

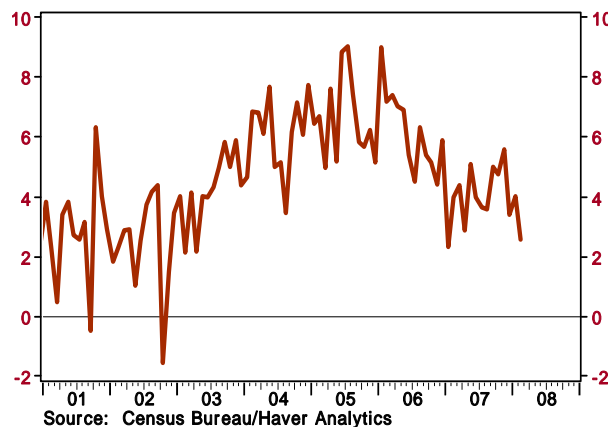
## FEBRUARY RETAIL SALES

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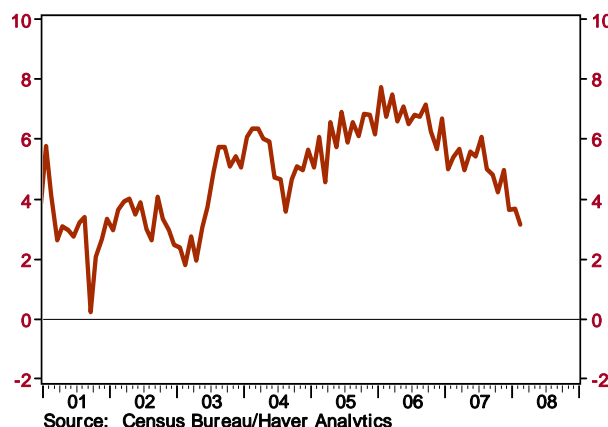
- Retail sales declined 0.6% in February while retail sales excluding autos declined 0.2%. The consensus had expected each to increase 0.2%. Total sales are up 2.6% versus last year, 4.4% excluding autos.
- The largest declines in retail sales were at auto dealers and gas stations. The strongest sector was general merchandise stores (department stores and warehouse clubs).
- Sales excluding autos, building materials, and gas were unchanged in January and are up 3.2% versus a year ago.

**Implications:** Today's data are consistent with sluggish growth in Q1, but not recession. If core retail sales (excluding autos, building materials, and gas) remain unchanged in March they will still be up at a 1.1% annual rate in the first quarter (versus the fourth quarter). In turn, given the boom in exports and rebound in inventories, this is consistent with our forecast of 2% real GDP growth in Q1. It is important to focus on core sales because government statisticians use a different data source for auto sales, building materials are considered housing investment (not consumption), and gas sales are usually driven by inflation. In other news this morning, initial claims for unemployment insurance were unchanged at 353,000 last week, still well below the 400,000 mark that could signal recession. However, continuing claims hit 2.835 million, the highest since September 2004 (with the exception of the month after Hurricanes Katrina/Rita). Meanwhile, inflation remains a problem. Import prices increased 0.2% in February and are up 13.6% versus a year ago. Import prices ex-petroleum increased 0.6% in February and 4.5% versus a year ago, the most since 1995. Export prices increased 0.9% in February and 6.8% versus a year ago.

Retail Sales & Food Services  
% Change - Year to Year



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



<b>Retail Sales</b> <i>All Data Seasonally Adjusted</i>	<b>Feb-08</b>	<b>Jan-08</b>	<b>Dec-07</b>	<b>3-mo % Ch.</b> <i>annualized</i>	<b>6-mo % Ch.</b> <i>annualized</i>	<b>Yr to Yr</b> <b>% Change</b>
<b>Retail Sales and Food Services</b>	<b>-0.6%</b>	0.4%	-0.7%	-3.3%	1.6%	2.6%
<b>Ex Autos</b>	<b>-0.2%</b>	0.5%	-0.5%	-0.8%	4.2%	4.4%
<b>Ex Autos and Building Materials</b>	<b>-0.2%</b>	0.6%	-0.3%	0.7%	5.6%	5.3%
<b>Ex Autos, Building Materials and Gasoline</b>	<b>0.0%</b>	0.3%	-0.3%	0.0%	2.0%	3.2%
<b>Autos</b>	<b>-1.9%</b>	0.2%	-1.6%	-12.6%	-8.1%	-4.2%
<b>Building Materials</b>	<b>-0.7%</b>	-0.6%	-2.5%	-14.3%	-8.2%	-4.2%
<b>Gasoline</b>	<b>-1.0%</b>	2.3%	-0.4%	4.1%	30.6%	20.2%

Source: Bureau of Census

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