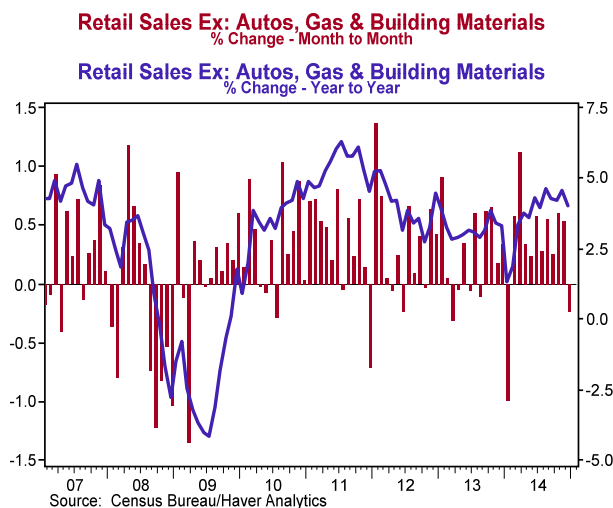
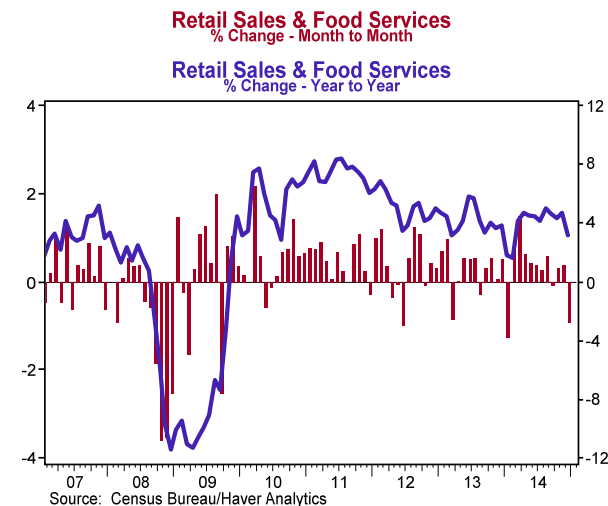


# December Retail Sales

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- Retail sales declined 0.9% in December, and were down 1.4% including revisions to prior months, coming in below the consensus expected dip of 0.1%. Sales are up 3.2% versus a year ago.
- Sales excluding autos declined 1.0% in December, and were down 1.5% including revisions to prior months. The consensus expected no change. These sales are up 1.9% in the past year.
- The drop in sales in December was led by gas stations, autos, building materials, and general merchandise stores. The strongest category was restaurants & bars.
- Sales excluding autos, building materials, and gas slipped 0.2% in December and, including revisions to prior months, declined 0.3%. Still, these sales increased at a 5.2% annual rate in Q4 versus the Q3 average.

**Implications:** Retail sales missed big in December, down 0.9%, but we don't think this is the end for the consumer. The drop in December is likely due to three factors, all of which are temporary. First, gas prices plunged, so sales at gas stations fell 6.5%, the largest drop for any month since the Panic of 2008. Second, aggressive sales in November pulled some retail spending into the earlier part of the Christmas-shopping period. And third, "core" sales, which exclude autos, building materials and gas, slipped 0.2%. That's only the second decline in all of 2014, which we chalk up to normal monthly volatility. Regardless of how it affects top-line retail sales, the drop in gas prices is good news. Every one cent decline in the price of gas saves consumers about \$3.7 million a day (so, today, consumers are saving more than \$575 million a day versus 6 months ago). Shoppers are now able to take that money and shift their purchases elsewhere, although they might not spend all of it immediately. In the meantime, "core" sales, which are a key input into GDP calculations, were up at a solid 5.2% annual rate in Q4 versus Q3 and it now looks like real GDP grew at a 3 – 3.5% annual rate in Q4. However, with December sales down, first quarter spending is starting off on a weaker footing, meaning a Plow Horse start to GDP in 2015. Nonetheless, we expect roughly 3 million more jobs in 2015 and wage gains to go along with them. In other news this morning, on the inflation front, still no sign of a problem in the trade sector, especially given the strength in the US dollar. Import prices fell 2.5% in December, but were up 0.1% excluding petroleum. Export prices fell 1.2% in December, both including and excluding agriculture. In the past year, import prices are down 5.5% while export prices are down 3.2%. This environment of expanding consumption, low inflation and new innovation is still a great one for equities. Don't let the bearish forecasters scare you.



<b>Retail Sales</b> <i>All Data Seasonally Adjusted</i>	<b>Dec-14</b>	<b>Nov-14</b>	<b>Oct-14</b>	<b>3-mo % Ch.</b> <i>annualized</i>	<b>6-mo % Ch.</b> <i>annualized</i>	<b>Yr to Yr</b> <i>% Change</i>
<b>Retail Sales and Food Services</b>	<b>-0.9%</b>	0.4%	0.3%	-0.8%	1.2%	3.2%
<b>Ex Autos</b>	<b>-1.0%</b>	0.1%	0.2%	-2.6%	-0.2%	1.9%
<b>Ex Autos and Building Materials</b>	<b>-1.0%</b>	0.1%	0.2%	-2.8%	-0.2%	1.4%
<b>Ex Autos, Building Materials and Gasoline</b>	<b>-0.2%</b>	0.5%	0.6%	3.8%	4.2%	4.0%
<b>Autos</b>	<b>-0.7%</b>	1.6%	0.7%	6.6%	6.9%	8.6%
<b>Building Materials</b>	<b>-1.9%</b>	1.6%	0.1%	-1.0%	-1.5%	5.2%
<b>Gasoline</b>	<b>-6.5%</b>	-3.0%	-2.2%	-38.4%	-25.2%	-14.2%

Source: Bureau of Census