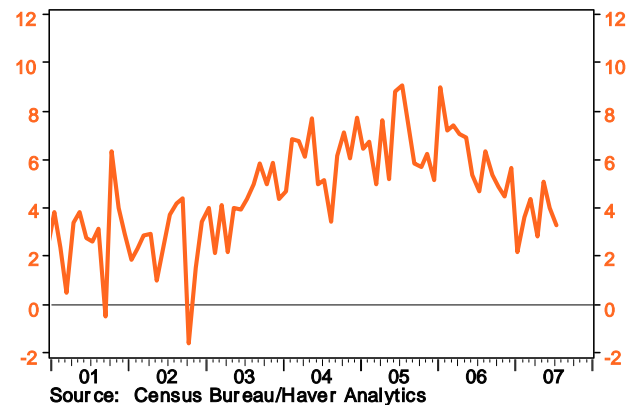


## JULY RETAIL SALES

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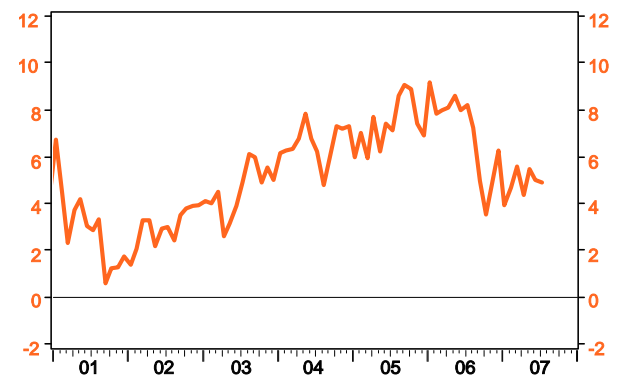
- July retail sales increased 0.3% and were up 0.4% excluding autos, both slightly better than the consensus expected. Sales growth was revised up for May (to 1.6% from 1.5%) and June (to -0.7% from -0.9%). Retail sales are up 3.2% versus last year, 4.4% excluding autos.
- The largest increases in sales in July were at restaurants and bars and general merchandise stores.
- Excluding autos, building materials, and gas, sales were up 0.6% in July and June sales were revised to a gain of 0.3% from a previous estimate that they were unchanged. These sales are up 5.8% versus a year ago.

Retail Sales & Food Services  
% Change - Year to Year



**Implications:** Good news today from the retail goods sector, which represents about 30% of GDP. 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 increased 0.5% in July. Excluding gas from this metric (gas sales are usually driven by inflation) puts the increase in sales at 0.6% and at a 7.7% annual rate the past three months. This data reinforces our view that real consumption (including services) should grow at about a 2 - 2.5% annual rate in the third quarter and real GDP, bolstered by business investment, appears set to grow at a 3% annual rate. In addition, revisions to sales in May and June suggest faster consumption growth in Q2 than the 1.3% estimate released by the government in late July.

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



Given these figures and recent revisions to construction and inventories, it now appears Q2 real GDP growth was 3.7% or 3.8%, not the 3.4% originally estimated. The US economy continues to grow and “core” spending by consumers remains robust. The Fed was right last week to maintain its focus on the threat of rising inflation rather than the threat of an economic slowdown.

Retail Sales <i>All Data Seasonally Adjusted</i>	Jul-07	Jun-07	May-07	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>	<b>0.3%</b>	-0.7%	1.6%	4.8%	4.9%	3.2%
<i>Ex Autos</i>	<b>0.4%</b>	-0.2%	1.7%	8.4%	7.2%	4.4%
<i>Ex Autos and Building Materials</i>	<b>0.5%</b>	0.1%	1.4%	8.0%	7.6%	4.9%
<i>Ex Autos, Building Materials and Gasoline</i>	<b>0.6%</b>	0.3%	0.9%	7.7%	6.2%	5.8%
<b>Autos</b>	<b>-0.3%</b>	-2.9%	1.2%	-8.0%	-3.7%	-1.2%
<b>Building Materials</b>	<b>0.2%</b>	-2.2%	4.8%	11.4%	3.4%	0.4%
<b>Gasoline</b>	<b>-0.8%</b>	-1.3%	4.6%	10.0%	17.7%	-0.9%

Source: Bureau of Census