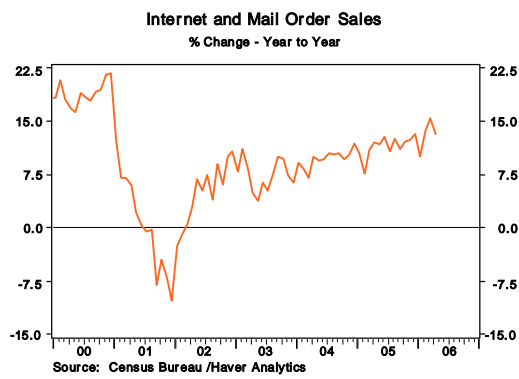
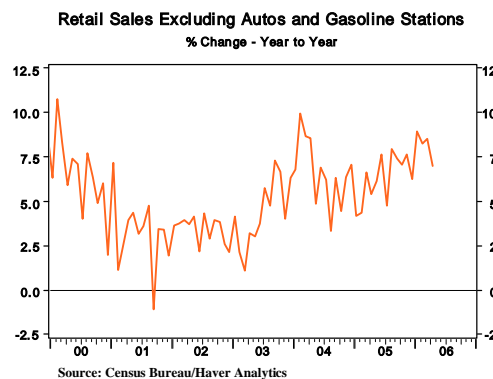
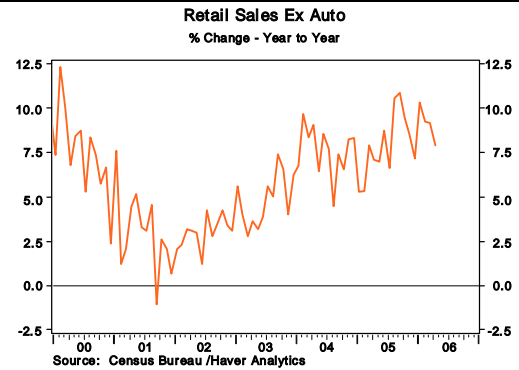
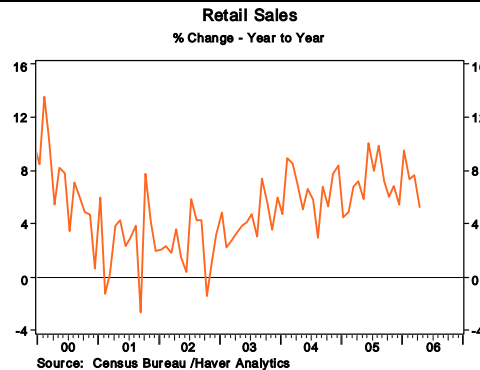


APRIL RETAIL SALES

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- Retail sales rose 0.5% in April, below consensus estimates of a 0.8% gain. Retail sales are up 9.0% at an annual rate in the past six months and 6.6% in the past year.
- Auto sales fell 0.4% in April after a 1.0% increase in March. Excluding autos, retail sales rose 0.7% last month and 8.6% in the past year.
- Gasoline service station sales jumped 4.6% in April but just an annualized 2.3% in the past six months. Sales excluding autos and gas rose 0.2% in April and 7.4% in the past year.

Implications: Retail sales grew slightly less than consensus estimates in April but after adjusting for inflation, the data was even more disappointing. Retail sales, excluding autos and gasoline stations, rose just 0.2% in April. If our forecast of 0.3% “core” inflation is correct, “core” real retail sales were negative last month. Moreover, April retail sales are only an annualized 2.5% above the Q1 average, which is almost certainly below inflation. As a result, we have downgraded our forecast of real consumption expenditures in Q2 to 2.0% from 2.5%. This pulls down our estimate of Q2 GDP to the 3.0%-3.5% range. Nonetheless, we believe the consumer remains resilient. In the past year, retail sales have increased 6.6% and retail sales ex autos and gas are up 7.4%, suggesting that nominal growth is close to 7%. The fact that inflation is eating away at more and more of nominal growth is concerning but has yet to reach a point where it is significantly hurting the real economy. We expect real retail sales to regain momentum in the months ahead, supported by rising employment and wages. Separately, initial claims for unemployment benefits fell 1,000 to 324,000 last week. This was above consensus estimates but the Labor Department cited special factors from a government shutdown in Puerto Rico that added “approximately 20,000” to claims data. Excluding this anomaly, claims data are back near the 300,000 level and suggest a robust employment market. With the Fed admittedly data dependent, today’s mixed bag will likely only add to the uncertainty about future Fed rate hikes. Regardless, we continue to expect the economy to remain strong, inflationary pressures to build and the Fed to tighten at their June meeting to 5.25%.



Retail Sales <i>All data seasonally adjusted</i>	Apr-06	Mar-06	Feb-06	3-mo % Ch. annualized	6-mo % Ch. annualized	Yr over Yr % Ch
Retail Sales and Food Services	0.5%	0.6%	-0.8%	1.0%	9.0%	6.6%
Ex Autos	0.7%	0.5%	-0.2%	4.1%	7.2%	8.6%
Ex Autos and Gasoline	0.2%	0.6%	-0.1%	2.8%	7.9%	7.4%
Motor Vehicle and Parts Dealers	-0.4%	1.0%	-3.1%	-9.5%	16.2%	-0.3%
Building Materials and Supply	-1.6%	1.6%	-0.4%	-1.7%	16.1%	13.0%
Furniture, Home Furnishings, and Electronics	0.2%	0.2%	-3.0%	-10.1%	7.1%	6.9%
General Merchandise	0.8%	0.0%	-0.2%	2.4%	5.3%	5.7%
Food and Beverage	0.4%	0.6%	-1.4%	-1.6%	8.8%	6.8%
Gas Service Stations	4.6%	0.0%	-1.3%	13.3%	2.3%	17.4%
Health and Personal Care	0.3%	1.0%	0.5%	7.8%	7.7%	7.1%
Clothing and Accessories	0.3%	0.4%	-1.1%	-1.5%	3.7%	4.5%
Internet and Mail Order	0.5%	2.1%	3.3%	26.8%	13.8%	13.3%

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.