

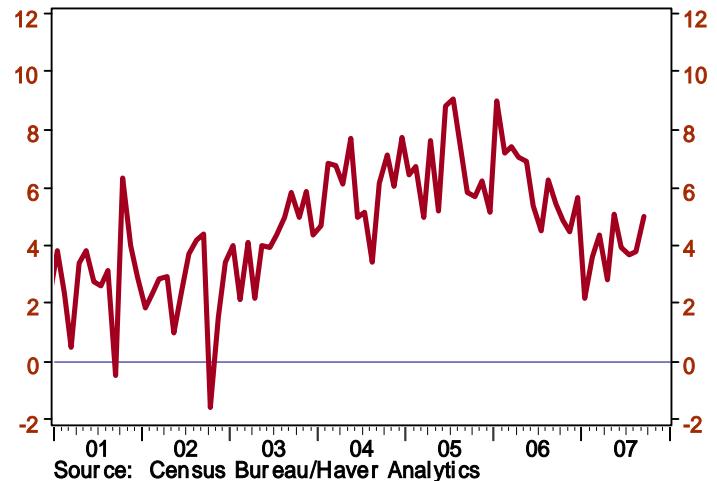
SEPTEMBER RETAIL SALES

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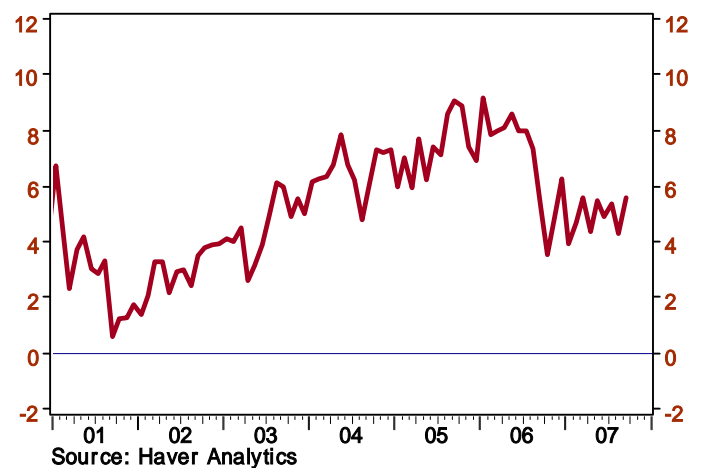
- Retail sales increased 0.6% in September versus a consensus expected gain of 0.3%. Excluding autos, sales increased 0.4% versus a consensus expected gain of 0.3%. Sales are up 5.0% versus a year ago, 5.1% ex-autos.
- The largest gains in retail sales in September were at auto dealers, gas stations, and grocery stores. No major category of sales declined significantly.
- Sales excluding autos, building materials, and gas were up 0.2% in September. These sales are up 5.0% versus a year ago.

Implications: Today's report on retail sales was very healthy. Retail sales excluding autos and building materials are a direct feed into the GDP data (auto sales data come from another source and building materials are counted as investment) and these sales rose 0.5% in September. Excluding gas from this metric (gas sales are usually driven by inflation) converts this figure to up 0.2% and up at a 4.4% annual rate the past three months. These data suggest real consumption (including services) grew at a 3.5%+ annual rate in the third quarter, adding confidence to our view that real GDP will grow at a 4% annual rate in Q3. In other news this morning, retail inventories were up 0.5% in August, adding to the positive news on inventories for merchant wholesalers (released Wednesday). If the positive inventory trend persists into September, it would add substantial *upside* risk to our 4% growth rate forecast for Q3.

Retail Sales & Food Services
 % Change - Year to Year



Retail Sales and Food Services EX: Autos and Building Materials
 % Change - Year to Year



Retail Sales <i>All Data Seasonally Adjusted</i>	Sep-07	Aug-07	Jul-07	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%	0.3%	0.6%	6.0%	4.0%	5.0%
Ex Autos	0.4%	-0.4%	0.7%	2.8%	4.3%	5.1%
Ex Autos and Building Materials	0.5%	-0.3%	0.7%	3.4%	4.9%	5.6%
Ex Autos, Building Materials and Gasoline	0.2%	0.0%	0.8%	4.4%	4.7%	5.0%
Autos	1.2%	3.3%	0.0%	19.3%	2.8%	4.6%
Building Materials	0.1%	-1.3%	0.6%	-2.6%	-0.9%	0.8%
Gasoline	2.0%	-2.6%	0.1%	-2.3%	6.6%	9.6%

Source: Bureau of Census