

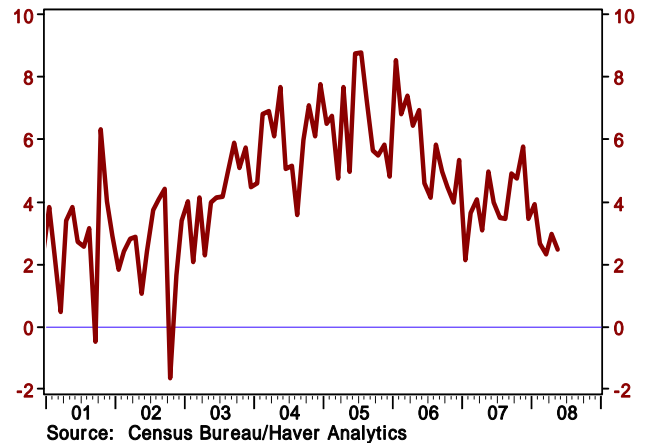
MAY RETAIL SALES

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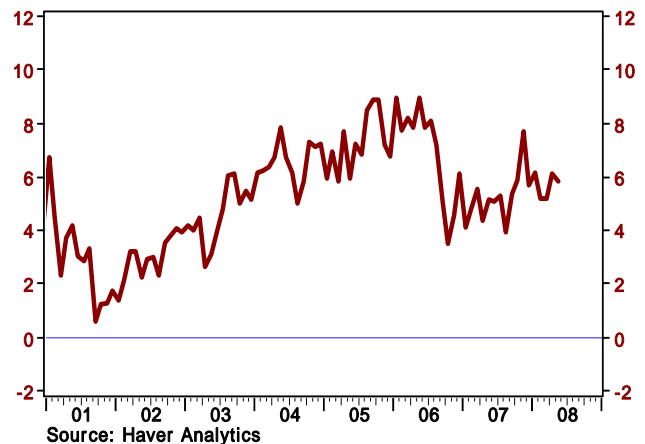
- Retail sales increased 1.0% in May, beating the consensus expected rise of 0.5%. Retail sales excluding autos increased 1.2%, beating the 0.7% consensus expected gain. Sales were also revised up substantially for March and April.
- The increase in retail sales was led by gas stations, building materials, and general merchandise stores (department stores and warehouse clubs).
- Sales excluding autos, building materials, and gas were up 0.8% in May and were revised up a total of 0.8% for March and April. These sales are up 4.5% versus last year and up at a 10.2% annual rate in the past three months.

Implications: Today's report is the final nail in the coffin for the theory that the US is in a consumer-led recession. Total retail sales are up at an 8% annual rate in the past three months while "core" retail sales are up at a 10.2% rate. It is impossible to be in a consumer-led recession when retail sales are growing so rapidly. Some analysts will attribute the strength in sales to the tax rebate checks that started being sent at the very end of April. However, sales were revised up substantially for March and April and core sales (excluding autos, building materials, and gas) in March and April were about as strong as in May, suggesting the rise in consumption is based on fundamentals, not government checks. Today's report creates considerable upside risk to our forecast of a 1.5% real GDP growth rate for the second quarter of 2008. Meanwhile, inflation keeps getting worse. Import prices were up 2.3% in May and are up 17.8% versus last year, the highest on record (going back to 1982). This is not all due to oil. Import prices excluding petroleum are up 6.6% versus last year, the most in 20 years; export prices are up 8% versus last year, also the most in 20 years; export prices excluding agriculture are up 5.7% versus last year, the most since 1995. In other news today, new claims for unemployment insurance increased 25,000 last week to 384,000, which is still below recession levels. Continuing claims for jobless benefits increased 58,000 to 3.139 million.

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>	May-08	Apr-08	Mar-08	3-mo % Ch. <i>annualized</i>	6-mo % Ch. <i>annualized</i>	Yr to Yr <i>% Change</i>
Retail Sales and Food Services	1.0%	0.4%	0.5%	8.0%	2.2%	2.5%
Ex Autos	1.2%	1.0%	0.8%	12.4%	5.3%	4.9%
Ex Autos and Building Materials	1.1%	0.8%	0.9%	11.9%	5.8%	5.8%
Ex Autos, Building Materials and Gasoline	0.8%	1.0%	0.6%	10.2%	5.2%	4.5%
Autos	0.3%	-2.1%	-0.5%	-8.6%	-9.7%	-7.0%
Building Materials	2.4%	2.7%	-1.0%	17.3%	0.8%	-3.2%
Gasoline	2.6%	0.2%	2.6%	23.3%	9.1%	13.8%

Source: Bureau of Census