

DECEMBER RETAIL SALES

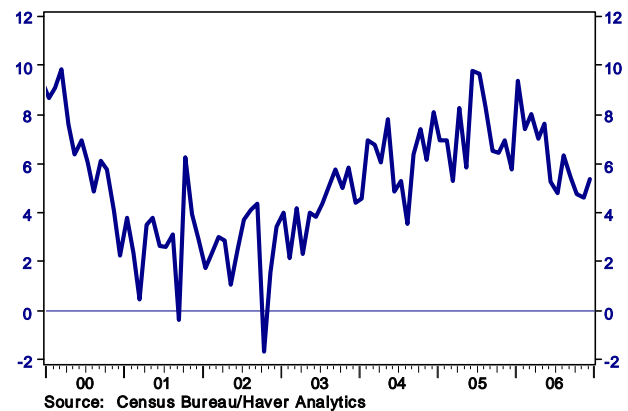
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- December retail sales were strong, rising 0.9% versus a consensus expected 0.7%. Retail sales are up 5.4% versus December 2005.
- Most of the increase in December sales was due to strength in sales at gas stations, restaurants, and bars. Gas station sales increased 3.8% in December.
- Electronics and appliance sales were also very strong (think flat screen TVs), up 3% in December after a 5.8% gain in November.
- Excluding autos, sales were up 1.0% in December. Excluding autos, building materials, and gas, sales were up 0.9%.

Implications: Almost every piece of recent economic data – employment, unemployment claims, car and truck production, construction, and the ISM indexes for both manufacturing and services – has come in above expectations. Today’s report on retail sales is no different. The economy ended 2006 with a full head off steam. Weakness in housing has not filtered through to the rest of the economy. Retail sales, excluding autos and building materials, are a direct feed into GDP data (auto sales data come from another source and building materials are counted as investment). With these sales up 1.3% in December after a revised 0.9% gain in November, real consumption growth likely increased about 4.5% at an annual rate in the fourth quarter. Our forecast for fourth quarter real GDP growth is now 3.5%, a significant improvement from the second and third quarter average growth rate of 2.4%. At this rate of growth the Fed is going to get increasingly uncomfortable with market expectations of its next move being a rate cut rather than a rate hike.

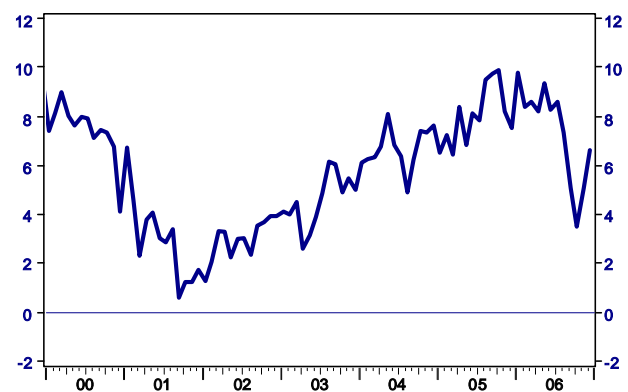
Retail Sales & Food Services

% Change - Year to Year SA, Mil.\$



Retail Sales and Food Services EX: Autos and Building Materials

% Change - Year to Year millions



Retail Sales <i>All Data Seasonally Adjusted</i>	Dec-06	Nov-06	Oct-06	3-mo % Ch. <i>annualized</i>	6-mo % Ch. <i>annualized</i>	Yr to Yr <i>% Change</i>
Retail Sales and Food Services	0.9%	0.6%	-0.2%	5.1%	4.1%	5.4%
Ex Autos	1.0%	0.7%	-0.5%	5.3%	2.2%	5.8%
Ex Autos and Building Materials	1.3%	0.9%	-0.4%	7.1%	3.4%	6.6%
Ex Autos, Building Materials and Gasoline	0.9%	0.6%	0.2%	7.0%	6.7%	7.1%
Autos	0.3%	0.0%	0.8%	4.0%	12.0%	3.6%
Building Materials	-1.1%	-0.5%	-0.9%	-9.5%	-8.0%	-0.8%
Gasoline	3.8%	2.9%	-4.5%	8.2%	-15.0%	3.4%

Source: Bureau of Census