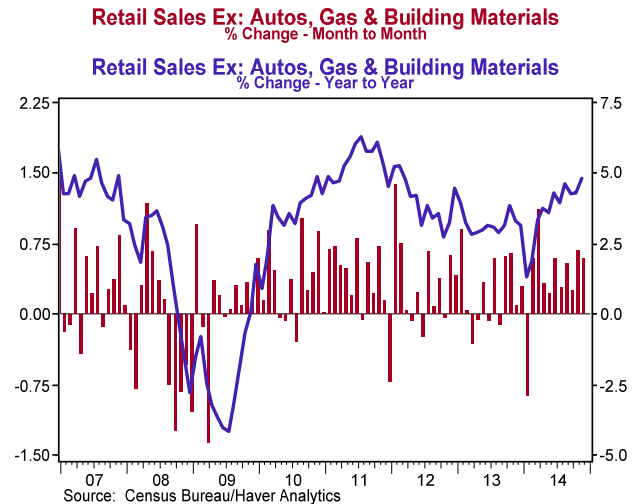
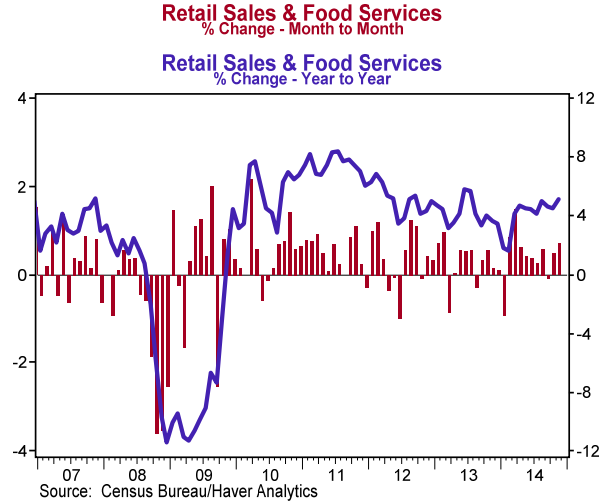


November Retail Sales

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- Retail sales increased 0.7% in November, and including revisions to prior months were up 1.1%, coming in above the consensus expected gain of 0.4%. Sales are up 5.1% versus a year ago.
- Sales excluding autos rose 0.5% in November, and were up 0.7% including revisions to prior months, coming in above the consensus expected gain of 0.1%. These sales are up 4.3% in the past year.
- The increase in sales in November was led by autos, building materials, and non-store retailers (internet and mail-order). The weakest category, by far, was gas stations.
- Sales excluding autos, building materials, and gas were up 0.6% in November and, including revisions to prior months, were up 0.8%. If unchanged in December, these sales will be up at a 5.9% annual rate in Q4 versus the Q3 average.



Implications: This year, Santa is delivering early! The consumer is alive, well, and kicking. Retail sales rose 0.7% in November and 1.1% including upward revisions for September and October. The gain in November beat consensus expectations and was the best since March. Plugging recent reports into our models suggests real GDP will be revised up to a 4.6% annual growth rate in Q3 versus the 3.9% rate reported two weeks ago. What makes the recent gains in retail sales so impressive is that gas prices are down significantly. This has pulled spending on gasoline down by 20% in the past two months. But any drag from gas prices has been offset by what appear extremely nimble shoppers who have not only shifted their purchases faster than usual, but utilized rising incomes as well. For example, sales at electronics/appliances stores, helped by the iPhone 6, are up \$458 million in the past three months, offsetting, all by itself, one-third of the reduction in gas station sales. The strongest gain in November, by far, was for autos. But consumers also increased purchases of building materials (maybe shovels in Buffalo), at non-store retailers (internet and mail-order, before Cyber Monday), and at restaurants & bars. “Core” sales, which exclude autos, building materials and gas, increased 0.6% in November and 0.8% including upward revisions to September and October. These sales, which are a key input into GDP calculations, are up 10 months in a row and, if unchanged in December, will up at a 5.9% annual rate in Q4 versus Q3. We expect consumer spending to accelerate in the year ahead, as payrolls rise by about 3 million and wage gains accelerate at the same time consumer debt service burdens hover near multiple-decade lows. In other news this morning, new claims for jobless benefits declined 3,000 last week to 294,000; continuing claims increased 142,000 to 2.51 million. Look for more job gains in December, but not as fast as in November. On the inflation front, still no sign of a problem in the trade sector, especially given the strength in the US dollar. Import prices fell 1.5% in November, although they declined only 0.3% excluding petroleum. Export prices fell 1% in November, -1.2% ex-agriculture. In the past year, import prices are down 2.3% while export prices are down 1.9%. This environment of expanding consumption, low inflation and new innovation is still a great one for equities. Don't let the bearish forecasters scare you.

Retail Sales <i>All Data Seasonally Adjusted</i>	Nov-14	Oct-14	Sep-14	3-mo % Ch. <i>annualized</i>	6-mo % Ch. <i>annualized</i>	Yr to Yr <i>% Change</i>
Retail Sales and Food Services	0.7%	0.5%	-0.1%	4.7%	4.9%	5.1%
Ex Autos	0.5%	0.4%	0.1%	4.0%	4.0%	4.3%
Ex Autos and Building Materials	0.4%	0.4%	0.1%	3.9%	3.8%	3.9%
Ex Autos, Building Materials and Gasoline	0.6%	0.7%	0.3%	6.4%	6.1%	4.8%
Autos	1.7%	0.8%	-0.7%	7.5%	8.9%	8.6%
Building Materials	1.4%	0.4%	-0.2%	6.6%	5.0%	7.8%
Gasoline	-0.8%	-1.3%	-0.8%	-11.0%	-9.9%	-2.1%

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.