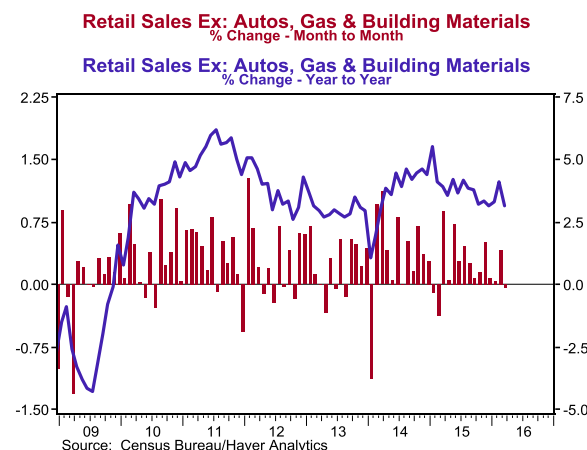
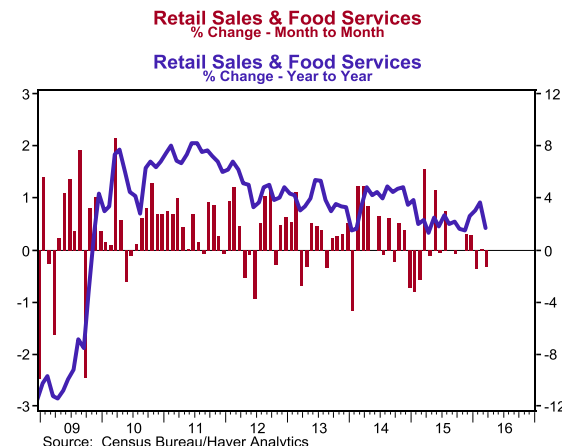


March Retail Sales

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- Retail sales declined 0.3% in March. Including revisions to prior months, sales slipped 0.1%. The consensus expected a gain of 0.1%. Retail sales are up 1.7% versus a year ago.
- Sales excluding autos increased 0.2% in March (+0.5% including revisions to prior months). The consensus expected a gain of 0.4%. These sales are up 1.8% in the past year. Excluding both autos and gas, sales are up 3.8% versus a year ago.
- The drop in sales in March was led by autos and restaurants & bars. The biggest gain was for building materials.
- Sales excluding autos, building materials, and gas were unchanged in March (+0.4% including revisions to prior months). These sales were up at a 2.3% annual rate in Q1 versus the Q4 average.

Implications: Although retail sales were down 0.3% in March, the overall report was better than the headline. The softness in March was primarily due to autos, which are volatile from month to month. We think the drop in motor vehicle sales is temporary and autos will bounce back in the months to come. Auto sales had their best year ever last year and we believe 2016 will be another record-breaking year. In fact, auto sales in the first quarter were still up 4.6% from a year ago. Excluding auto sales, retail sales were up 0.2% in March and up 0.5% including upward revisions to prior months. Nine of the thirteen major categories of sales showed gains in March, with building materials leading the way. “Core” sales, which exclude autos, building materials, and gas, were flat in March itself but up 0.4% including revisions to prior months. Core sales are up 3.2% from a year ago, which is a respectable pace considering that consumer prices are up only about 1% from last year. Look for better growth in consumer spending in the months ahead. Job growth is trending north of 200,000 per month while wage growth is starting to accelerate and consumer debt service obligations remain low by historical standards. In other news this morning, business inventories declined 0.1% in February. Plugging all these data into our models suggests real (inflation adjusted) consumer spending rose at a 1.5 – 2.0% annual rate in Q1 while real GDP was roughly unchanged to perhaps up slightly from Q4. This is not the start of a recession. The government continues to have problems seasonally adjusting the data and so, once again, Q1 looks artificially slow. But the economy remains a Plow Horse overall and we expect a rebound in growth later this year.



Retail Sales <i>All Data Seasonally Adjusted</i>	Mar-16	Feb-16	Jan-16	3-mo % Ch. <i>annualized</i>	6-mo % Ch. <i>annualized</i>	Yr to Yr <i>% Change</i>
Retail Sales and Food Services	-0.3%	0.0%	-0.4%	-2.5%	0.0%	1.7%
Ex Autos	0.2%	0.0%	-0.3%	-0.5%	1.2%	1.8%
Ex Autos and Building Materials	0.1%	-0.1%	-0.3%	-1.4%	-0.2%	1.1%
Ex Autos, Building Materials and Gasoline	0.0%	0.4%	0.1%	1.8%	2.4%	3.2%
Autos	-2.1%	0.0%	-0.5%	-9.8%	-4.4%	1.4%
Building Materials	1.4%	1.4%	-0.4%	10.0%	19.2%	10.8%
Gasoline	0.9%	-5.4%	-3.0%	-26.5%	-21.4%	-15.6%

Source: Bureau of Census