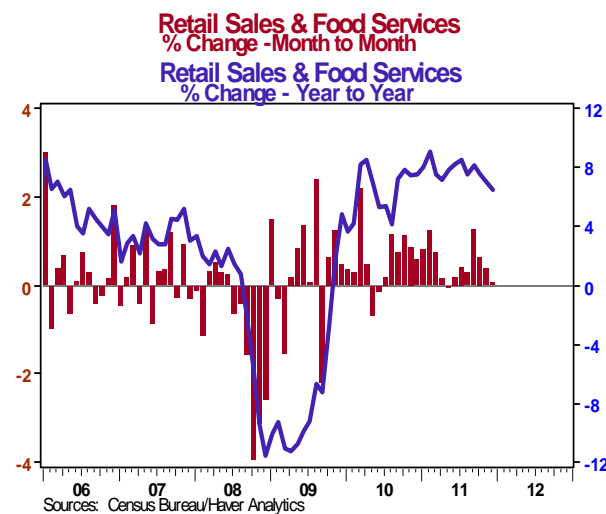


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## December Retail Sales

- Retail sales grew 0.1% in December (0.3% including upward revisions to October/November). The consensus expected an increase of 0.3%. Retail sales are up 6.5% versus a year ago.
- Sales excluding autos fell 0.2% in December (-0.1% including upward revisions to October/November). The consensus expected an increase of 0.3%. Retail sales ex-autos are up 6.0% in the past year.
- The increase in retail sales in December was led by autos and building materials. The biggest declines were for gas stations and general merchandise stores.
- Sales excluding autos, building materials, and gas declined 0.2% in December. But, these sales are up at a 5.3% annual rate in Q4 versus the Q3 average. This calculation is important for estimating real GDP.

**Implications:** Retail sales grew less than the consensus expected in December, but are still consistent with solid economic growth. Surprisingly, autos were the strongest part of sales, which signals less discounting in that sector in December than previous reports suggest, a bullish sign of consumer demand for big-ticket items. The other strong sector for sales in December was building materials, which may have been a function of unusually warm weather in much of the country. The largest drag on December sales was at gas stations, due to lower prices at the pump. Sales were also down at general merchandise stores and for electronics/appliances, which probably reflects steep discounting amid Christmas sales competition. Overall sales are up in 17 of the last 18 months. Sales declined ex-autos, but that's the first time in 19 months. This kind of consistent and continuous growth is very rare. Typically, retail sales have three or four negative months every year, even in good years. "Core" sales, which exclude autos, building materials, and gas, fell for the first time in 17 months, but "core" sales for Q4 were up at a 5.3% annual rate versus the Q3 average. In other recent retail news, chain store sales continue to look good, up 3.3% versus a year ago according to Redbook Research and up 2.8% according to International Council of Shopping Centers. Remember, these figures show *same-store* sales; *total* sales are up more than that. In other news this morning, initial claims for unemployment insurance increased 24,000 last week to 399,000. The four-week average is 382,000, which is much closer to the underlying trend. Continuing claims for regular state benefits rose 33,000 to 3.63 million. The economy is getting better, but it never does so in a straight line.



| <b>Retail Sales</b><br><i>All Data Seasonally Adjusted</i> | <b>Dec-11</b> | <b>Nov-11</b> | <b>Oct-11</b> | <b>3-mo % Ch.</b><br><i>annualized</i> | <b>6-mo % Ch.</b><br><i>annualized</i> | <b>Yr to Yr</b><br><b>% Change</b> |
|--|---------------|---------------|---------------|--|--|------------------------------------|
| <b>Retail Sales and Food Services</b>                      | <b>0.1%</b>   | 0.4%          | 0.7%          | 4.7%                                   | 6.5%                                   | 6.5%                               |
| <b>Ex Autos</b>  | <b>-0.2%</b>  | 0.3%          | 0.5%          | 2.4%                                   | 4.3%                                   | 6.0%                               |
| <b>Ex Autos and Building Materials</b>                     | <b>-0.4%</b>  | 0.4%          | 0.4%          | 1.8%                                   | 4.1%                                   | 5.9%                               |
| <b>Ex Autos, Building Materials and Gasoline</b>           | <b>-0.2%</b>  | 0.3%          | 0.5%          | 2.8%                                   | 4.5%                                   | 5.4%                               |
| <b>Autos</b>   | <b>1.5%</b>   | 0.9%          | 1.3%          | 15.8%                                  | 17.0%                                  | 8.8%                               |
| <b>Building Materials</b>                                  | <b>1.6%</b>   | -1.0%         | 1.4%          | 8.4%                                   | 6.3%                                   | 5.8%                               |
| <b>Gasoline</b>  | <b>-1.6%</b>  | 0.9%          | -0.3%         | -3.9%                                  | 2.1%                                   | 8.9%                               |

Source: Bureau of Census