

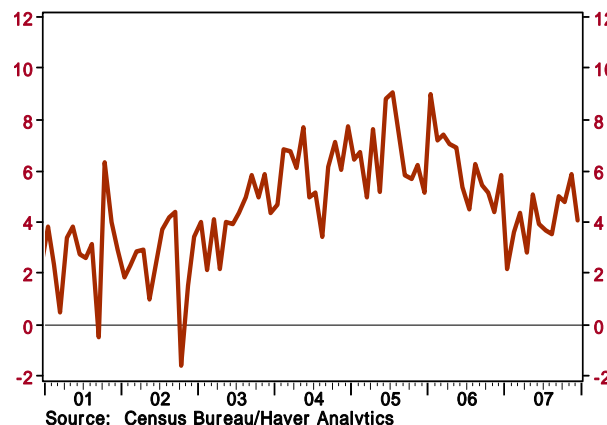
DECEMBER RETAIL SALES

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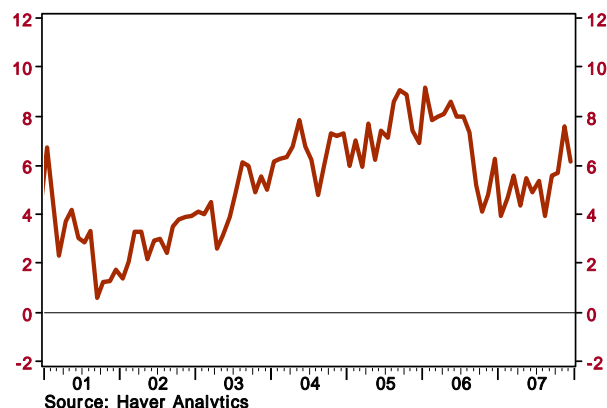
- Retail sales declined 0.4% in December, both including and excluding autos. Sales in October and November were revised down slightly. The consensus expected overall retail sales to be unchanged in December and for sales excluding autos to decline 0.1%. Retail sales are up 4.1% versus last year, 5.2% excluding autos.
- All of the decline in retail sales can be attributed to building materials (related to housing) and gas (pump prices fell in December after a spike up in November). The strongest category of sales was at grocery stores, up 0.8% in December.
- Sales excluding autos, building materials, and gas were up 0.1% in December and are up 4.4% versus a year ago.

Implications: Today's retail sales report was weak but is not even close to suggesting a consumer-led recession. The weakest categories in today's report were building materials and gas. The former is driven by home builders, not consumers; the latter is driven by price changes, not volume. 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). Also excluding gas from this metric (gas sales are usually driven by inflation) generates an increase of 0.1% in December and an increase of 4.4% versus a year ago. These figures are consistent with real consumption growth of about 2.5% in Q4, neither strong nor weak and just slightly below the 2.8% consumption growth rate in Q3. Looking ahead, we believe retail sales will pick up due to solid income gains for workers offsetting whatever negative effect falling home prices may have on purchasing power. In other news this morning, the Empire State Index, a measure of manufacturing in New York, weakened slightly from 9.8 in December to 9.0 in January. This level still signals expansion in manufacturing in the NY region.

Retail Sales & Food Services
% Change - Year to Year



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



| Retail Sales <i>All Data Seasonally Adjusted</i> | Dec-07 | Nov-07 | Oct-07 | 3-mo % Ch. <i>annualized</i> | 6-mo % Ch. <i>annualized</i> | Yr to Yr <i>% Change</i> |
|--|---------------|---------------|---------------|--|--|------------------------------------|
| Retail Sales and Food Services | -0.4% | 1.0% | 0.0% | 2.9% | 4.4% | 4.1% |
| Ex Autos | -0.4% | 1.7% | 0.2% | 6.2% | 4.3% | 5.2% |
| Ex Autos and Building Materials | -0.1% | 1.7% | 0.3% | 7.9% | 5.6% | 6.2% |
| Ex Autos, Building Materials and Gasoline | 0.1% | 0.7% | 0.0% | 3.9% | 3.8% | 4.4% |
| Autos | -0.4% | -1.4% | -0.5% | -9.0% | 5.0% | -0.1% |
| Building Materials | -2.9% | 1.6% | -1.0% | -9.0% | -7.0% | -3.4% |
| Gasoline | -1.7% | 7.6% | 2.4% | 37.4% | 17.5% | 18.5% |

Source: Bureau of Census