

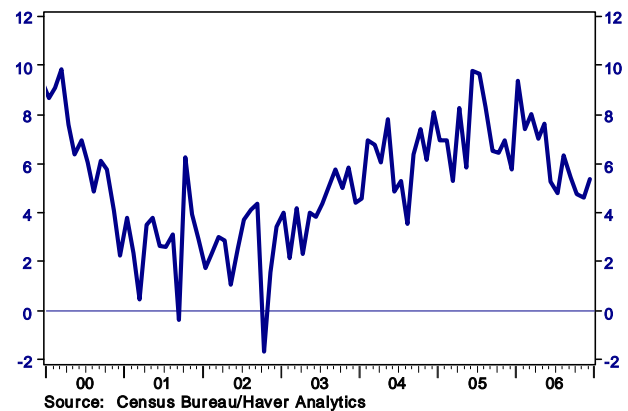
DECEMBER RETAIL SALES

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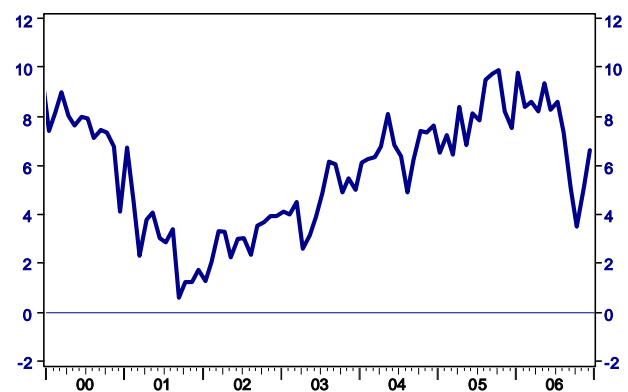
- December retail sales were strong, rising 0.9% versus a consensus expected 0.7%. Retail sales are up 5.4% versus December 2005.
- Most of the increase in December sales was due to strength in sales at gas stations, restaurants, and bars. Gas station sales increased 3.8% in December.
- Electronics and appliance sales were also very strong (think flat screen TVs), up 3% in December after a 5.8% gain in November.
- Excluding autos, sales were up 1.0% in December. Excluding autos, building materials, and gas, sales were up 0.9%.

Implications: Almost every piece of recent economic data – employment, unemployment claims, car and truck production, construction, and the ISM indexes for both manufacturing and services – has come in above expectations. Today’s report on retail sales is no different. The economy ended 2006 with a full head off steam. Weakness in housing has not filtered through to the rest of the economy. Retail sales, excluding autos and building materials, are a direct feed into GDP data (auto sales data come from another source and building materials are counted as investment). With these sales up 1.3% in December after a revised 0.9% gain in November, real consumption growth likely increased about 4.5% at an annual rate in the fourth quarter. Our forecast for fourth quarter real GDP growth is now 3.5%, a significant improvement from the second and third quarter average growth rate of 2.4%. At this rate of growth the Fed is going to get increasingly uncomfortable with market expectations of its next move being a rate cut rather than a rate hike.

Retail Sales & Food Services
 % Change - Year to Year SA, Mil.\$



Retail Sales and Food Services EX: Autos and Building Materials
 % Change - Year to Year millions



Retail Sales <i>All Data Seasonally Adjusted</i>	Dec-06	Nov-06	Oct-06	3-mo % Ch. <i>annualized</i>	6-mo % Ch. <i>annualized</i>	Yr to Yr <i>% Change</i>
Retail Sales and Food Services	0.9%	0.6%	-0.2%	5.1%	4.1%	5.4%
Ex Autos	1.0%	0.7%	-0.5%	5.3%	2.2%	5.8%
Ex Autos and Building Materials	1.3%	0.9%	-0.4%	7.1%	3.4%	6.6%
Ex Autos, Building Materials and Gasoline	0.9%	0.6%	0.2%	7.0%	6.7%	7.1%
Autos	0.3%	0.0%	0.8%	4.0%	12.0%	3.6%
Building Materials	-1.1%	-0.5%	-0.9%	-9.5%	-8.0%	-0.8%
Gasoline	3.8%	2.9%	-4.5%	8.2%	-15.0%	3.4%

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.