

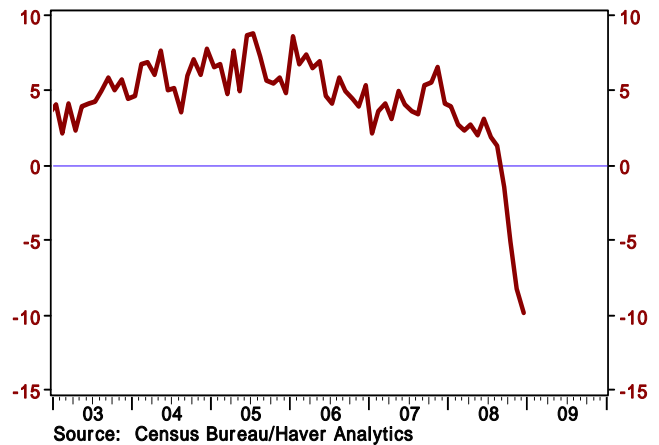
## DECEMBER RETAIL SALES

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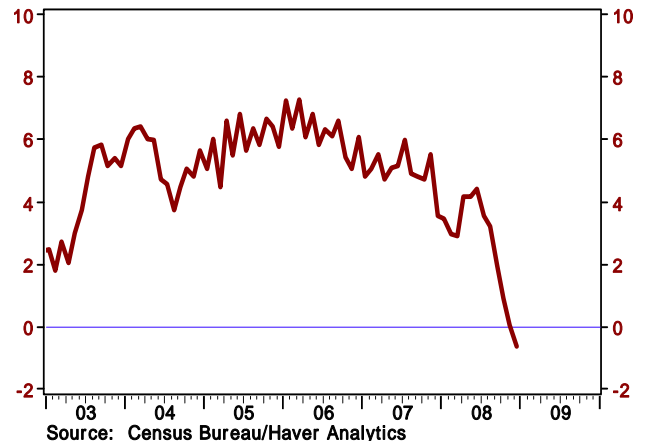
- Retail sales declined 2.7% in December versus a consensus expected -1.2%. Retail sales excluding autos declined 3.1% versus a consensus expected -1.4%. Retail sales are down 9.8% in the past year and down 6.7% excluding autos, both record declines (going back to the late 1960s).
- Gas station sales accounted for more than half the drop in total retail sales, but almost every major component of retail sales also declined in December.
- Sales excluding autos, building materials, and gas fell 1.4% in December, the largest decline since September 2001. These sales are down 0.6% versus last year.

**Implications:** December retail sales fell 2.7% and downward revisions for October and November made these ugly data even worse. Rapidly falling gas prices, which we should *not* worry about, account for about half of the decline in sales over the past three months. However, the portion of activity that impacts GDP data – “core” retail sales, which exclude gas, autos, and building materials – fell 1.4% in December and were the reason for the downward revisions to October/November. While there is little to support any optimism for the consumer in this report, unusually aggressive holiday price discounting and just awful weather for much of the country likely dragged down the numbers. This past December was the coldest since 2000, while the Midwest and upper Northwest got abnormally high amounts of snow. This could not help but deter some shopping and probably explains how Amazon could produce some good sales data amidst the gloom. In other news this morning, import prices dropped 4.2% in December (-9.3% versus a year ago) while export prices fell 1.1% (-3.2% versus a year ago). Excluding petroleum, import prices fell 1.1% while export prices ex-agriculture declined 1.9%, suggesting the drop in velocity has put an air-pocket under pricing power. Also in other news this morning, business inventories fell 0.7% in November while the inventory-to-sales (I/S) ratio spiked up to 1.41. The recent increase in the I/S ratio is the fastest since 1981-82. As a result, the turnaround in real GDP growth is likely to lag the turnaround in consumption as firms reduce production to cut excess stockpiles.

Retail Sales & Food Services  
% Change - Year to Year



Retail Sales Ex: Autos, Bldg. Materials & Gas  
% Change - Year to Year



Retail Sales <i>All Data Seasonally Adjusted</i>	Dec-08	Nov-08	Oct-08	3-mo % Ch. <i>annualized</i>	6-mo % Ch. <i>annualized</i>	Yr to Yr <i>% Change</i>
<b>Retail Sales and Food Services</b>	-2.7%	-2.1%	-3.4%	-28.3%	-20.1%	-9.8%
<b>Ex Autos</b>	-3.1%	-2.5%	-2.9%	-29.0%	-18.5%	-6.7%
<b>Ex Autos and Building Materials</b>	-3.1%	-2.5%	-3.0%	-29.2%	-18.5%	-6.5%
<b>Ex Autos, Building Materials and Gasoline</b>	-1.4%	-0.3%	-0.7%	-8.9%	-7.0%	-0.6%
<b>Autos</b>	-0.7%	-0.3%	-5.9%	-24.7%	-27.3%	-22.4%
<b>Building Materials</b>	-2.9%	-2.8%	-2.2%	-27.7%	-19.0%	-8.9%
<b>Gasoline</b>	-15.9%	-18.3%	-13.1%	-87.3%	-66.5%	-35.5%

Source: Bureau of Census

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