

May Retail Sales

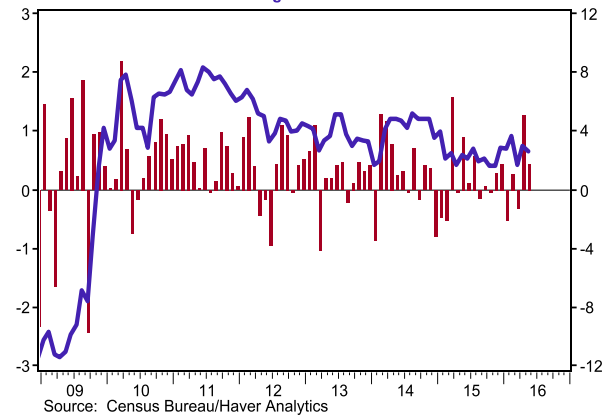
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- Retail sales increased 0.5% in May, beating the consensus expected gain of 0.3%. Retail sales are up 2.5% versus a year ago.
- Sales excluding autos increased 0.4% in May (+0.5% including revisions to prior months), matching consensus expectations. These sales are up 2.7% in the past year. Excluding both autos and gas, sales are up 4.0% versus a year ago.
- The increase in sales in May was led by gas stations, non-store retailers (internet and mail orders), and restaurants. The biggest decline was for building materials.
- Sales excluding autos, building materials, and gas rose 0.5% in May (+0.7% including revisions to prior months). If unchanged in June, these sales will be up at a 6.2% annual rate in Q2 versus the Q1 average.

Implications: It is likely too late to change the Fed’s mind in favor of a rate hike as they begin their June meeting today, but a second consecutive month of above-trend retail sales suggest a rebound in real GDP growth. Autos helped lead the rise, up 0.5% in May after April’s 3.1% gain, but even ex-autos retail sales rose up 0.4%. These sales are accelerating, up 7% annualized over the past three months versus 4.1% annualized in the past six months and 2.7% from a year ago. The largest gain in May was for gasoline stations, rising 2.1% in May and up at a 39% annualized rate in the past three months. Still even with the gain in May, sales at gas stations are down 9.5% from a year ago. Non-store retail sales rose 1.3% in May and are up 12.2% in the past year. So when you hear about old-line brick-and-mortar department stores doing poorly, this explains why. “Core” sales, which exclude autos, building materials, and gas, rose 0.5% in May and were up 0.7% including revisions to prior months. Core sales are up a very respectable 4.0% from a year ago, which is a healthy pace considering consumer prices are up only about 1%. Look for better growth in consumer spending in the months ahead. Employment continues to expand, while wage growth is accelerating. In other recent news, new claims for unemployment benefits declined 4,000 to 264,000 while continuing claims fell 77,000 to 2.1 million. Plugging these figures into our models suggests June will show a substantial rebound from May’s modest report. On the inflation front, import prices rose 1.4% in May but remain down 5.0% from a year ago. The drop is mostly from petroleum, but not all of it; import prices are down 1.9% from a year ago even excluding petroleum. Export prices rose 1.1% in May but remain down 4.5% from a year ago. Given the recent above-trend growth in the M2 measure of the money supply, look for these measures of inflation to move higher in the next year.

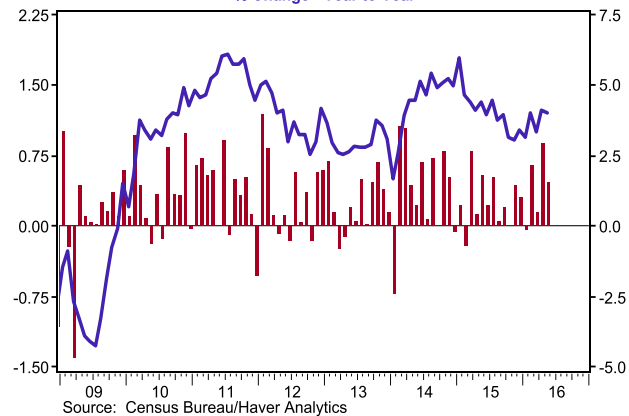
Retail Sales & Food Services
% Change - Month to Month

Retail Sales & Food Services
% Change - Year to Year



Retail Sales Ex: Autos, Gas & Building Materials
% Change - Month to Month

Retail Sales Ex: Autos, Gas & Building Materials
% Change - Year to Year



Retail Sales <i>All Data Seasonally Adjusted</i>	May-16	Apr-16	Mar-16	3-mo % Ch. <i>annualized</i>	6-mo % Ch. <i>annualized</i>	Yr to Yr <i>% Change</i>
Retail Sales and Food Services	0.5%	1.3%	-0.3%	5.8%	3.2%	2.5%
Ex Autos	0.4%	0.8%	0.4%	7.0%	4.1%	2.7%
Ex Autos and Building Materials	0.6%	1.0%	0.5%	9.0%	4.4%	2.5%
Ex Autos, Building Materials and Gasoline	0.5%	0.9%	0.2%	6.2%	5.0%	4.0%
Autos	0.5%	3.1%	-3.1%	1.3%	0.1%	2.1%
Building Materials	-1.8%	-2.0%	-0.5%	-16.0%	-1.4%	3.6%
Gasoline	2.1%	2.5%	3.7%	39.0%	-1.2%	-9.5%

Source: Bureau of Census