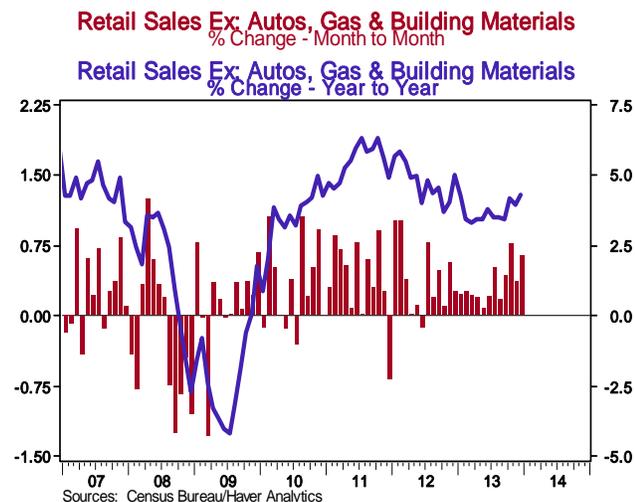
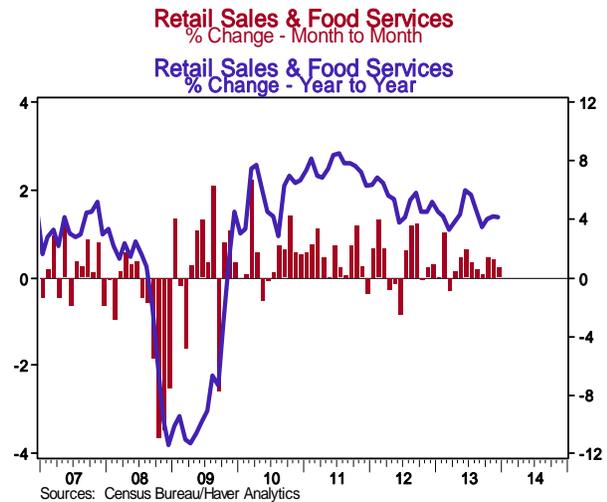


December Retail Sales

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- Retail sales rose 0.2% in December (-0.1% including revisions for October/November) versus a consensus expected 0.1% gain. Sales are up 4.1% versus a year ago.
- Sales excluding autos were up 0.7% in December (0.4% including revisions to prior months). The consensus expected a 0.4% gain. These sales are up 3.7% in the past year.
- The increase in sales in December was led by grocery stores, gas stations, and non-store retailers (internet and mail-order). The largest decline was for autos.
- Sales excluding autos, building materials, and gas rose 0.7% in December (0.4% including revisions to prior months). These sales were up at a 6.7% annual rate in Q4 versus the Q3 average.

Implications: Retail sales rose a tepid 0.2% in December, but that’s largely because of a drop in auto sales after a surge in November. Excluding autos, sales were up 0.7% in December. “Core” sales, which exclude autos, building materials, and gas, were also up 0.7% in December, the 18th consecutive monthly gain, and were up at a 6.7% annual rate in the fourth quarter. Largely as a result, we estimate that real (inflation-adjusted) consumer spending (on goods and services combined) rose at a 3.8% annual rate in Q4, the fastest pace in three years. So, despite what should be a temporary large drag from inventories, real GDP looks like it grew at a 2.5% annual rate in Q4. Remember that 2013 was supposed to be the year the fiscal cliff deal, sequester, debt limit debate, partial federal shutdown, tapering, and higher long-term interest rates would kill the consumer. And yet we sailed right through, with overall retail sales up 4.1%. We expect stronger gains in 2014, due to more jobs, an expansion in hours worked, higher wages, and what is now consumers’ lowest debt burden since the early 1980s. In other news this morning, inflation in the trade sector remains relatively quiet. Import prices, both including and excluding oil, were unchanged in December and down 1.3% from a year ago. Export prices were up 0.4% in December, led by farm products. Export prices were up 0.3% excluding agriculture. In the past year, export prices are down 1% overall and 0.5% ex-agriculture. Given loose monetary policy, look for higher trade price inflation in 2014.



| Retail Sales <i>All Data Seasonally Adjusted</i> | Dec-13 | Nov-13 | Oct-13 | 3-mo % Ch. <i>annualized</i> | 6-mo % Ch. <i>annualized</i> | Yr to Yr <i>% Change</i> |
|---|--------------|--------|--------|---------------------------------|---------------------------------|-----------------------------|
| Retail Sales and Food Services | 0.2% | 0.4% | 0.5% | 4.8% | 3.8% | 4.1% |
| Ex Autos | 0.7% | 0.1% | 0.4% | 5.0% | 4.6% | 3.7% |
| Ex Autos and Building Materials | 0.8% | 0.1% | 0.6% | 6.3% | 5.2% | 3.8% |
| Ex Autos, Building Materials and Gasoline | 0.7% | 0.4% | 0.8% | 7.6% | 6.1% | 4.3% |
| Autos | -1.8% | 1.9% | 1.0% | 4.1% | 0.5% | 5.9% |
| Building Materials | -0.4% | 0.4% | -2.1% | -8.0% | -1.8% | 2.1% |
| Gasoline | 1.6% | -1.5% | -0.3% | -1.0% | 0.0% | 0.6% |

Source: Bureau of Census