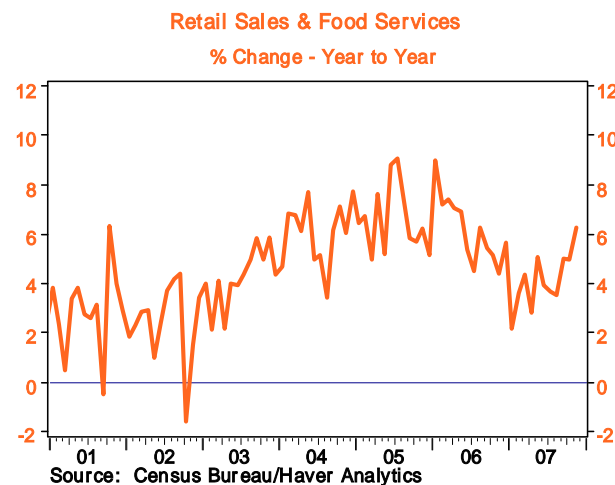


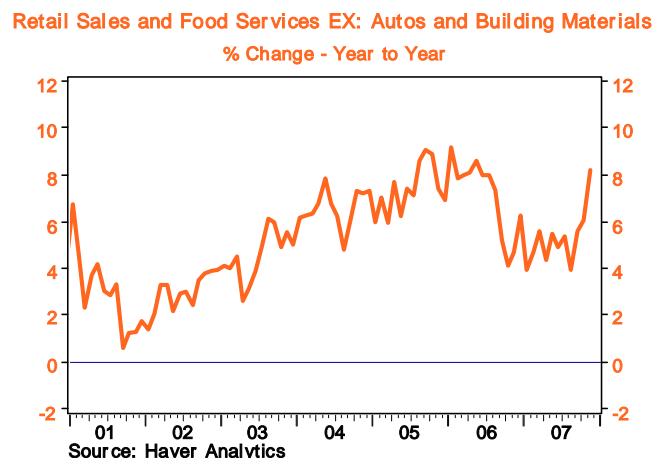
NOVEMBER RETAIL SALES

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- Retail sales increased 1.2% in November, 1.8% excluding autos. The consensus expected gain for each was 0.6%. Sales are up 6.3% versus last year, 7.4% excluding autos.
- About half the gain in retail was due to gas station sales, which increased 6.8% due to higher fuel prices. However, most other categories of sales were up at a robust rate, including furniture, clothing, food/beverages, and purchases at department stores and non-store retailers (internet and mail-order). The one large drop was for auto sales, which is a very volatile category month-to-month.
- Sales excluding autos, building materials, and gas were up 1.1% in November and are up 5.8% versus a year ago.



Implications: Today's retail sales report severely undermines the conventional wisdom that the U.S. is teetering on the verge of a consumer-led recession. Not only were November sales at blowout levels but sales were revised up for September and October. We now have three full months of sales data since the credit market turmoil struck in August. Since then, sales are up at an annual rate of 9.4%. Retail sales excluding autos and building materials are a direct feed into the GDP data (auto sales data come from another source and building materials are counted as investment). Also excluding gas from this metric (gas sales are usually driven by inflation) generates an increase of 1.1% in November (the largest gain in 22 months) and an annualized increase of 7.1% in the past three months. Upward revisions to September should lift the real GDP growth in Q3 to above 5%. After last month's relatively weak sales report we said retail weakness would not continue because of the huge increase in labor compensation in the past year. This is what the consensus is missing: strong increases in worker pay are offsetting the negative effects of a decline in housing wealth, allowing consumers to keep spending at a healthy pace. In other news this morning, initial claims for unemployment insurance fell 7,000 last week to 333,000. Continuing claims for unemployment insurance increased 38,000 to 2.639 million, which is still below the recent peak in mid-November.



Retail Sales <i>All Data Seasonally Adjusted</i>	Nov-07	Oct-07	Sep-07	3-mo % Ch. <i>annualized</i>	6-mo % Ch. <i>annualized</i>	Yr to Yr % Change
Retail Sales and Food Services	1.2%	0.2%	0.8%	9.4%	4.3%	6.3%
Ex Autos	1.8%	0.4%	0.6%	12.2%	5.3%	7.4%
Ex Autos and Building Materials	1.9%	0.6%	0.8%	13.6%	6.7%	8.2%
Ex Autos, Building Materials and Gasoline	1.1%	0.2%	0.4%	7.1%	5.1%	5.8%
Autos	-1.0%	-0.6%	1.5%	-0.7%	0.4%	1.9%
Building Materials	1.2%	-0.8%	-0.6%	-0.7%	-6.1%	0.8%
Gasoline	6.8%	3.1%	3.0%	65.7%	17.1%	25.0%

Source: Bureau of Census

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