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December Retail Sales

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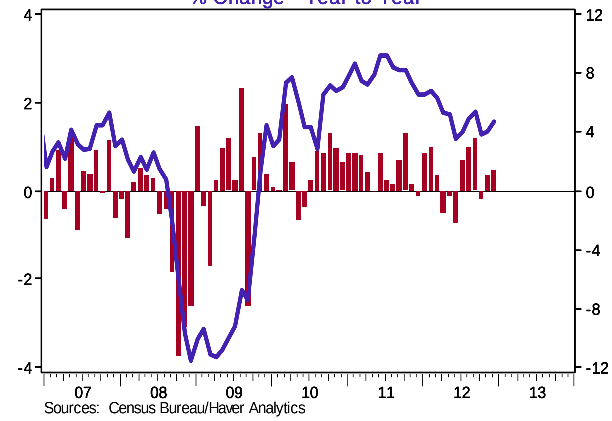
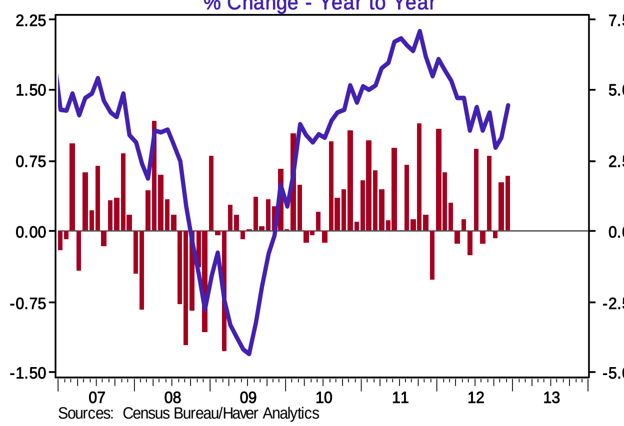
- Retail sales increased 0.5% in December, beating the consensus expected 0.2%. Sales were up 0.8% including revisions for October/November. Retail sales are up 4.7% versus a year ago.
- Sales excluding autos were up 0.3% in December (0.2% including revisions for October/November), versus a consensus expected 0.2%. Sales ex-autos are up 4.1% in the past year.
- The gain in sales in December was led by autos and restaurants/bars. The largest decline was for gas, a function of lower gas prices.
- Sales excluding autos, building materials, and gas were up 0.6% in December (0.5% including revisions to October/November). These sales are important for estimating real GDP and were up at a 4% annual rate in Q4 versus the Q3 average.





Implications: Consumers finished 2012 like they spent most of the rest of the year, with neither a bang nor a whimper. Instead, it was more plow horse growth. Retail sales beat consensus expectations in December, with auto sales up 1.6% for the month and up 7.6% for the year. Part of the sales growth for autos probably reflects the aftermath of Superstorm Sandy, with consumers buying replacement vehicles on the East Coast. But even excluding autos, sales were up 0.3% in December and up 4.1% in 2012. "Core" sales, which exclude autos, building materials, and gas, were up 0.6% in December and 4.5% in 2012. Given today's data on sales and inventories, it looks like real GDP grew at about a 1% annual rate in Q4. For 2013, we expect two themes to play out: first, a modest acceleration in consumer spending growth despite the recent increase in taxes; second, a transition away from growth in auto sales and toward other areas, like furniture, appliances, and building materials. Consumer spending should accelerate in 2013 because of continued growth in jobs, hours, and wages. In addition, households have the lowest financial obligations ratio since the early 1980s. (That's the share of after-tax income they need 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 the first 3½ years of this economic recovery, growth in auto sales has consistently outstripped overall growth in consumer spending. However, auto sales are now approaching a norm of about 15.5 million per year based on "scrappage" and the growth in the driving-age population. As a result, auto sales should grow in 2013, but not as fast. Meanwhile, the upturn in home construction in the past 18+ months means more rooms for appliances, electronics, and furniture.

Retail Sales *All Data Seasonally Adjusted*	Dec-12	Nov-12	Oct-12	3-mo % Ch. *annualized*	6-mo % Ch. *annualized*	Yr to Yr *% Change*
Retail Sales and Food Services	**0.5%**	0.4%	-0.2%	2.9%	7.7%	4.7%
Ex Autos	**0.3%**	-0.1%	0.2%	1.1%	6.3%	4.1%
Ex Autos and Building Materials	**0.3%**	-0.2%	0.3%	1.3%	5.8%	4.1%
Ex Autos, Building Materials and Gasoline	**0.6%**	0.5%	-0.1%	4.3%	5.3%	4.5%
Autos	**1.6%**	2.7%	-1.6%	11.2%	13.8%	7.6%
Building Materials	**0.0%**	0.8%	-1.4%	-2.2%	11.4%	2.0%
Gasoline	**-1.6%**	-4.5%	2.3%	-14.7%	8.7%	2.0%

Source: Bureau of Census