First Trust

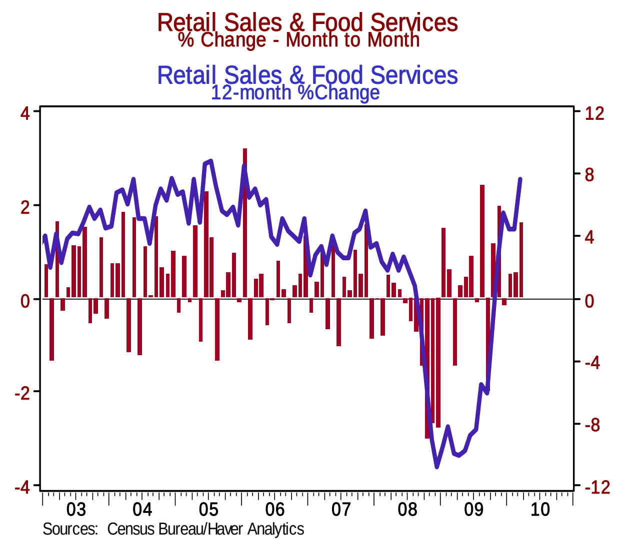
Data Watch

April 14, 2010 • 630.517.7756 • http://www.ftportfolios.com

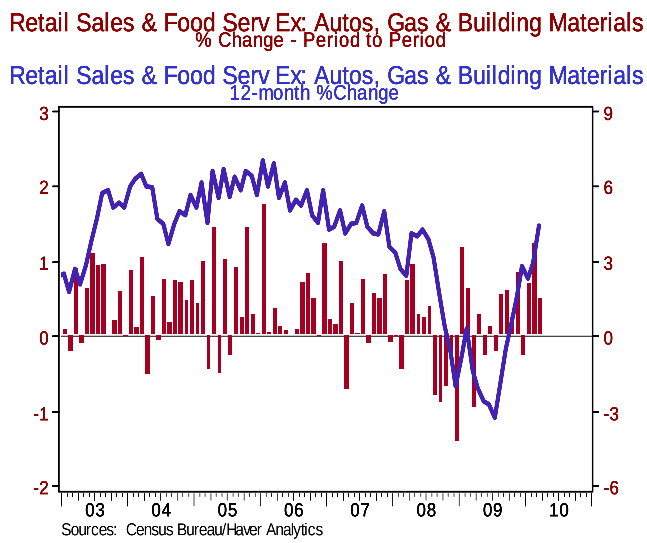
MARCH RETAIL SALES

Chief Economist – Brian S. Wesbury
Senior Economist – Robert Stein, CFA

- Retail sales soared 1.6% in March while sales excluding autos gained 0.6%, both beating consensus expectations. Including upward revisions to January/February, retail sales increased 2.1% overall and 0.9% excluding autos.
- In the past six months, retail sales are up at an 11.7% annual rate while sales ex-autos are up at an 8.4% rate.
- Almost every major category of sales increased in March. The strongest increases were for autos, building materials, and clothing. The only one to show a decline was gas, a category usually driven by price changes, not volume.
- Sales excluding autos, building materials, and gas were up 0.5% in March (0.9% with revisions) and up at a 6.7% annual rate in the past six months. This calculation is important for estimating GDP.



Implications: Today's report should prove once and for all that the consumer is not dead, is not on life support, and certainly doesn't need special government assistance. Including revisions to prior months, retail sales were up 2.1% in March. Some of the gain may be due to Easter, which floats from year to year, making it hard for the government to seasonally-adjust. But the underlying upward trend is unmistakable. Last summer, during cash-for-clunkers, many analysts said gains in retail were temporary. They thought consumption would slump once the incentive program ended. But retail sales are now up at an 11.7% annual rate in the past six months, after the program ended. Retail sales were up at a 7.9% annual rate in Q1 versus the Q4 average. These figures suggest "real" consumer spending, which means inflation-adjusted and including services, should be up at a 4%+ annual rate in Q1. Most importantly, the gains in sales are broadening out. For example, building materials are up in four of the last five months, a positive sign that home construction is picking up, perhaps leading to some hiring by residential builders. Consumer spending is growing for two major reasons. First, while debt is still declining, the pace of the reduction in debt is slowing. Second, incomes are growing and recovering while booming markets are boosting confidence about future income. The V-shaped recovery train has left the station. Now it's time to sit back and watch other investors catch up.



Retail Sales *All Data Seasonally Adjusted*	Mar-10	Feb-10	Jan-10	3-mo % Ch. annualized	6-mo % Ch. annualized	Yr to Yr % Change
Retail Sales and Food Services	**1.6%**	0.5%	0.5%	11.0%	11.7%	7.6%
Ex Autos	**0.6%**	1.0%	0.6%	9.3%	8.4%	6.4%
Ex Autos and Building Materials	**0.4%**	1.1%	0.7%	9.2%	8.5%	6.9%
Ex Autos, Building Materials and Gasoline	**0.5%**	1.2%	0.7%	10.1%	6.7%	4.4%
Autos	**6.7%**	-1.9%	-0.1%	19.8%	29.6%	14.1%
Building Materials	**3.1%**	0.1%	-0.5%	11.0%	7.7%	0.5%
Gasoline	**-0.4%**	0.2%	0.9%	2.7%	21.0%	26.4%

Source: Bureau of Census