

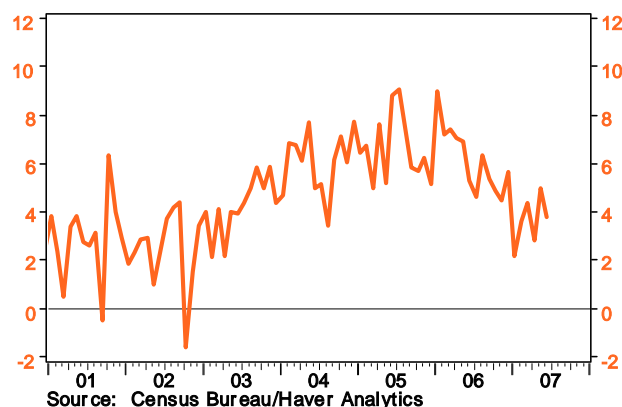
JUNE RETAIL SALES

Chief Economist – Brian S. Wesbury
Senior Economist – Robert Stein, CFA
Economic Research Analyst – Trevor Scott

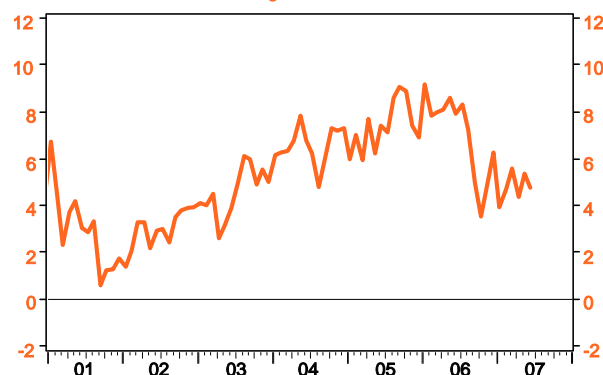
- June retail sales declined 0.9% and were down 0.4% excluding autos, both worse than consensus expectations. Retail sales are up 3.8% versus last year, 4.2% excluding autos.
- The largest dollar drop in June sales was in autos, which fell \$2.3 billion. Other declines included building materials (down \$690 million), furniture-electronics-appliances (down \$435 million), and gas stations (down \$417 million). Stronger components of sales included internet-mail order (up \$299 million), health and personal care stores (up \$229 million), and general merchandise stores (up \$131 million).
- Excluding autos, building materials, and gas, sales were unchanged in June and are up 5.2% versus a year ago.

Implications: The 0.9% drop in June overall retail sales is not as bad as it looks. Most of the decline was due to auto sales which are volatile from month to month and which are subject to large revisions. 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) and these sales fell only 0.1%. Excluding gas from this metric (gas sales are usually driven by inflation) shows retail sales were unchanged and up at a 3.5% annual rate the past three months. Given this data, real consumption (including services) should grow at about a 1.3% annual rate in the second quarter and real GDP – bolstered by stronger inventory and trade figures – appears set to grow at a 3.5% annual rate in Q2. In other news this morning, import prices were reported up 1% for June, versus a consensus expected 0.7%, and prices were revised upward for May. In the past four months, import prices are up at a 16.3% annual rate. Ex-petroleum, import prices were up 0.2% in June and up at a 3.7% annual rate the past four months. Export prices were up 0.3% (0.1% ex-agriculture). We believe growth remains robust despite today's data and inflation is the primary economic concern.

Retail Sales & Food Services
% Change - Year to Year



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



Retail Sales <i>All Data Seasonally Adjusted</i>	Jun-07	May-07	Apr-07	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%	1.5%	-0.3%	1.2%	3.6%	3.8%
Ex Autos	-0.4%	1.6%	-0.1%	4.8%	5.9%	4.2%
Ex Autos and Building Materials	-0.1%	1.3%	0.2%	5.2%	6.2%	4.7%
Ex Autos, Building Materials and Gasoline	0.0%	0.9%	0.0%	3.5%	4.5%	5.2%
Autos	-2.9%	1.1%	-1.3%	-11.7%	-4.8%	2.0%
Building Materials	-2.3%	4.7%	-2.1%	0.7%	3.2%	-0.1%
Gasoline	-1.1%	4.1%	1.2%	17.4%	18.8%	2.0%

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.