

OCTOBER RETAIL SALES

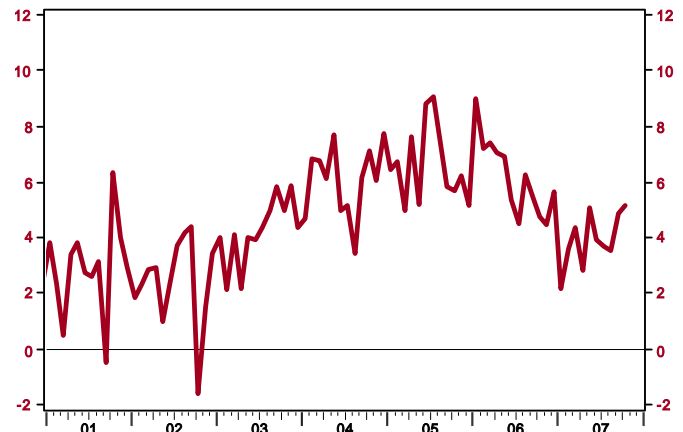
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- Retail sales increased 0.2% in October, both overall and excluding autos. The consensus expected gains of 0.2% overall and 0.3% excluding autos. Sales are up 5.2% versus last year, both overall and excluding autos.
- Unusually, all categories of sales had small changes, either up or down.
- Sales excluding autos, building materials, and gas were up 0.1% in October. These sales are up 4.2% versus a year ago.

Implications: Today's retail sales report was relatively weak, but we do not expect the weakness to persist. Retail sales excluding autos and building materials are a direct feed into the GDP data (auto sales data come from another source and building materials are counted as investment) and these sales rose only 0.1% in October. Excluding gas from this metric (gas sales are usually driven by inflation) also generates an increase of only 0.1%. In addition, these measures of sales were revised down for both August and September. However, unlike most economists, we believe weak retail sales will not continue. The annual rate of labor compensation is up more than \$500 billion versus last year, including a \$429 billion increase in the annual rate of wages and salaries. Despite this, labor compensation remains a relatively low share of GDP, which means firms are still in a position to continue to hire and bid up wages. In turn, we believe continued increases in labor compensation will offset the negative effects of a decline in housing wealth and allow consumers to keep spending at a healthy pace.

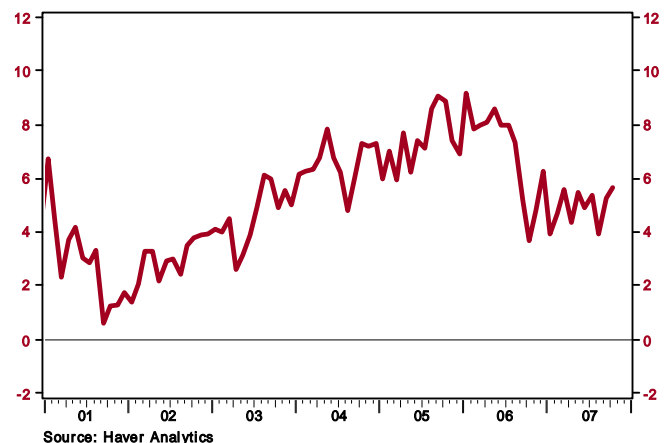
Retail Sales & Food Services

% Change - Year to Year



Retail Sales and Food Services EX: Autos and Building Materials

% Change - Year to Year



Source: Haver Analytics

Retail Sales <i>All Data Seasonally Adjusted</i>	Oct-07	Sep-07	Aug-07	3-mo % Ch. annualized	6-mo % Ch. annualized	Yr to Yr % Change
Retail Sales and Food Services	0.2%	0.7%	0.1%	3.6%	4.7%	5.2%
Ex Autos	0.2%	0.3%	-0.8%	-1.0%	4.0%	5.2%
Ex Autos and Building Materials	0.1%	0.4%	-0.7%	-0.6%	4.0%	5.6%
Ex Autos, Building Materials and Gasoline	0.1%	0.2%	-0.3%	-0.5%	3.9%	4.2%
Autos	0.2%	1.8%	3.4%	23.6%	7.3%	5.0%
Building Materials	0.6%	-0.4%	-1.2%	-4.0%	3.9%	1.3%
Gasoline	0.8%	1.8%	-2.9%	-1.4%	4.8%	16.3%

Source: Bureau of Census