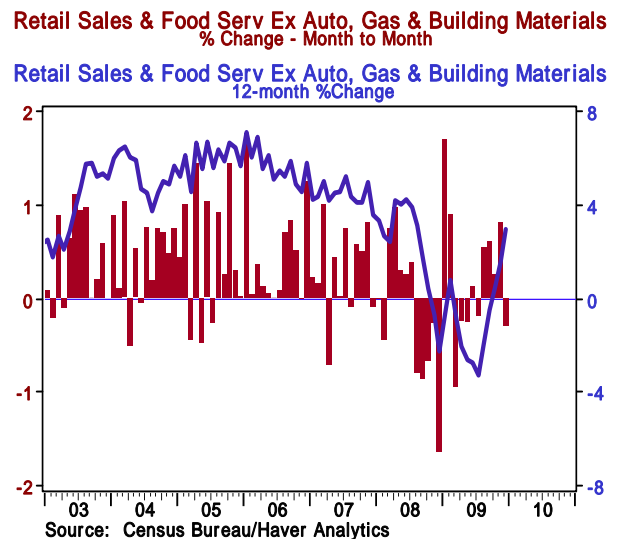
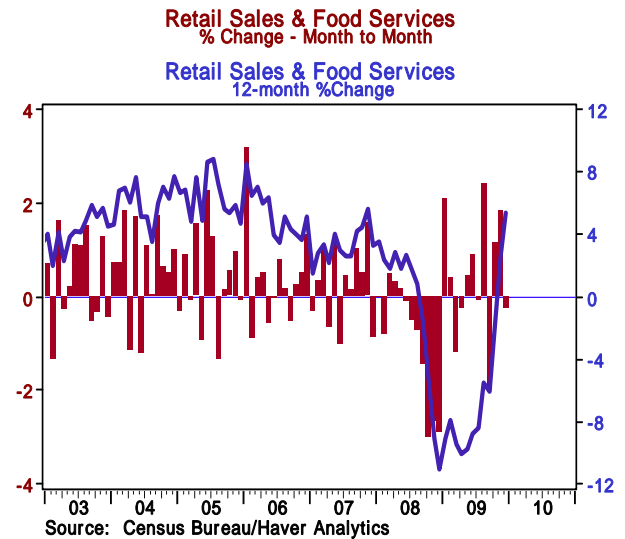


DECEMBER RETAIL SALES

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- Retail sales declined 0.3% in December, falling short of the consensus expected gain of 0.5%. Retail sales excluding autos declined 0.2% versus a consensus expected rise of 0.3%. If we include the large upward revisions to November, which more than offset the December declines, sales were up 0.3% overall and 0.5% excluding autos.
- Despite the drop in December, retail sales are up at a 6.0% annual rate versus June (just before cash for clunkers) and up at an 11.3% rate in the past three months. Excluding autos, retail sales are up at a 7.1% rate over the past three months.
- No single category of sales moved substantially either up or down in December. The largest declines were for autos and department stores/warehouse clubs. The largest gains were for non-store retailers (internet/mail-order) and at gas stations.
- Sales excluding autos, building materials, and gas were down 0.3% in December, but unchanged including upward revisions for November. This key measure of sales is up at a 3.5% annual rate in the past six months.

Implications: The big story in today's retail report was the large revisions for November. Despite surprising declines in December, with positive November revisions included, sales were up 0.3% overall and 0.5% excluding the auto sector. We do not view December declines as a new trend and think the 3-month and 6-month changes provide an accurate picture of a recovering consumer. Overall retail sales are up 5.4% versus last year. Moreover, had cash-for-clunkers not front-loaded some sales into the summer, December 2009 would have looked even better relative to a year ago. The return to economic growth is generating enough income that workers and investors can both shop and pay down debt. Meanwhile, workers think the jobless rate is not going much higher, if at all, and are therefore more likely to spend. In other news this morning, new claims for unemployment insurance increased 11,000 last week to 444,000. However, the four-week moving average fell to 441,000, the lowest since August 2008 (before the collapse of Lehman Brothers). Continuing claims for regular state benefits fell 211,000 to 4.60 million. On the inflation front, import prices were unchanged in December but up 8.6% versus last year and up 0.5% excluding oil. Export prices increased 0.6% in December and are up 3.4% versus a year ago. Excluding agriculture, export prices are up 2.9% versus last year. The economy is getting better and inflation is creeping back.



Retail Sales <i>All Data Seasonally Adjusted</i>	Dec-09	Nov-09	Oct-09	3-mo % Ch. <i>annualized</i>	6-mo % Ch. <i>annualized</i>	Yr to Yr <i>% Change</i>
Retail Sales and Food Services	-0.3%	1.8%	1.2%	11.3%	6.0%	5.4%
Ex Autos	-0.2%	1.9%	0.0%	7.1%	5.6%	5.2%
Ex Autos and Building Materials	-0.1%	1.9%	0.1%	7.6%	6.7%	6.3%
Ex Autos, Building Materials and Gasoline	-0.3%	0.8%	0.2%	3.1%	3.5%	3.0%
Autos	-0.8%	1.2%	7.4%	35.4%	7.8%	6.0%
Building Materials	-0.4%	2.3%	-1.5%	1.5%	-6.2%	-5.8%
Gasoline	1.0%	9.6%	-1.2%	43.4%	31.0%	33.6%

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.