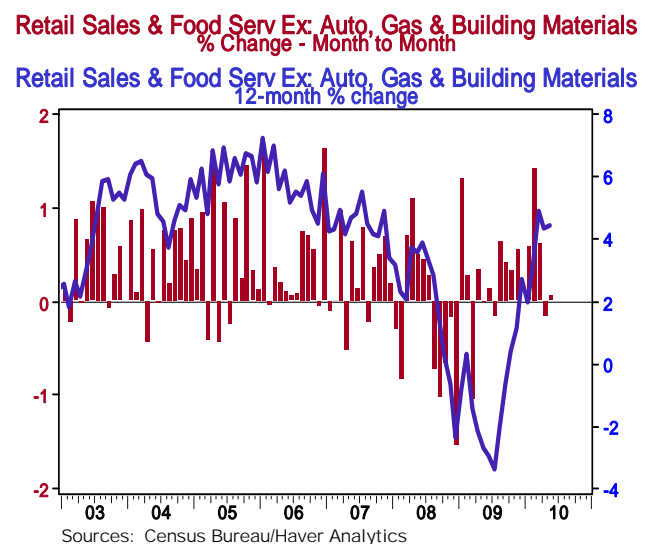
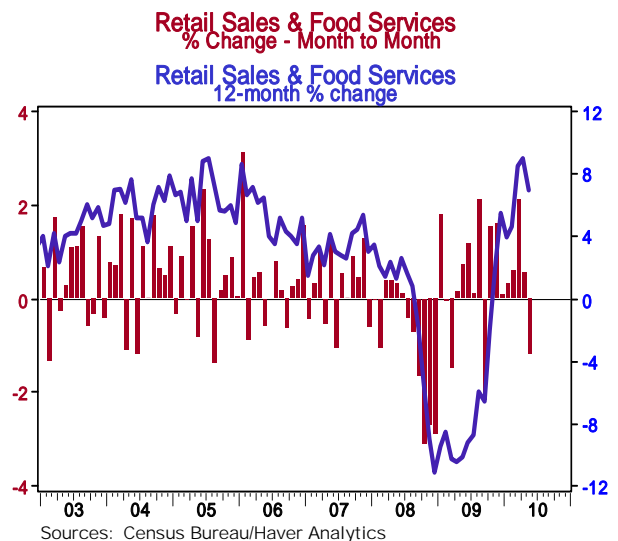


MAY RETAIL SALES

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- Retail sales fell 1.2% in May, well short of the consensus expected gain of 0.2%. Sales excluding autos fell 1.1%, below the consensus expected gain of 0.1%. Including upward revisions to March/April, retail sales declined 1.1% overall and 0.9% excluding autos.
- Even with the drop, retail sales are up 6.9% versus a year ago; sales ex-autos are up 6.1%.
- Weakness in May was concentrated in building materials, gas, and autos. Sales also declined at general merchandise stores (department stores and warehouse clubs), but this drop was offset by gains for non-store retailers (via the internet and mail-order).
- Sales excluding autos, building materials, and gas were up 0.1% in May and are up 4.5% versus last year. This calculation is important for estimating GDP.

Implications: Today’s headline retail sales number – a drop of 1.2% - was a “downer,” but the details of the report were not bad at all. First, most of the drop in overall sales was due to building materials. However, that loss came after a 17% gain in March/April, leaving these sales with a 12% annualized gain over the past six months. Either way, building materials are considered part of residential investment, not consumption. Second, gas sales fell substantially, but that was due to lower prices at the pump, which are not a problem for consumers. Third, motor vehicle sales fell 1.7% in May, but are extremely volatile from month to month. The government uses a different report to calculate auto sales for GDP purposes, and that report showed a *gain* of 3.7% in May. That’s why it’s important to focus on “core” retail sales, which excludes autos, building materials, and gas. These sales increased 0.1% in May. That’s right, *increased*, bringing the total gain over the past year to 4.5% and with May an annualized 3.1% above the first quarter average. The two biggest drivers of core sales in May roughly offset each other, with higher sales over the internet and by mail-order, and lower sales at department stores and warehouse clubs. Apparently, instead of going to the mall, consumers wanted to stay home and shop online. It is also important to remember that the overall retail sales series is volatile from month to month, and even in good years with strong economic growth, there are always outliers. In August 2005 retail sales fell 1.4%, yet it wasn’t a sign of a recession or a slowdown in consumer spending. So despite what today’s disappointing headline retail sales number shows, the consumer is still doing just fine. Today’s report does not signal a trend shift in consumer spending or the beginning of a “double-dip” recession. We expect overall retail sales to continue to trend higher the rest of the year.



Retail Sales <i>All Data Seasonally Adjusted</i>	May-10	Apr-10	Mar-10	3-mo % Ch. <i>annualized</i>	6-mo % Ch. <i>annualized</i>	Yr to Yr <i>% Change</i>
Retail Sales and Food Services	-1.2%	0.6%	2.1%	6.0%	5.0%	6.9%
Ex Autos	-1.1%	0.6%	1.2%	2.7%	4.8%	6.1%
Ex Autos and Building Materials	-0.3%	-0.1%	0.7%	1.0%	4.3%	6.2%
Ex Autos, Building Materials and Gasoline	0.1%	-0.2%	0.6%	2.0%	5.1%	4.5%
Autos	-1.7%	0.6%	6.6%	24.0%	5.6%	11.2%
Building Materials	-9.3%	8.4%	8.1%	27.4%	12.1%	3.1%
Gasoline	-3.3%	0.5%	1.2%	-6.1%	-0.8%	20.2%

Source: Bureau of Census

This report was prepared by First Trust Advisors L. P., and reflects the current opinion of the authors. It is based upon sources and data believed to be accurate and reliable. Opinions and forward looking statements expressed are subject to change without notice. This information does not constitute a solicitation or an offer to buy or sell any security.