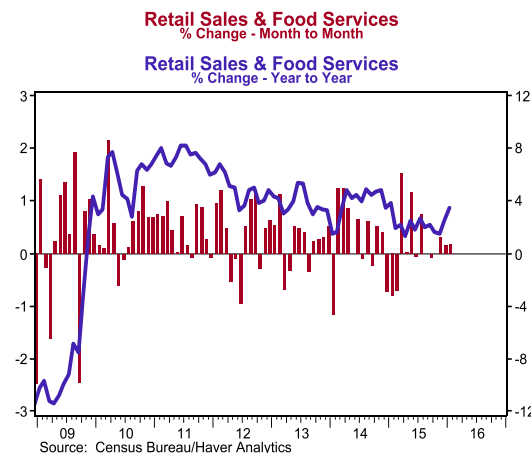


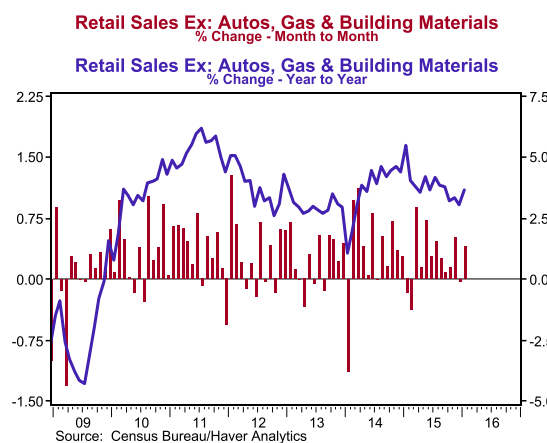
January Retail Sales

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- Retail sales increased 0.2% in January, beating the consensus expected 0.1% gain. Including revisions to prior months, sales rose 0.4%. Retail sales are up 3.4% versus a year ago.
- Sales excluding autos increased 0.1% in January (+0.2% including revisions to prior months), beating consensus expectations of no change. These sales are up 2.5% in the past year. Excluding both autos and gas, sales are up 3.8% versus a year ago.
- The gain in sales in January was led by non-store retailers (internet and mail orders), autos, and general merchandise stores (department stores). The biggest decline, by far, was for gas stations.
- Sales excluding autos, building materials, and gas rose 0.4% in January and, including revisions to prior months, increased 0.5%. If unchanged in February/March, these sales will be up at a 2.3% annual rate in Q1 versus the Q4 average.



Implications: Despite all of the market negativity and fear of recession, actual hard data on the economy keep telling a different story. Retail sales rose 0.2% in January, beating consensus expectations and were up 0.4% including revisions to prior months. This is the third consecutive month of gains, which is particularly impressive considering gas station sales plummeted 3.1% in January, due to lower prices at the pump. Excluding gas stations, retail sales have risen seven months in a row and are up 4.5% from a year ago. Weakness at gas stations isn't a bad thing. Lower gas prices give consumers more money in their pockets, which, in spite of a narrative to the contrary, they are spending. Overall retail sales are up a 3.4% from a year ago. "Core" sales, which exclude autos, building materials, and gas stations (the most volatile sectors) rose 0.4% in January, were revised up for previous months, and are up 3.6% from a year ago. Plugging these data into our GDP models suggests real (inflation adjusted) consumer spending will be up at a 2.0 - 2.5% annual rate in Q1. We still expect roughly 2.5 million more jobs in 2016 and wage gains are starting to accelerate, which will translate into further spending growth in the year ahead. In other words, the economy remains a Plow Horse, not a horse destined for the glue factory, like the fear mongers claim. In other positive news, yesterday it was reported that new claims for unemployment insurance declined 16,000 last week to 269,000, the 49th consecutive week under 300,000. Continuing claims declined 21,000 to 2.239 million. It's early, but plugging these figures into our models suggests February payroll gains north of 200,000. In other news today, import prices declined 1.1% in January and are down 6.2% from a year ago. The drop is mostly from petroleum, but not all of it; import prices are down 3.1% from a year ago even excluding petroleum. Export prices declined 0.8% in January and are down 5.7% from a year ago. In other words, trade prices are not showing any sign of inflation. The last piece of economic news today was a 0.1% gain in business inventories in December. We're now tracking an annualized real GDP growth rate of 0.4% in Q4, a slight downward revision from the original report of 0.7%, but we expect growth to accelerate in the 1st quarter.



Retail Sales <i>All Data Seasonally Adjusted</i>	Jan-16	Dec-15	Nov-15	3-mo % Ch. <i>annualized</i>	6-mo % Ch. <i>annualized</i>	Yr to Yr <i>% Change</i>
Retail Sales and Food Services	0.2%	0.2%	0.3%	2.7%	1.3%	3.4%
Ex Autos	0.1%	0.1%	0.3%	1.5%	-0.1%	2.5%
Ex Autos and Building Materials	0.1%	-0.1%	0.3%	1.0%	-0.4%	2.4%
Ex Autos, Building Materials and Gasoline	0.4%	0.0%	0.5%	3.7%	2.9%	3.6%
Autos	0.6%	0.5%	0.6%	7.2%	6.6%	6.9%
Building Materials	0.6%	1.4%	0.6%	11.0%	4.0%	5.0%
Gasoline	-3.1%	-0.5%	-2.0%	-20.2%	-24.3%	-8.1%

Source: Bureau of Census