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December Retail Sales

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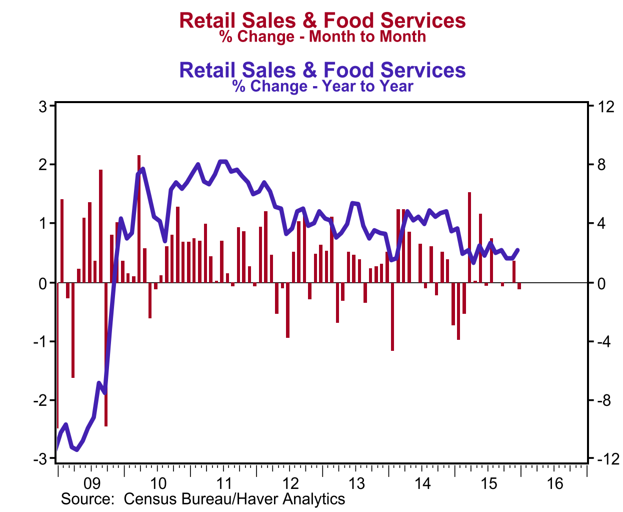
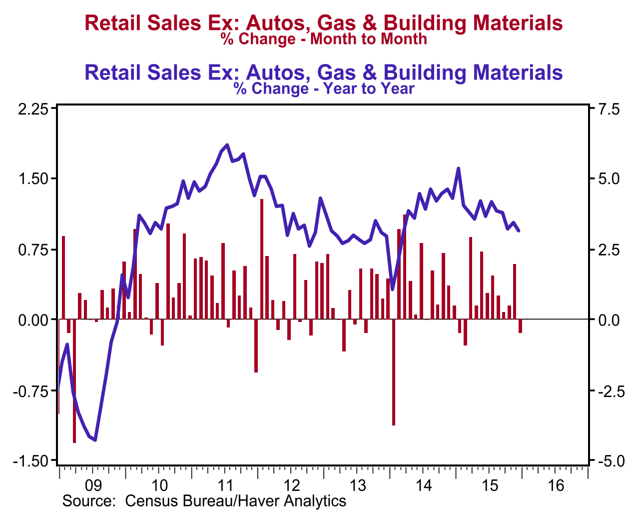
- Retail sales declined 0.1% in December, matching consensus expectations. Including revisions to prior months, sales were unchanged. Retail sales are up 2.2% versus a year ago.
- Sales excluding autos declined 0.1% in December (-0.3% including revisions to prior months). The consensus expected a gain of 0.2%. These sales are up 1.2% in the past year. Excluding both autos and gas, sales are up 3.2% versus a year ago.
- The decline in sales in December was led by general merchandise stores (department stores) and gas stations. The biggest gain was for restaurants and bars.
- Sales excluding autos, building materials, and gas slipped 0.1% in December. These sales were up at a 2.6% annual rate in Q4 versus the Q3 average.





Implications: Today's soft report on retail sales in December does not spell doom for the US economy. The 0.1% slippage in retail sales matched consensus expectations and sales were revised up for November. The decline in retail sales in December itself was led by general merchandise stores (department stores) and gas station sales. We are not particularly concerned about either. Although the drop in department store sales hurt companies like Macy's and Kohl's, consumers are shifting their purchases to the internet and we think sales at non-store retailers (internet and mail-order), which were reported up a moderate 0.3% in December, will be revised much higher. Meanwhile, declining sales at gas stations are largely a function of lower gas prices, which gives consumers more money to spend on other items. Gas station sales are down a whopping 14.6% from a year ago. So far, it looks like restaurants and bars have been getting some of that extra spending money, up 0.8% in December and 6.7% from a year ago. We expect other sectors to benefit in the year ahead. Overall retail sales are up a Plow Horse 2.2% from a year ago, but a much stronger 3.9% excluding gas. "Core" sales, which exclude autos, building materials, and gas stations (the most volatile sectors) were down 0.1% in December, but are up 3.1% from a year ago. Plugging today's report into our models suggests "real" (inflation-adjusted) consumer spending, on goods and services combined, will be up at a 1.5 - 2.0% annual rate in Q4 while real GDP grows at around a 1.0% rate. Slower inventory growth will hold down overall real GDP growth in Q4. In other words, the economy remains a Plow Horse. Yesterday it was reported that new claims for unemployment insurance rose 7,000 last week to 284,000. Continuing claims increased 29,000 to 2.263 million. Plugging these numbers into our models suggests payroll growth of roughly 190,000 in January, enough to keep the Fed on tracking for another rate hike in March.

Retail Sales *All Data Seasonally Adjusted*	**Dec-15**	**Nov-15**	**Oct-15**	**3-mo % Ch.** ***annualized***	**6-mo % Ch.** ***annualized***	**Yr to Yr** ***% Change***
Retail Sales and Food Services	**-0.1%**	0.4%	0.0%	1.1%	2.0%	2.2%
Ex Autos	**-0.1%**	0.3%	0.1%	1.2%	0.6%	1.2%
Ex Autos and Building Materials	**-0.2%**	0.4%	0.0%	0.7%	0.0%	1.0%
Ex Autos, Building Materials and Gasoline	**-0.1%**	0.6%	0.1%	2.5%	2.9%	3.1%
Autos	**0.0%**	0.5%	-0.3%	0.9%	7.1%	6.1%
Building Materials	**0.7%**	0.1%	1.0%	7.5%	7.8%	4.2%
Gasoline	**-1.1%**	-1.3%	-1.1%	-13.3%	-20.8%	-14.6%

Source: Bureau of Census