

May Retail Sales

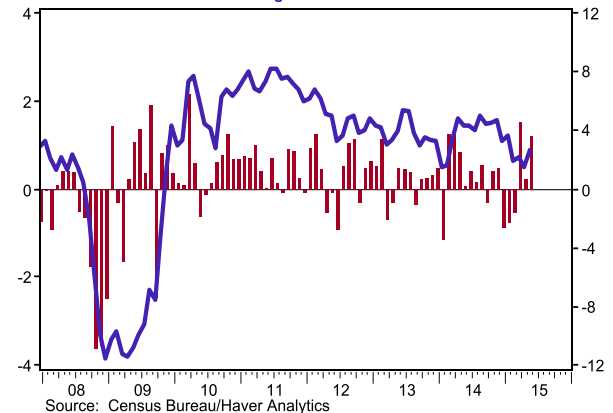
Brian S. Wesbury – Chief Economist
 Robert Stein, CFA – Dep. Chief Economist
 Strider Elass – Economist

- Retail sales increased 1.2% in May, exactly as the consensus expected. Sales increased 1.9% including upward revisions to prior months. Sales are up 2.7% versus a year ago.
- Sales excluding autos increased 1.0% in May and were up 1.4% including revisions to prior months, beating the consensus expected gain of 0.8%. These sales are up 1.3% in the past year. Excluding both autos and gas, sales are up 4.3%.
- The increase in sales in May was led by gains in autos and gas stations.
- Sales excluding autos, building materials, and gas increased 0.6% in April (+1.0% including revisions to prior months). If unchanged in June, these sales will be up at a 4.6% annual rate in Q2 versus the Q1 average.

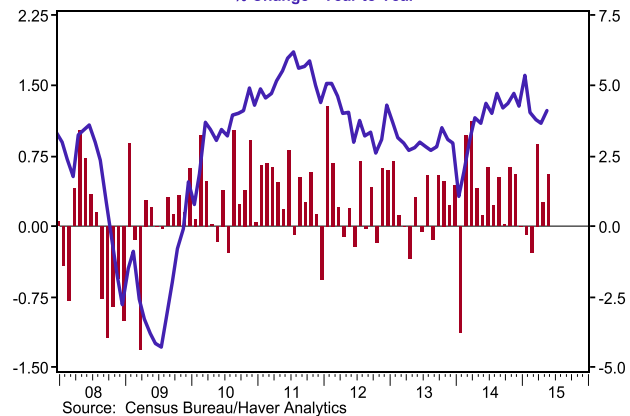
Implications: The economy continues to rebound, leaving behind the temporary lull in the first quarter. Retail sales rose 1.2% in May and were up 1.9% including revisions to prior months. In the past three months, retail sales are up at a whopping 12.6% annual rate, undermining the theory consumers were just sitting on the money they saved from lower gas prices. The largest gains in May were for some of the most volatile categories – autos, gas stations, and building materials. However, “core” sales exclude all three of these categories and were still up 0.6% in May, signaling the breadth of the gain in consumer spending. Core sales have now risen in 14 of the past 16 months, an unusually stubborn upward path, and are up at a 7.1% annual rate in the past three months. Plugging these sales into our models suggests “real” (inflation-adjusted) consumer spending, on goods and services combined, will be up at about a 2.5% annual rate in Q2, an acceleration from the 1.8% pace in Q1. Combined with this morning’s news that business inventories rose 0.4% in April, it now looks like real GDP is growing at about a 3% rate in Q2. Although some analysts will bemoan the fact that overall retail sales are up only 2.7% in the past year, it’s important to recognize that, due to the huge drop in oil prices, overall prices are roughly unchanged from a year ago.

Given continued job growth, relatively healthy consumer balance sheets, and pent-up savings from lower gas prices, look for more solid increases in retail sales in the months ahead. In other news this morning, initial claims for unemployment insurance rose 2,000 last week to 279,000, the 14th straight week below 300,000. The four-week moving average is also 279,000. Continuing claims for regular state benefits increased 61,000 to 2.27 million. These figures are consistent with payroll growth in the 200,000 – 250,000 range in June. Meanwhile, on the inflation front, still no sign of a problem in the trade sector. Import prices increased 1.3% in May but are still down 9.6% from a year ago. The drop is mostly from petroleum, but not all of it; import prices are down 2.6% from a year ago even excluding petroleum. Export prices rose 0.6% in May, and excluding farm products, were up 0.7%. Export prices are down 5.9% from a year ago.

Retail Sales & Food Services
 % Change - Month to Month
Retail Sales & Food Services
 % Change - Year to Year



Retail Sales Ex: Autos, Gas & Building Materials
 % Change - Month to Month
Retail Sales Ex: Autos, Gas & Building Materials
 % Change - Year to Year



Retail Sales <i>All Data Seasonally Adjusted</i>	May-15	Apr-15	Mar-15	3-mo % Ch. <i>annualized</i>	6-mo % Ch. <i>annualized</i>	Yr to Yr <i>% Change</i>
Retail Sales and Food Services	1.2%	0.2%	1.5%	12.6%	1.6%	2.7%
Ex Autos	1.0%	0.1%	1.0%	9.0%	0.1%	1.3%
Ex Autos and Building Materials	0.9%	0.2%	0.9%	8.2%	-0.5%	0.9%
Ex Autos, Building Materials and Gasoline	0.6%	0.3%	0.9%	7.1%	2.8%	4.1%
Autos	2.0%	0.7%	3.5%	27.6%	7.4%	8.2%
Building Materials	2.1%	-0.4%	2.8%	19.5%	6.2%	6.2%
Gasoline	3.7%	-0.6%	1.1%	17.7%	-21.4%	-18.6%

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.