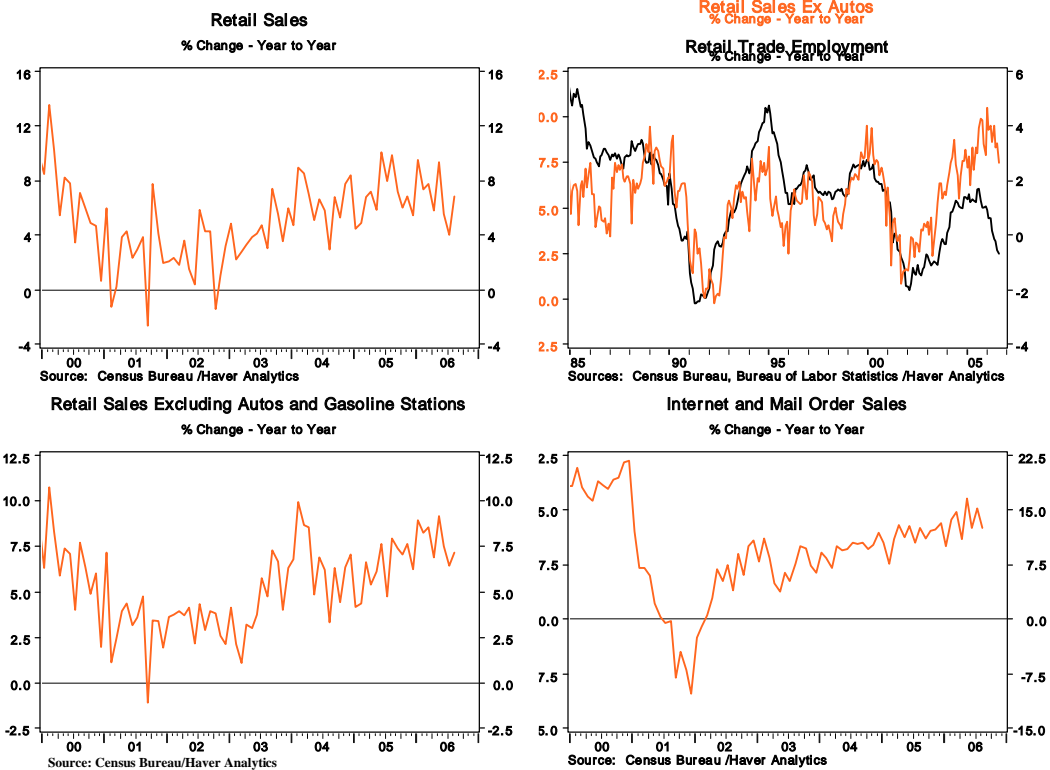


AUGUST RETAIL SALES

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

- Retail sales rose a more-than-expected 0.2% in August, versus consensus estimates of a 0.2% decline. Sales are up 6.7% from year-ago levels – a robust reading.
- Despite earlier reports of a slump in unit sales, motor vehicle and parts dealers reported a 0.4% increase in August. Excluding autos, retail sales rose 0.2% - 7.5% in the past year.
- Gasoline service station sales declined 1.0% in August, the first decline since February. Excluding autos and gas, sales increased 0.4% in August and 7.0% in the past year.

Implications: While retail sales surpassed consensus expectations in August, the story is better than even the headline numbers suggest. Falling sales at gasoline stations due to lower pump prices held back both overall and core retail sales in August. Excluding autos and gas, retail sales rose 0.4% last month and are 7.0% higher than a year ago. We expect falling gasoline prices will be a temporary drag on overall sales for the next few months. Prices also played a major role in the auto sales. According to manufacturers, unit auto sales (the actual number sold) fell 6.5% in August. Nonetheless, today's retail sales data reported a 0.5% increase in dollar sales during August. Either the sales drop was due to fewer business purchases, or there were rampant price increases in August. The answer is that it is probably a little of both. The consumer is stronger and inflation is higher than most believe. The major themes of the economy are unchanged. Consumer spending is slightly weaker, but still robust in the face of a slowing housing market and high (but falling) energy prices. We expect real consumption to be about 3.5% in Q3 and real GDP growth to be between 3% and 3.5%. Separately, initial claims for unemployment insurance fell by 5,000 last week to a total of 308,000 – the lowest level since mid-July and well below the consensus estimate of 315,000.



Retail Sales <i>All data seasonally adjusted</i>	Aug-06	Jul-06	Jun-06	3-mo % Ch. annualized	6-mo % Ch. annualized	Yr over Yr % Ch
Retail Sales and Food Services	0.2%	1.4%	-0.5%	4.3%	5.4%	6.7%
Ex Autos	0.2%	0.6%	0.0%	3.1%	5.9%	7.5%
Ex Autos and Gasoline	0.4%	0.5%	-0.1%	3.1%	4.1%	7.0%
<i>Motor Vehicle and Parts Dealers</i>	0.4%	4.3%	-2.4%	9.3%	3.6%	3.7%
<i>Building Materials and Supply</i>	0.1%	0.3%	-1.6%	-4.8%	-5.0%	8.2%
<i>Furniture, Home Furnishings, and Electronics</i>	-0.1%	0.3%	0.2%	1.7%	3.5%	5.9%
<i>General Merchandise</i>	0.4%	0.2%	0.1%	2.9%	2.9%	4.9%
<i>Food and Beverage</i>	0.7%	0.2%	-0.4%	2.0%	4.1%	7.1%
<i>Gas Service Stations</i>	-1.0%	1.6%	0.1%	3.0%	18.9%	11.0%
<i>Health and Personal Care</i>	0.6%	0.3%	0.7%	6.4%	7.9%	7.9%
<i>Clothing and Accessories</i>	-0.3%	0.9%	0.5%	4.9%	5.9%	6.6%
<i>Internet and Mail Order</i>	0.3%	2.1%	-0.7%	6.9%	13.9%	12.5%

Source: Bureau of Census