

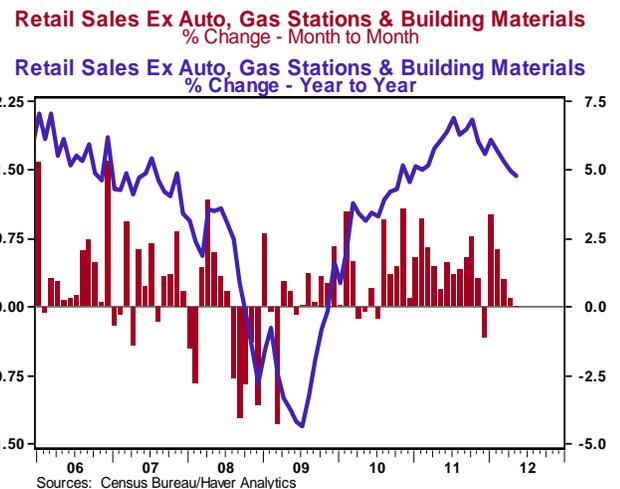
## May Retail Sales

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- Retail sales declined 0.2% in May, matching consensus expectations, but were down 0.8% including downward revisions for March/April. Retail sales are up 5.3% versus a year ago.
- Sales excluding autos declined 0.4% in May versus a consensus expectation that they would be unchanged. Retail sales ex-autos are up 4.3% in the past year.
- The decline in retail sales in May was led by gas and building materials. The largest gains were for autos and non-store retailers (internet/mail-order).
- Sales excluding autos, building materials, and gas were unchanged in May (-0.4% including downward revisions for March/April). This calculation is important for estimating real GDP. Even if these sales are unchanged again in June, they will be up at a 2.1% annual rate in Q2 versus the Q1 average.



**Implications:** Retail sales were relatively soft in May, but do not signal a broader economic slowdown. Given the financial problems in Europe, some downbeat analysts are eager to fit every negative piece of news about the US economy into that framework. Instead, we think the tepid sales reports of the last couple of months are caused by much more mundane factors. The leading cause of the decline in May was a steep drop in gas prices. Excluding sales at gas stations, retail sales rose 0.1%. The second weakest category of sales in May was building materials, which fell 1.7%. This past winter was unusually mild. As a result, home construction (on a seasonally-adjusted basis) picked up quickly during that period and so did retail sales related to that construction. Now, those kinds of sales are reverting toward the underlying trend, which is still up 5.3% from a year ago. In addition, a combination of the mild winter, which made it easy to shop, and the earliest Easter in the past few years, may be skewing the seasonal adjustment factors in the Spring, making sales look good through March and worse – temporarily – in April/May. Regardless, “core” sales, which exclude autos, building materials, and gas, were essentially unchanged in May (+0.02%) and have only dropped once in the past twenty-two months, a remarkably consistent record of sales gains. Even if these sales are unchanged in June, they will be up at a 2.1% annual rate in Q2 versus the Q1 average, which is also what we are estimating for the growth of “real” (inflation-adjusted) personal consumption in Q2 (including goods and services). Don’t be fooled by statistical noise. The US economy continues to grow.



Retail Sales <i>All Data Seasonally Adjusted</i>	May-12	Apr-12	Mar-12	3-mo % Ch. <i>annualized</i>	6-mo % Ch. <i>annualized</i>	Yr to Yr <i>% Change</i>
<b>Retail Sales and Food Services</b>	-0.2%	-0.2%	0.4%	-0.1%	3.4%	5.3%
<b>Ex Autos</b>	-0.4%	-0.3%	0.5%	-0.8%	3.0%	4.3%
<b>Ex Autos and Building Materials</b>	-0.3%	-0.1%	0.3%	-0.4%	2.8%	4.1%
<b>Ex Autos, Building Materials and Gasoline</b>	0.0%	0.1%	0.3%	1.7%	3.6%	4.8%
<b>Autos</b>	0.8%	0.1%	-0.1%	3.0%	5.2%	10.0%
<b>Building Materials</b>	-1.7%	-2.3%	1.6%	-9.4%	3.3%	5.3%
<b>Gasoline</b>	-2.2%	-1.4%	0.4%	-11.8%	-1.3%	0.6%

Source: Bureau of Census