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October Retail Sales

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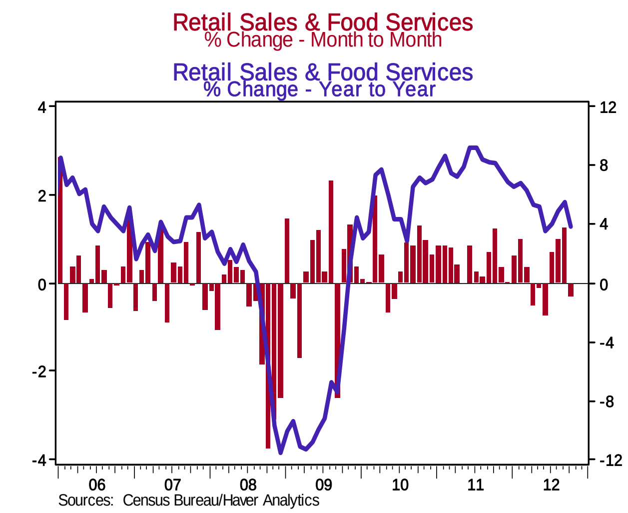
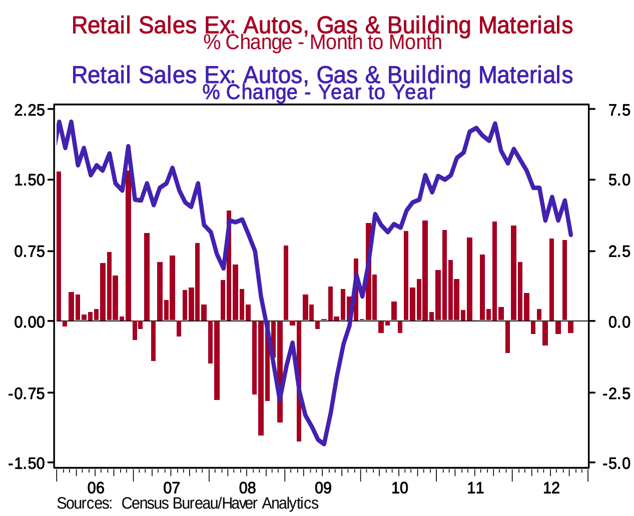
- Retail sales declined 0.3% in October, close to the consensus expected -0.2%. Sales were also -0.3% including revisions for August/September. Retail sales are up 3.8% versus a year ago.
- Sales excluding autos were unchanged in October and down 0.2% including revisions to August/September. The consensus expected an increase of 0.2%. Sales ex-autos are up 3.6% in the past year.
- The overall drop in sales in October was led by autos. Non-store retailers (internet and mail-order) as well as building materials, also declined. The largest gains in sales were for gas and groceries.
- Sales excluding autos, building materials, and gas were down 0.1% in October (-0.3% including revisions to August/September). These sales are important for estimating real GDP and, if unchanged in November/December, would be up at a 1.6% annual rate in Q4 versus the Q3 average.





Implications: Hurricane Sandy dominated today's retail sales data. With the hurricane approaching and hitting the eastern seaboard in late October, we would expect consumers in that region to hold off on big-ticket purchases like autos and furniture and load up on groceries and gas before the storm. That's exactly what happened, with autos down 1.5% and furniture down 0.8%. In addition, builders pushed back home projects, with building materials down 1.9%, and sales by non-store retailers (internet/mail-order) fell 1.8%, which may have been a function of power outages. Meanwhile, just as suspected, gas sales were up 1.4% and groceries up 0.8%. The hurricane will continue to influence the data over the next few months. Continued power outages – some places on Long Island will be without power until early December – a lack of transportation, and gas shortages may suppress November sales as well. However, the months that follow should show a surge in sales due to both pent-up demand and the need to replace ruined vehicles and furniture. In other words, don't take October data as a sign of a new more negative trend in the economy. The plow horse economy is still intact. Jobs, hours, and wages are trending upward and generating more purchasing power for consumers. Meanwhile, households have the lowest financial obligations ratio since the early 1980s. (The share of after-tax income needed to make recurring monthly payments, such as mortgages, rent, car loans/leases, as well as debt service on credit cards, student loans and other lending arrangements.) In addition to retail sales, the Census Bureau also released figures on inventories this morning. They came in above what the government assumed when making its first estimate of Q3 real GDP growth. As a result, we now believe Q3 real GDP growth was 2.9% versus an initial report late last month of 2%.

Retail Sales *All Data Seasonally Adjusted*	Oct-12	Sep-12	Aug-12	3-mo % Ch. annualized	6-mo % Ch. annualized	Yr to Yr % Change
Retail Sales and Food Services	**-0.3%**	1.3%	1.0%	8.2%	3.7%	3.8%
Ex Autos	**0.0%**	1.2%	0.8%	8.1%	3.4%	3.6%
Ex Autos and Building Materials	**0.1%**	1.1%	0.7%	8.0%	3.7%	3.7%
Ex Autos, Building Materials and Gasoline	**-0.1%**	0.9%	-0.1%	2.5%	2.8%	3.1%
Autos	**-1.5%**	1.7%	1.8%	8.5%	5.2%	5.0%
Building Materials	**-1.9%**	2.1%	1.6%	7.2%	-1.7%	0.7%
Gasoline	**1.4%**	2.5%	6.0%	47.7%	9.4%	7.7%

Source: Bureau of Census