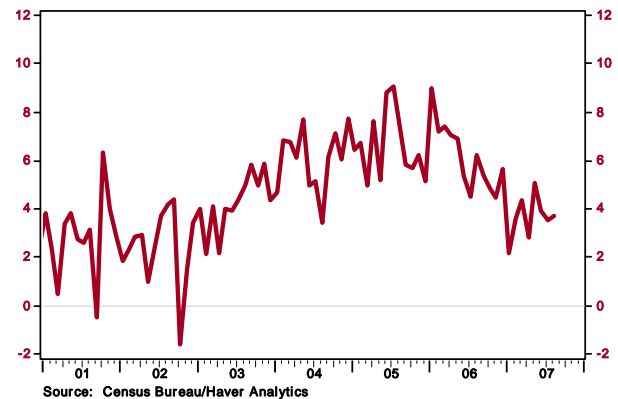


AUGUST RETAIL SALES

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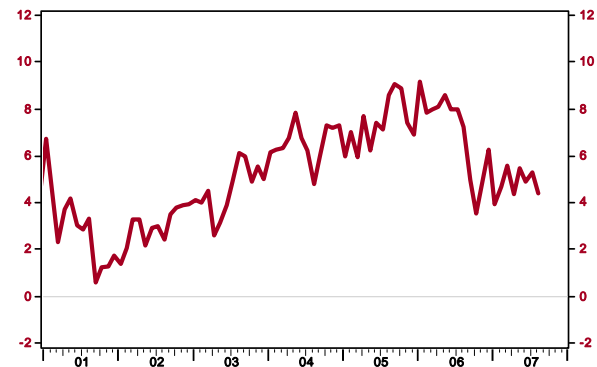
- Retail sales increased 0.3% in August versus a consensus expected gain of 0.5%. Excluding autos, sales declined 0.4% versus a consensus expected gain of 0.2%. Sales are up 3.7% versus a year ago, 3.9% ex-autos.
- The largest increase in sales in August was in autos, which rose 2.8%. The weakest components of sales were gas (driven by lower prices) and building materials.
- Excluding autos, building materials, and gas, sales were unchanged in August while July sales were revised up to a 0.8% gain from a previous estimate of 0.6%. These sales are up 5.5% versus a year ago.

Retail Sales & Food Services
% Change - Year to Year



Implications: Today's report on retail sales was mediocre. 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 declined 0.3% in August. Excluding gas from this metric (gas sales are usually driven by inflation) converts this figure to unchanged in August and up at a 4.8% annual rate the past three months. This data suggests real consumption (including services) should grow at about a 2.5% annual rate in the current quarter and is consistent with our view that real GDP appears set to grow at a 3% annual rate in Q3. Exports and business investment are strong, meaning the economy is less dependent on consumer spending to account for real GDP growth. In other news, yesterday's report on initial claims for unemployment insurance showed the four-week moving average moving down 1,000 to a low level of 324,000, suggesting the labor market is not as weak as last week's negative payroll report suggested.

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



Retail Sales <i>All Data Seasonally Adjusted</i>	Aug-07	Jul-07	Jun-07	3-mo % Ch. <i>annualized</i>	6-mo % Ch. <i>annualized</i>	Yr to Yr % Change
Retail Sales and Food Services	0.3%	0.5%	-0.8%	-0.1%	4.6%	3.7%
Ex Autos	-0.4%	0.7%	-0.2%	0.4%	5.8%	3.9%
Ex Autos and Building Materials	-0.3%	0.7%	0.0%	1.6%	6.0%	4.4%
Ex Autos, Building Materials and Gasoline	0.0%	0.8%	0.3%	4.8%	5.7%	5.5%
Autos	2.8%	-0.3%	-2.9%	-1.9%	0.0%	3.0%
Building Materials	-1.0%	0.8%	-2.3%	-9.5%	3.8%	-0.1%
Gasoline	-2.4%	-0.4%	-1.9%	-17.2%	8.3%	-2.7%

Source: Bureau of Census