

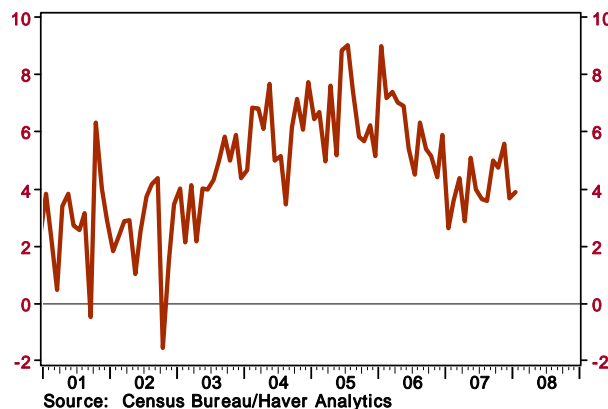
JANUARY RETAIL SALES

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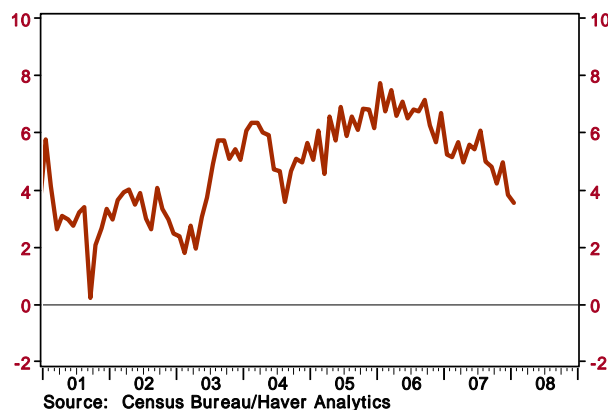
- Retail sales increased 0.3% in January, both overall and excluding autos. The consensus expected overall retail sales to decline and sales ex-autos to rise 0.2%. Sales are up 3.9% versus last year, 4.9% excluding autos.
- The largest gains in retail sales were at gas stations and auto dealers. The largest decline was in building materials, which is a sign of weakness in home building, not consumption.
- Sales excluding autos, building materials, and gas were up 0.2% in January but were revised down in both November and December.

Implications: Today's retail sales report shows that news of the consumer's death has been greatly exaggerated. If core sales (sales excluding autos, building materials, and gas) remain unchanged in February and March they will still be up at a 1.2% annual rate in the first quarter (versus the fourth quarter). However, we expect these sales to be up in February/March, suggesting real consumption will grow at a 2%+ rate in Q1. Either way, today's report severely undermines the theory that we have already entered a recession. It is important to focus on core sales rather than just the headline sales number because government statisticians use a different data source for auto sales, building materials are considered investment (not consumption), and gas sales are usually driven by inflation. Looking ahead, we believe sales will remain healthy due to solid income gains for workers offsetting whatever negative effect falling home prices may have on purchasing power.

Retail Sales & Food Services
% Change - Year to Year



Retail Sales & Food Serv Excl Auto, Bldg. Materials and Gas
% Change - Year to Year SA, Mil. \$



Retail Sales <i>All Data Seasonally Adjusted</i>	Jan-08	Dec-07	Nov-07	3-mo % Ch. <i>annualized</i>	6-mo % Ch. <i>annualized</i>	Yr to Yr <i>% Change</i>
Retail Sales and Food Services	0.3%	-0.4%	0.8%	2.7%	3.2%	3.9%
Ex Autos	0.3%	-0.3%	1.5%	6.0%	3.0%	4.9%
Ex Autos and Building Materials	0.5%	-0.1%	1.5%	7.9%	4.6%	6.0%
Ex Autos, Building Materials and Gasoline	0.2%	-0.1%	0.5%	2.5%	1.5%	3.5%
Autos	0.6%	-1.1%	-1.8%	-9.1%	3.9%	-0.2%
Building Materials	-1.7%	-2.5%	1.3%	-11.1%	-11.0%	-4.8%
Gasoline	2.0%	0.0%	7.3%	43.5%	25.6%	23.0%

Source: Bureau of Census