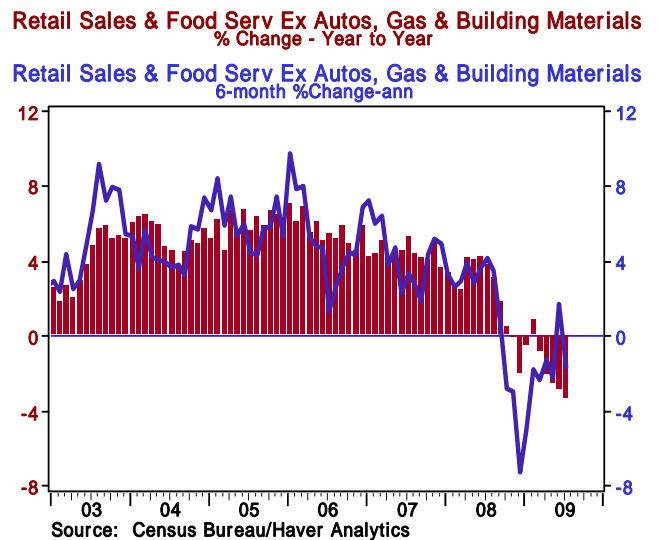
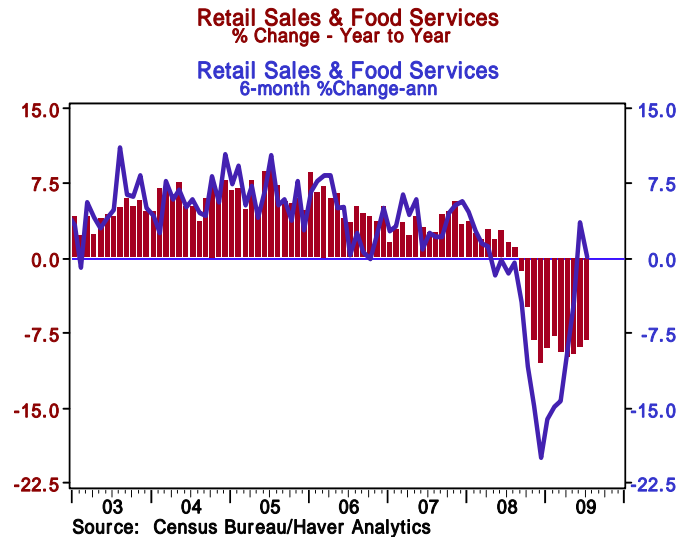


## JULY RETAIL SALES

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- Retail sales declined 0.1% in July versus a consensus expected gain of 0.8%. Retail sales excluding autos declined 0.6% versus a consensus expected rise of 0.1%.
- Retail sales are down 8.3% in the past year but up at a 4.8% annual rate in the last three months. Ex-autos, sales are down 8.5% versus last year, but up at a 0.9% annual rate in the past three months.
- Auto sales increased 2.4% in July, the fourth straight monthly increase. However, most other categories of sales declined in July, led by gas station sales (due to lower gas prices), building materials, and department stores.
- Sales excluding autos, building materials, and gas were down 0.2% in July.

**Implications:** While the July retail sales numbers disappointed, it is important to remember that these data are volatile. Even in years of strong sales growth there are months when sales decline. For example, in 2006, retail sales fell in four out of twelve months. A V-shaped recovery, like the one we are currently in, is not immune to this monthly volatility. With the unemployment rate peaking, consumption growth will continue to accelerate in the months ahead. In other news this morning, new claims for unemployment insurance increased 4,000 last week to 558,000. Continuing claims for benefits fell 141,000 to 6.2 million. On the inflation front, import prices fell 0.7% in July. Most of the drop was petroleum-related, with ex-petroleum prices only down 0.2%. Export prices declined 0.3% but all of the drop was related to agriculture prices. Ex-ag, export prices increased 0.2%. In the past six months import prices are up at a 10.9% annual rate while exports are up at a 1.7% rate. Given how loose the Fed is, we anticipate more signs of inflation in the next few months.



Retail Sales <i>All Data Seasonally Adjusted</i>	Jul-09	Jun-09	May-09	3-mo % Ch. annualized	6-mo % Ch. annualized	Yr to Yr % Change
<b>Retail Sales and Food Services</b>	-0.1%	0.8%	0.5%	4.8%	0.2%	-8.3%
<b>Ex Autos</b>	-0.6%	0.5%	0.2%	0.9%	-0.3%	-8.5%
<b>Ex Autos and Building Materials</b>	-0.4%	0.6%	0.2%	1.8%	0.6%	-7.9%
<b>Ex Autos, Building Materials and Gasoline</b>	-0.2%	0.0%	-0.3%	-2.1%	-1.6%	-3.3%
<b>Autos</b>	2.4%	1.9%	1.5%	26.3%	2.3%	-7.3%
<b>Building Materials</b>	-2.1%	-0.6%	0.4%	-8.6%	-8.9%	-14.7%
<b>Gasoline</b>	-2.1%	6.3%	4.3%	38.9%	19.9%	-32.5%

Source: Bureau of Census