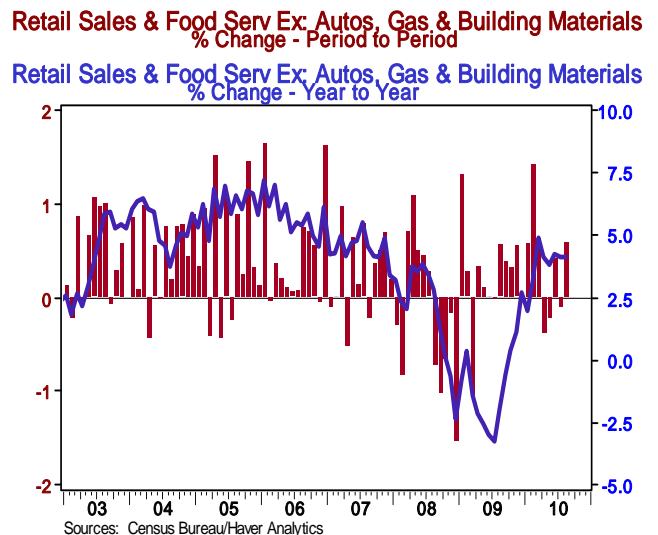
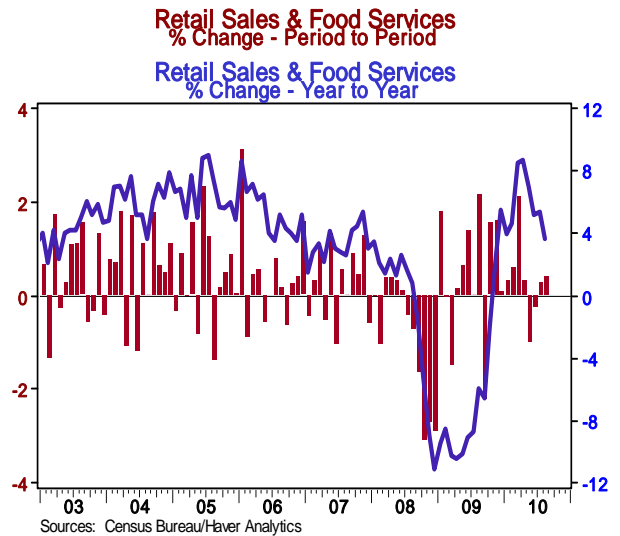


# AUGUST RETAIL SALES

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- Retail sales rose 0.4% in August narrowly beating a consensus expected gain of 0.3%. Sales excluding autos increased 0.6%, more easily beating a consensus expected gain of 0.3%.
- Retail sales are up 3.6% versus a year ago; sales ex-autos are up 4.8%.
- The rise in retail sales in August was mainly due to higher spending at grocery stores and gas stations. The weakest component of sales was motor vehicles, which are volatile from month to month.
- Sales excluding autos, building materials, and gas were up 0.6% in August (+0.7% including revisions to June/July) and are up 4.1% versus last year. This calculation is important for estimating GDP. If these sales are unchanged in September, they will be up at a 1.9% annual rate in Q3 versus the Q2 average.

**Implications:** If you still thought a double-dip recession was possible, the retail sales number today should put that to rest. Retail sales have increased for the second month in a row, are up 3.6% versus a year ago, and we expect to see continued sales from here. “Core” sales (which exclude autos, building materials, and gas) were up 0.7% in August (including revisions to June/July), are up 4.1% from a year ago and are at their highest level ever. Why are we confident consumer spending will continue to grow? Because incomes are rising and household debts are becoming a much smaller drag on after-tax incomes. So far this year, “real” (inflation-adjusted) cash wages for workers are up at about a 4% annual rate, meaning workers have been able to both increase their spending and still repair their household balance sheets. Our calculations suggest that consumers’ financial obligations – what we owe each month on our debts, plus other obligations such as rent and car leases – are, relative to after-tax income, below the average of the last 30 years and at the lowest level since 1995. We understand times are still tough for many, but the underlying improvement in the economy should continue to reduce the economic pain in the years ahead.



Retail Sales <i>All Data Seasonally Adjusted</i>	Aug-10	Jul-10	Jun-10	3-mo % Ch. <i>annualized</i>	6-mo % Ch. <i>annualized</i>	Yr to Yr <i>% Change</i>
<b>Retail Sales and Food Services</b>	<b>0.4%</b>	0.3%	-0.3%	1.7%	3.6%	3.6%
<b>Ex Autos</b>	<b>0.6%</b>	0.1%	0.0%	3.1%	2.0%	4.8%
<b>Ex Autos and Building Materials</b>	<b>0.8%</b>	0.2%	0.1%	4.0%	1.6%	4.8%
<b>Ex Autos, Building Materials and Gasoline</b>	<b>0.6%</b>	-0.1%	0.4%	3.5%	1.7%	4.1%
<b>Autos</b>	<b>-0.7%</b>	1.0%	-1.6%	-5.0%	12.0%	-1.5%
<b>Building Materials</b>	<b>0.0%</b>	-0.4%	-0.7%	-4.3%	10.7%	4.9%
<b>Gasoline</b>	<b>1.9%</b>	2.2%	-2.4%	7.1%	0.7%	9.6%

Source: Bureau of Census