

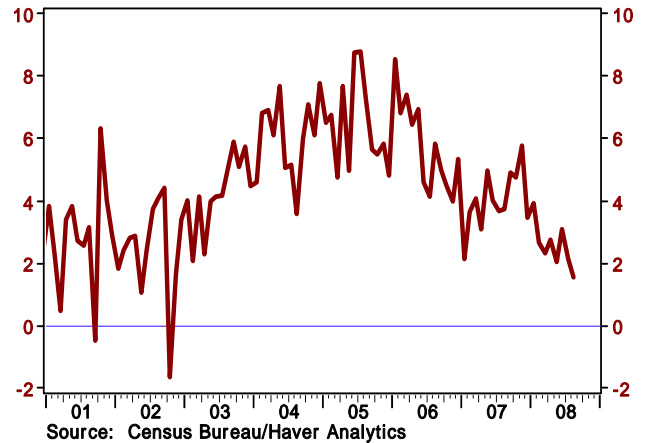
# AUGUST RETAIL SALES

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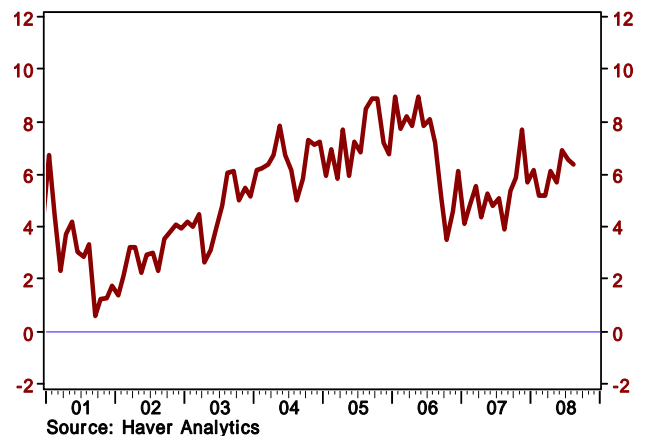
- Retail sales declined 0.3% in August versus a consensus expected increase of 0.2%. Retail sales excluding autos declined 0.7% versus a consensus expected drop of 0.2%. Retail sales are up 1.6% in the past year, 5.5% excluding autos.
- The weakest components of sales in August were gas (due to falling prices), mail-order/internet sales, and building materials. The strongest component was motor vehicles/parts, which partially rebounded from consistent declines in the previous six months.
- Sales excluding autos, building materials, and gas were down 0.2% in August, but up 3.8% versus last year.

**Implications:** Fears the consumer has pulled the US into recession ratcheted up today as retail sales unexpectedly declined in August (the 2<sup>nd</sup> consecutive drop) and June/July sales were also downwardly revised. But these fears are overblown. Monthly declines in retail sales happen regularly, even in non-recession years. There have been 16 monthly declines reported since the beginning of 2004, with sales falling during four different months of 2006 (two of them consecutively), and three months in 2007. The extraordinary rise in gasoline prices (nearly 15 cents a month for 9 months in a row), is explanation enough. Consumers were shell-shocked. Even rebate checks did not help. The pace of sales growth was faster in the four months before the rebates than the four months after. With gasoline prices now heading lower, and pent-up consumer demand building, retail sales have probably seen their worst. Although the sales that matter for GDP, “core” retail sales (excluding autos/building materials/gas), declined 0.2% in August, they are up 3.8% versus last year. For comparison, sales are still ahead of where they were in the 2001 recession, a recession that saw no negative quarter of consumer spending. Our measure of “unobligated” income (income after taxes, debt service, rent, and car leases) remains healthy, gas prices are falling, and money market fund balances are at record highs. As a result, we maintain our faith that the US is not in, or heading into, a recession.

Retail Sales & Food Services  
% Change - Year to Year



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



<b>Retail Sales</b> <i>All Data Seasonally Adjusted</i>	<b>Aug-08</b>	<b>Jul-08</b>	<b>Jun-08</b>	<b>3-mo % Ch.</b> <i>annualized</i>	<b>6-mo % Ch.</b> <i>annualized</i>	<b>Yr to Yr</b> <b>% Change</b>
<b>Retail Sales and Food Services</b>	<b>-0.3%</b>	<b>-0.5%</b>	<b>0.1%</b>	<b>-2.7%</b>	<b>1.6%</b>	<b>1.6%</b>
<b>Ex Autos</b>	<b>-0.7%</b>	<b>0.3%</b>	<b>0.7%</b>	<b>1.3%</b>	<b>6.7%</b>	<b>5.5%</b>
<b>Ex Autos and Building Materials</b>	<b>-0.6%</b>	<b>0.3%</b>	<b>0.8%</b>	<b>2.4%</b>	<b>7.1%</b>	<b>6.4%</b>
<b>Ex Autos, Building Materials and Gasoline</b>	<b>-0.2%</b>	<b>0.3%</b>	<b>0.4%</b>	<b>2.2%</b>	<b>5.7%</b>	<b>3.8%</b>
<b>Autos</b>	<b>1.9%</b>	<b>-4.3%</b>	<b>-2.7%</b>	<b>-18.8%</b>	<b>-17.7%</b>	<b>-13.5%</b>
<b>Building Materials</b>	<b>-2.2%</b>	<b>0.3%</b>	<b>-0.6%</b>	<b>-9.7%</b>	<b>2.2%</b>	<b>-2.7%</b>
<b>Gasoline</b>	<b>-2.5%</b>	<b>0.2%</b>	<b>3.2%</b>	<b>3.2%</b>	<b>15.4%</b>	<b>22.5%</b>

Source: Bureau of Census

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