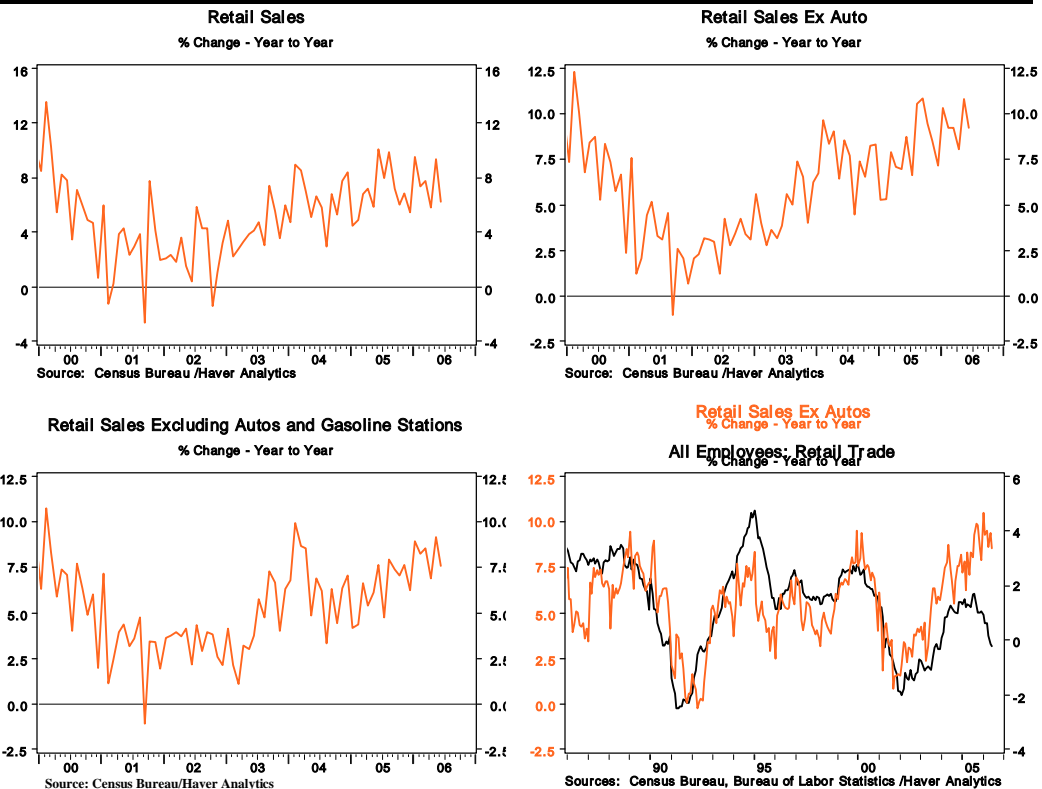
JUNE RETAIL SALES

Brian S. Wesbury
Chief Economist
Bill Mulvihill
Senior Economist
 (630) 322-7756

- Retail sales unexpectedly fell 0.1% in June, below consensus estimates of a 0.4% gain. Retail sales are up 7.4% at an annual rate in the past six months and 5.9% in the past year.
- Auto sales fell 1.4% in June after a 2.1% drop in May. Excluding autos, retail sales rose 0.3% last month and are up 8.5% in the past year.
- Gasoline service station sales jumped 1.1% in June and 20.4% in the past year. Sales excluding autos and gas rose 0.1% in June and 7.0% in the past year.

Implications: Retail sales disappointed in June and have heightened fears that the consumer is in trouble. While June's contraction was surprising, the number is highly volatile and weakness in a one or two month period does not make a trend. In the 55 months since the recovery began, there have been 18 months in which retail sales have

declined. In fact, in the 39 year history of this data series, only one year (1999) has not experienced at least one month of declining retail activity. Much of the weakness in the headline number was due to sales promotions pulling down auto prices. Motor vehicle sales in dollar terms fell 1.4% in June, even though unit auto sales were up 2.1%. This suggests that real consumption was stronger than the headline number indicates. Nonetheless, today's weakness is causing us to pull back our Q2 forecast of real GDP to 3.0%. This would be a slowdown from Q1's robust 5.6% growth but would be right in line with the 25-year average growth rate of 3.1%. We expect retail activity will pick up in the second half of this year as a strong job market and rising incomes offset the impact of elevated energy prices. Our forecast for real GDP growth in the third and fourth quarter remains at 3.5%-4.0%.



Retail Sales <i>All data seasonally adjusted</i>	Jun-06	May-06	Apr-06	3-mo % Ch. annualized	6-mo % Ch. annualized	Yr over Yr % Ch
Retail Sales and Food Services	-0.1%	0.1%	0.7%	2.9%	7.4%	5.9%
Ex Autos	0.3%	0.7%	0.7%	7.1%	9.9%	8.5%
Ex Autos and Gasoline	0.1%	0.6%	0.1%	3.0%	7.7%	7.0%
Motor Vehicle and Parts Dealers	-1.4%	-2.1%	0.4%	-11.7%	-1.8%	-3.5%
Building Materials and Supply	-1.0%	-0.5%	-2.6%	-15.2%	7.9%	8.8%
Furniture, Home Furnishings, and Electronics	0.4%	0.3%	0.5%	5.0%	10.5%	6.8%
General Merchandise	0.3%	0.3%	0.6%	4.8%	5.8%	4.6%
Food and Beverage	0.2%	0.2%	0.1%	2.1%	6.7%	7.4%
Gas Service Stations	1.1%	1.9%	5.7%	40.3%	27.0%	20.4%
Health and Personal Care	0.7%	1.2%	0.4%	9.4%	8.3%	8.1%
Clothing and Accessories	0.3%	0.4%	0.5%	4.8%	6.5%	4.9%
Internet and Mail Order	-0.3%	3.0%	-0.3%	10.0%	11.0%	12.3%

Source: Bureau of Census