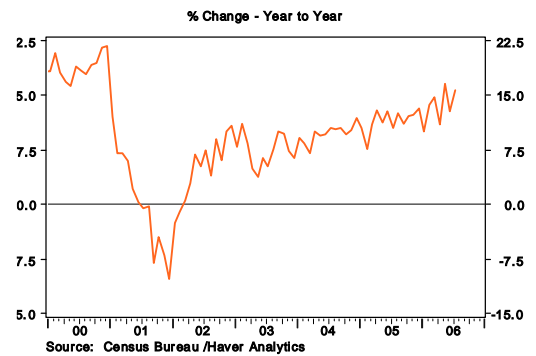
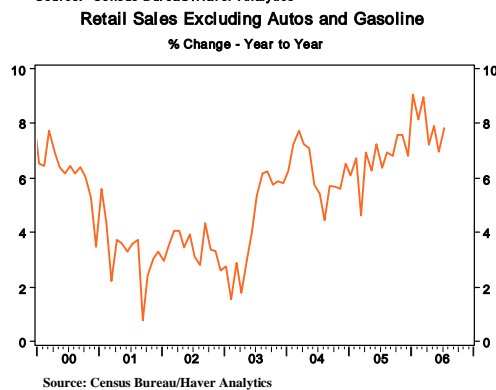
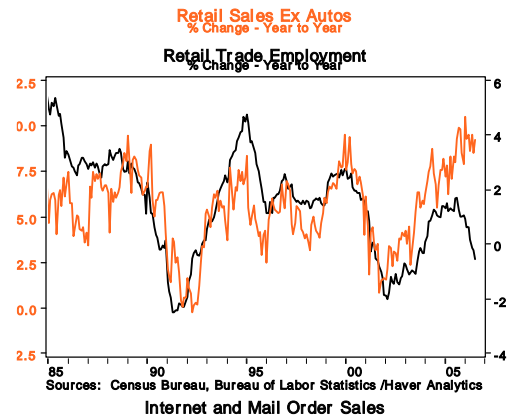
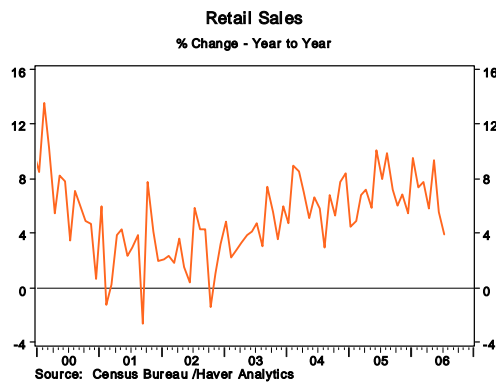


## JULY RETAIL SALES

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- Retail sales rose a more-than-expected 1.4% in July, versus consensus estimates of a 0.8% gain. Revisions subtracted 0.2% from prior months (June -0.4%, not -0.1%, May +0.2%, not +0.1%), so July was 1.2% above the original June level. Sales are up just 4.8% from year-ago levels which were boosted by big gains in auto sales.
- Auto sales jumped 3.1% in July but remain 9.4% below employee-discount-for-everyone boosted levels from one year ago. Excluding autos, retail sales rose 1.0% last month and are up 9.2% in the past year.
- Gasoline service station sales jumped 2.5% in July and 19.2% in the past year. Sales excluding autos and gas surged 0.7% in July and 7.8% in the past year.



### Implications: Consumer spending

continued to defy consensus expectations of a slow-down, jumping 1.4% in July and 1.0% when auto sales are removed. Robust sales at building materials, electronics and appliances, and online retailers led the way. The Fed staff is forecasting a significant slowdown in the second half of this year (below 2.5% real GDP growth), largely based on the assumption that consumer spending will slow. Today's surge blows a hole in this assumption and suggests that the weakness in retail activity during Q2 was temporary. Non-auto retail sales are up 9.2% in the past year – a clear sign that past Fed ease has lifted the demand-side of the economy. Even after excluding both autos and gasoline, retail sales rose 0.7% in July and are up 7.8% in the past year. A common misperception is to believe that higher energy prices will slow consumer spending and hurt the economy – but, spending on gasoline is still a retail sale and still boosts GDP. The bottom line is that consumer spending is still robust. While real GDP growth slowed in the second quarter to 2.5%, we expect revisions to increase that to roughly 2.8%. Moreover, July sales data suggest that real GDP will grow 3.5% in the third quarter. This is likely to cause the Fed to restart rate hikes sooner, rather than later.

<b>Retail Sales</b> <i>All data seasonally adjusted</i>	<b>Jul-06</b>	<b>Jun-06</b>	<b>May-06</b>	<b>3-mo % Ch. annualized</b>	<b>6-mo % Ch. annualized</b>	<b>Yr over Yr % Ch</b>
<b>Retail Sales and Food Services</b>	<b>1.4%</b>	<b>-0.4%</b>	<b>0.2%</b>	<b>4.8%</b>	<b>3.5%</b>	<b>4.8%</b>
<b>Ex Autos</b>	<b>1.0%</b>	<b>0.1%</b>	<b>0.8%</b>	<b>7.9%</b>	<b>6.1%</b>	<b>9.2%</b>
<b>Ex Autos and Gasoline</b>	<b>0.7%</b>	<b>0.0%</b>	<b>0.6%</b>	<b>5.8%</b>	<b>4.0%</b>	<b>7.8%</b>
<b>Motor Vehicle and Parts Dealers</b>	<b>3.1%</b>	<b>-2.5%</b>	<b>-2.1%</b>	<b>-6.2%</b>	<b>-5.9%</b>	<b>-9.4%</b>
<b>Building Materials and Supply</b>	<b>1.8%</b>	<b>-1.5%</b>	<b>-0.3%</b>	<b>-0.2%</b>	<b>-2.9%</b>	<b>10.9%</b>
<b>Furniture, Home Furnishings, and Electronics</b>	<b>1.2%</b>	<b>0.8%</b>	<b>0.6%</b>	<b>10.9%</b>	<b>0.4%</b>	<b>8.9%</b>
<b>General Merchandise</b>	<b>0.3%</b>	<b>0.2%</b>	<b>0.2%</b>	<b>2.9%</b>	<b>2.1%</b>	<b>5.1%</b>
<b>Food and Beverage</b>	<b>0.6%</b>	<b>-0.2%</b>	<b>0.4%</b>	<b>3.2%</b>	<b>1.0%</b>	<b>7.6%</b>
<b>Gas Service Stations</b>	<b>2.5%</b>	<b>0.8%</b>	<b>2.0%</b>	<b>23.4%</b>	<b>21.8%</b>	<b>19.2%</b>
<b>Health and Personal Care</b>	<b>0.6%</b>	<b>0.9%</b>	<b>1.4%</b>	<b>12.1%</b>	<b>9.0%</b>	<b>8.4%</b>
<b>Clothing and Accessories</b>	<b>0.7%</b>	<b>0.5%</b>	<b>0.7%</b>	<b>7.7%</b>	<b>3.6%</b>	<b>7.6%</b>
<b>Internet and Mail Order</b>	<b>2.1%</b>	<b>-0.4%</b>	<b>3.6%</b>	<b>23.1%</b>	<b>21.6%</b>	<b>15.6%</b>

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.