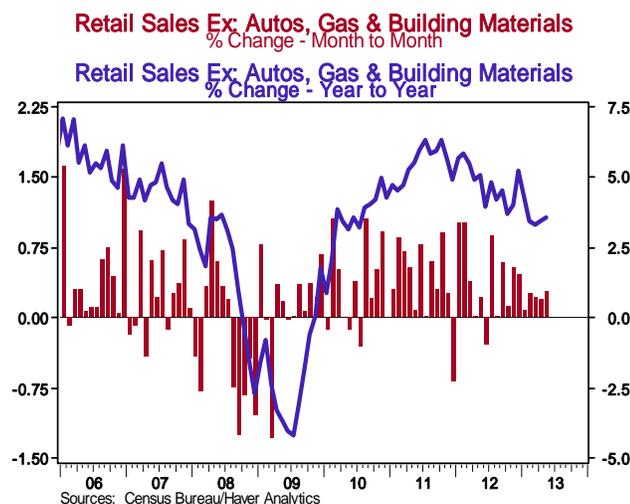
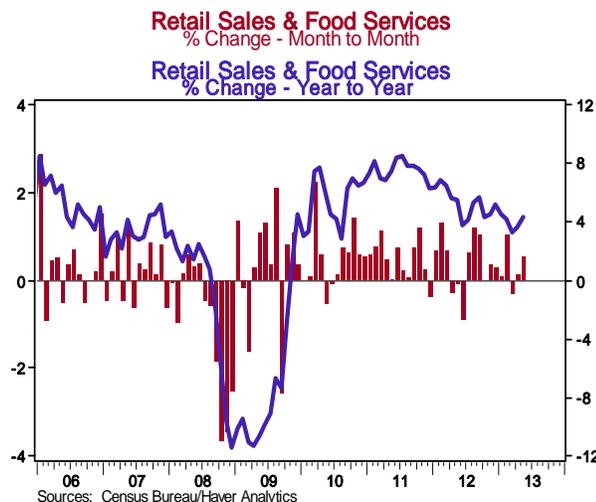


May Retail Sales

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- Retail sales increased 0.6% in May, coming in above the consensus expected gain of 0.4%. Sales are up 4.3% versus a year ago.
- Sales excluding autos rose 0.3% in May, matching consensus expectations. These sales were up 0.6% including revisions to prior months and are up 3.4% in the past year.
- The increase in sales in May was led by autos and grocery stores. There were no major gains or losses in other categories.
- Sales excluding autos, building materials, and gas rose 0.3% in May but were up 0.6% including revisions to prior months. Even if unchanged in June, these sales will be up at a 2.6% annual rate in Q2 versus the Q1 average.

Implications: So much for the theory that the federal spending sequester or end of the payroll tax cut was going to kill the consumer. Sales were up 0.6% in May and are up at a 3.8% annual rate since the beginning of the year. With consumer prices up at an annual rate of only about 0.6% since the start of the year, “real” (inflation-adjusted) sales are up at more than a 3% annual rate. “Core” sales, which exclude autos, building materials, and gas, rose 0.3% in May and 0.6% including upward revisions to prior months. Other analysts, who had been forecasting roughly 1.5% real GDP growth in Q2 are reacting to this report by marking up their forecasts; we’re holding steady where we’ve been all along, at 2.5%. Nonetheless, this growth is nothing to write home about – it’s still Plow Horse growth – but much better than many analysts were projecting at the beginning of the year. For the rest of 2013, we still expect two major themes to play out for the consumer: first, an acceleration in consumer spending growth versus the past couple of years despite higher taxes and the sequester; second, a transition away from growth in auto sales and toward other areas, like furniture, appliances, and building materials. Consumer spending should accelerate because of continued growth in jobs, hours, and wages. In addition, households have the lowest financial obligations ratio (debt service plus other recurring monthly payments) since 1981. In other news this morning, new claims for unemployment insurance declined 12,000 last week to 334,000. Continuing claims ticked up 2,000 to 2.97 million. Plugging these figures into our employment models suggests a solid nonfarm payroll gain of 185,000 in June. On the inflation front, no sign that loose monetary policy is having an effect yet on trade prices. Import and export prices fell in May, both for overall and core measures and are also down from a year ago. An easy Fed will eventually generate higher inflation figures, but those numbers certainly aren’t here yet.



Retail Sales <i>All Data Seasonally Adjusted</i>	May-13	Apr-13	Mar-13	3-mo % Ch. <i>annualized</i>	6-mo % Ch. <i>annualized</i>	Yr to Yr <i>% Change</i>
Retail Sales and Food Services	0.6%	0.1%	-0.3%	1.6%	3.8%	4.3%
Ex Autos	0.3%	0.0%	-0.3%	0.0%	2.6%	3.4%
Ex Autos and Building Materials	0.2%	-0.3%	-0.3%	-1.3%	1.9%	2.8%
Ex Autos, Building Materials and Gasoline	0.3%	0.2%	0.2%	2.9%	3.2%	3.5%
Autos	1.8%	0.7%	-0.4%	8.6%	8.9%	8.5%
Building Materials	0.9%	3.6%	-0.8%	15.7%	11.6%	10.1%
Gasoline	-0.2%	-3.1%	-3.1%	-22.9%	-5.5%	-1.6%

Source: Bureau of Census