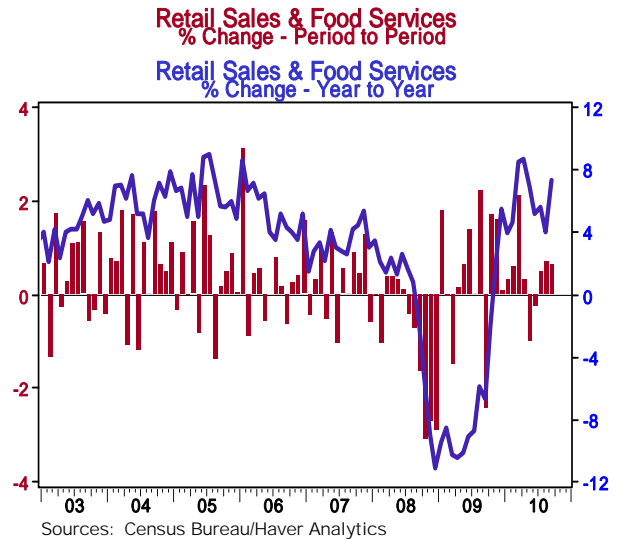


SEPTEMBER RETAIL SALES

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- Retail sales rose 0.6% in September and 0.4% ex-autos, narrowly beating consensus expectations.
- Retail sales were revised up substantially for July and August. Including these revisions, overall sales were up 1.1% and sales ex-autos were up 0.9%. Retail sales are up 7.3% versus a year ago; sales ex-autos are up 5.4%.
- The rise in retail sales in September was led by motor vehicles/parts but almost every other major category of sales increased as well.
- Sales excluding autos, building materials, and gas were up 0.4% in September (+1.1% including revisions to July/August) and are up 4.9% versus last year. These sales increased at a 4.4% annual rate in Q3 vs. the Q2 average. This calculation is important for estimating GDP.

Implications: The US economy is accelerating going into the end of the year. Including upward revisions to prior months, retail sales increased 1.1% in September. “Core” sales (which exclude autos, building materials, and gas) were also up 1.1% including the upward revisions and were up at a 4.4% annual rate in Q3 versus the Q2 average. With growth like this, the Federal Reserve should not be keeping short-term interest rates near zero, much less seriously contemplate “quantitative easing.” Although autos were the leading factor behind the gain in sales in September, almost every other major category of sales has increased in both August and September. We expect to see continued sales growth from here. Yesterday the North American head of sales for Toyota said that industry-wide sales in October should be up 15% or more versus a year ago. In other news this morning, the Empire State Index, a measure of manufacturing in New York, increased to +15.7 in October from +4.1 in September. The index for shipments increased sharply and the indexes for new orders and the number of employees also had large gains. In addition, business inventories increased 0.6% in August and were revised up in July. As a result, we are forecasting that real GDP grew at about a 2.8% annual rate in Q3, with half of the growth coming from final sales and half from inventories.



Retail Sales <i>All Data Seasonally Adjusted</i>	Sep-10	Aug-10	Jul-10	3-mo % Ch. <i>annualized</i>	6-mo % Ch. <i>annualized</i>	Yr to Yr <i>% Change</i>
Retail Sales and Food Services	0.6%	0.7%	0.5%	7.4%	1.6%	7.3%
Ex Autos	0.4%	1.0%	0.3%	6.8%	1.3%	5.4%
Ex Autos and Building Materials	0.4%	1.1%	0.3%	7.3%	1.9%	5.3%
Ex Autos, Building Materials and Gasoline	0.4%	1.0%	0.0%	6.2%	2.6%	4.9%
Autos	1.6%	-0.5%	1.4%	10.3%	2.7%	17.9%
Building Materials	0.6%	0.5%	0.1%	5.0%	-2.1%	7.3%
Gasoline	0.4%	1.3%	1.8%	15.1%	-3.0%	8.2%

Source: Bureau of Census