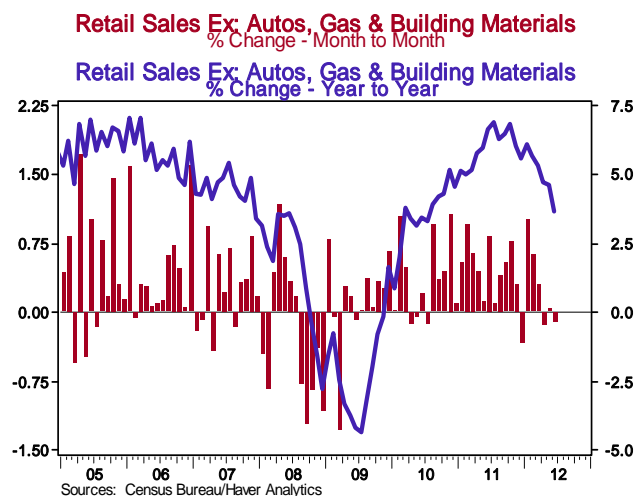
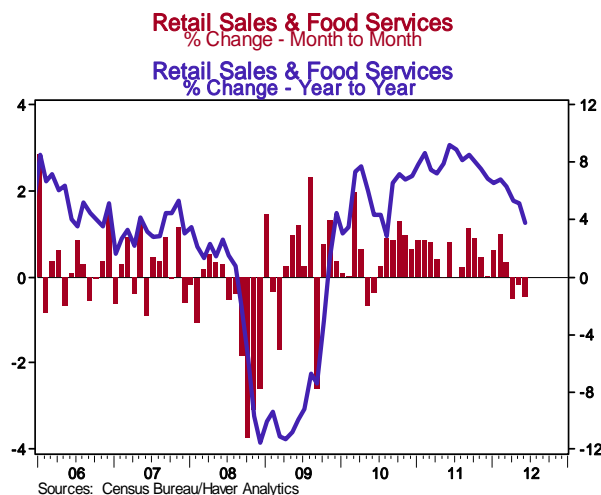


## June Retail Sales

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- Retail sales declined 0.5% in June, coming in below the consensus expected gain of 0.2%. Sales were down 0.8% including revisions for April/May. Retail sales are still up 3.8% versus a year ago.
- Sales excluding autos declined 0.4% in June versus a consensus expectation that they would be unchanged. Retail sales ex-autos are up 3.0% in the past year.
- The decline in retail sales in May was led by gas, autos, and building materials. The largest gain was non-store retailers (internet/mail-order).
- Sales excluding autos, building materials, and gas were down 0.1% in June (-0.3% including downward revisions for April/May). This calculation is important for estimating real GDP. These sales were up at a 1.1% annual rate in Q2 versus the Q1 average.

**Implications:** Retail sales slowed again in June, falling for the third month in a row. The leading cause of the decline in June was a steep drop in gas prices, which is not a cause for concern. Auto sales also declined, but this stands in contrast to industry figures on unit sales in June, which showed an increase of 2.3%. The underlying trend in auto sales has been upward and we expect the trend to reassert itself over the next few months. Building materials also dropped in June, but weakness over the past three months is a by-product of unusual strength this winter, when the weather was unusually mild. Given the turn in home building, purchases of building materials will be heading up soon. The biggest negative in today's report was that "core" sales, which exclude autos, building materials, and gas, were down slightly (-0.1%) for the second time in three months. However, these sales were still up at a 1.1% annual rate in Q2 versus the Q1 average. Factoring in consumer spending on services as well as inflation, we are forecasting that overall "real" (inflation-adjusted) consumer spending was up at a 1% - 1.5% annual rate in Q2. The retail sales report adds to the case that the economy grew at a slow pace in Q2, but it is not in another recession or about to fall into one. Bolstering the case for an acceleration in the second half, the Empire State index, which measures manufacturing activity in New York, increased to +7.4 in July from +4.0 in June. The index for employment rose to a very strong +18.5 from +12.4.



Retail Sales All Data Seasonally Adjusted	Jun-12	May-12	Apr-12	3-mo % Ch. annualized	6-mo % Ch. annualized	Yr to Yr % Change
<b>Retail Sales and Food Services</b>	-0.5%	-0.2%	-0.5%	-4.5%	1.8%	3.8%
<b>Ex Autos</b>	-0.4%	-0.4%	-0.6%	-5.5%	2.2%	3.0%
<b>Ex Autos and Building Materials</b>	-0.3%	-0.3%	-0.4%	-3.8%	3.0%	3.1%
<b>Ex Autos, Building Materials and Gasoline</b>	-0.1%	0.0%	-0.1%	-0.7%	3.6%	3.7%
<b>Autos</b>	-0.6%	0.8%	-0.2%	-0.2%	-0.2%	7.3%
<b>Building Materials</b>	-1.6%	-2.0%	-3.2%	-24.1%	-7.4%	0.6%
<b>Gasoline</b>	-1.8%	-2.0%	-1.7%	-19.9%	-0.8%	0.1%

Source: Bureau of Census