

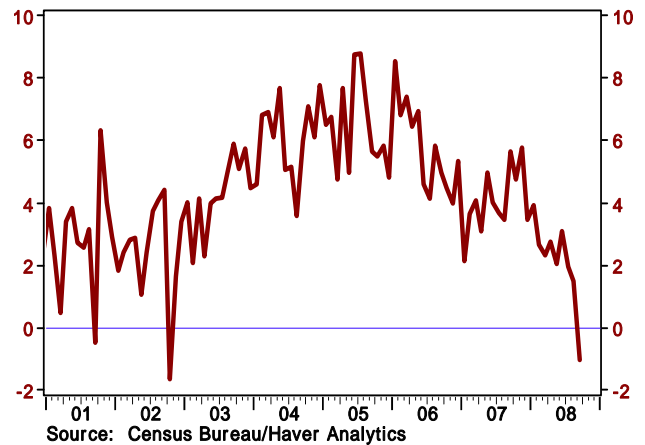
SEPTEMBER RETAIL SALES

Chief Economist – Brian S. Wesbury
Senior Economist – Robert Stein, CFA

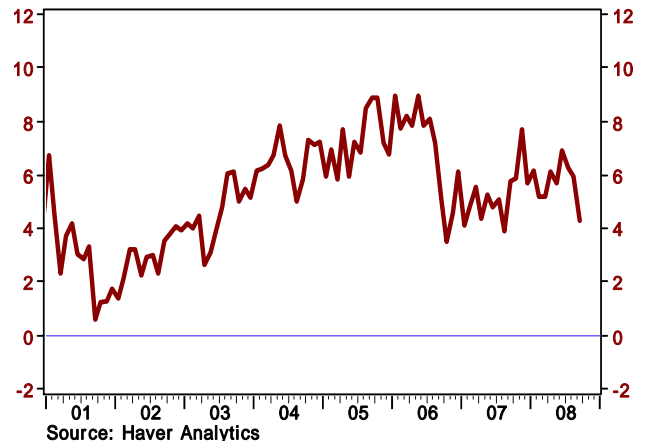
- Retail sales declined 1.2% in September, versus a consensus expected -0.7%. Retail sales excluding autos declined 0.6% versus a consensus expected -0.2%. Retail sales are down 1.0% in the past year, but up 3.6% excluding autos.
- The weakest component of sales in September was motor vehicles/parts, which fell 3.8%. All other major components of sales were either essentially unchanged or down.
- Sales excluding autos, building materials, and gas were down 0.7% in September, the largest monthly decline since September 2001, but up 2.1% versus last year.

Implications: Consumer spending is declining, driven by fear of the financial unknown and a lack of credit for big-ticket items. We now anticipate that “real” (inflation-adjusted) consumer spending declined at about a 3% annual rate in the third quarter, consistent with the largest quarterly declines in the 1981-82 recession and the 1990-91 recession. On a monthly basis, “core” sales, which exclude autos, building materials and gas, fell 0.7%, the largest drop since the terrorist attacks in September 2001. Moreover, anecdotal news reports suggest consumer spending faltered more in late September than early September, which suggests another ugly report next month when October sales data are released. However, we believe sales will start to rebound in November/December. Income-based measures of consumer purchasing power are still rising. Clogs in the arteries of the credit system are preventing some of that purchasing power from being spent, at present. Recent government actions are going to help unclog those arteries, resulting in an eventual surge in sales, as consumers play catch up much like they did after 9/11. In other news this morning, business inventories increased 0.3% in August, slightly less than the consensus expected. Putting all this data into our analysis, we estimate that overall real GDP was essentially unchanged in the third quarter, with consumer spending falling but net exports and inventories contributing positively to economic growth.

Retail Sales & Food Services
% Change - Year to Year



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



Retail Sales <i>All Data Seasonally Adjusted</i>	Sep-08	Aug-08	Jul-08	3-mo % Ch. <i>annualized</i>	6-mo % Ch. <i>annualized</i>	Yr to Yr <i>% Change</i>
Retail Sales and Food Services	-1.2%	-0.4%	-0.6%	-8.7%	-2.4%	-1.0%
Ex Autos	-0.6%	-0.9%	0.1%	-5.4%	3.0%	3.6%
Ex Autos and Building Materials	-0.6%	-0.8%	0.1%	-5.0%	3.0%	4.3%
Ex Autos, Building Materials and Gasoline	-0.7%	-0.4%	0.1%	-3.9%	2.0%	2.1%
Autos	-3.8%	1.7%	-4.2%	-22.5%	-23.1%	-18.5%
Building Materials	-0.6%	-2.0%	0.4%	-8.9%	3.4%	-2.8%
Gasoline	0.1%	-3.0%	0.0%	-11.2%	8.3%	17.8%

Source: Bureau of Census