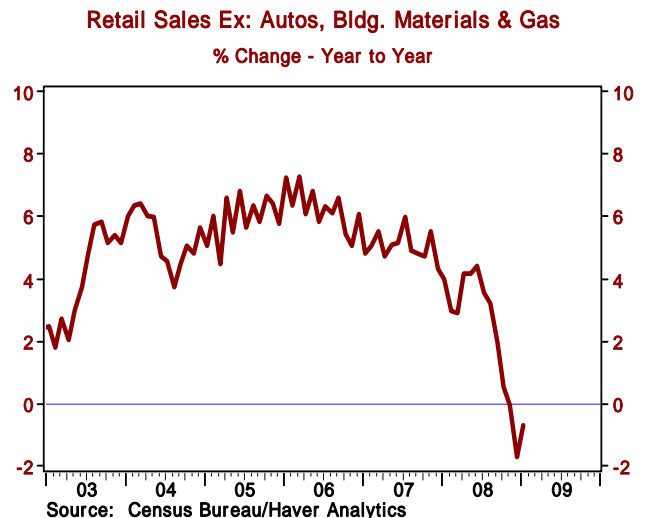
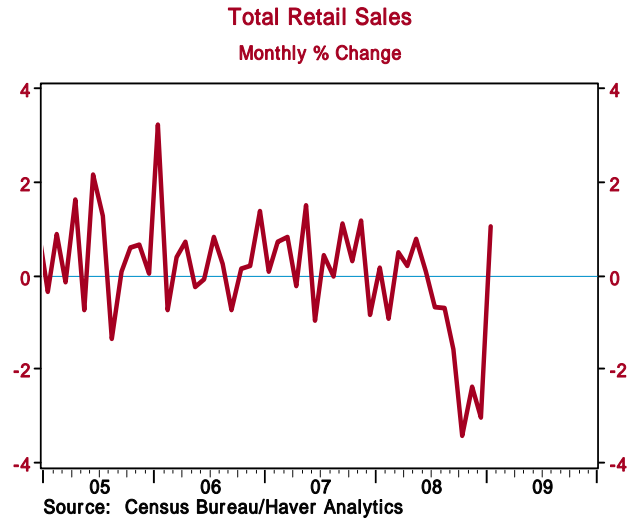


JANUARY RETAIL SALES

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- Retail sales increased 1.0% in January, much better than the consensus expected decline of 0.8%. Retail sales excluding autos rose 0.9% versus a consensus expected negative 0.4%. Retail sales are down 9.7% in the past year and down 6.6% excluding autos.
- Gains in sales were widespread in January, led by food and beverage stores, motor vehicles/parts, gas, and non-store retailers (mail order and internet). The weakest category was building materials.
- Sales excluding autos, building materials, and gas increased 1.2% in January, the largest upward move in more than two years. These sales are down 0.7% versus last year.

Implications: Retail sales in January increased for the first time in seven months, rising 1%, easily beating consensus expectations. Despite downward revision to sales in November and December, today’s report signals the risk aversion hysteria that overcame the US economy in September 2008 is dissipating. Velocity is stabilizing, possibly rising. Earlier this month, unit auto sales were reported down 7.1% for January. However, today’s report shows that retail auto sales were up 1.6%. This confirms that the drop in unit sales was due to slow business purchases, not consumer activity. (The alternative explanation, that auto prices rose steeply, does not fit with news of aggressive incentives by auto dealers around the country.) Moreover, with autos selling at an historic low replacement rate of 25 years (meaning it would take 25 years to replace all the cars on the road if the current selling pace was sustained), we foresee a trend increase in sales in 2009. The best news today was that “core” sales – excluding gas, autos, and building materials – were up 1.2% in January. This is the portion of the retail report that impacts GDP calculations, which are now more likely than not to show a slight increase in personal consumption in the first quarter of 2009, a major positive change. In other news this morning, new claims for unemployment fell 8,000 to 623,000 last week. Continuing claims increased 11,000 to 4.81 million. These figures signal more pain ahead in the labor market, which is a lagging indicator of economic performance.



Retail Sales <i>All Data Seasonally Adjusted</i>	Jan-09	Dec-08	Nov-08	3-mo % Ch. annualized	6-mo % Ch. annualized	Yr to Yr % Change
Retail Sales and Food Services	1.0%	-3.0%	-2.4%	-16.3%	-18.4%	-9.7%
Ex Autos	0.9%	-3.2%	-2.6%	-18.1%	-17.7%	-6.6%
Ex Autos and Building Materials	1.3%	-3.3%	-2.5%	-16.9%	-17.0%	-6.1%
Ex Autos, Building Materials and Gasoline	1.2%	-1.7%	0.1%	-1.9%	-5.6%	-0.7%
Autos	1.6%	-2.0%	-1.2%	-6.4%	-21.8%	-22.2%
Building Materials	-3.2%	-2.3%	-3.4%	-30.5%	-24.6%	-12.1%
Gasoline	2.6%	-15.6%	-18.2%	-74.9%	-64.5%	-35.5%

Source: Bureau of Census