First Trust DATAWATCH

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February Retail Sales

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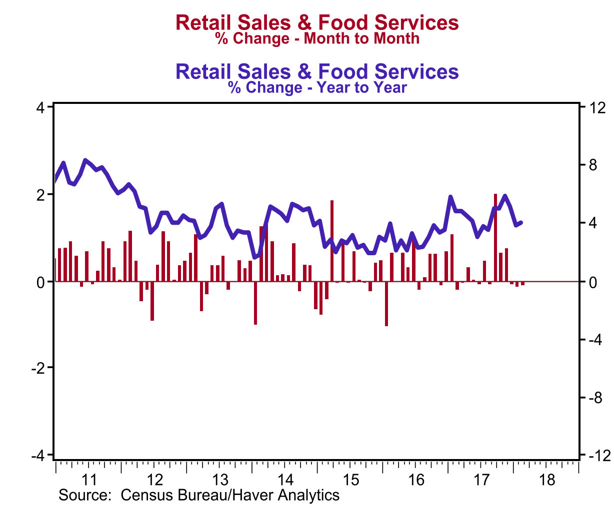
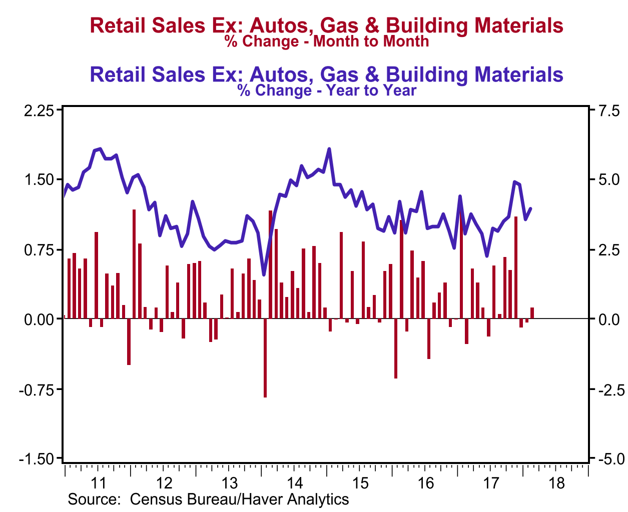
- Retail sales declined 0.1% in February (unchanged including revisions to prior months), lagging the consensus expected 0.3% gain. Retail sales are up 4.0% versus a year ago.
- Sales excluding autos increased 0.2% in February, below the consensus expected 0.4% gain. These sales are up 4.4% in the past year. Excluding gas, sales were unchanged in February, but are up 3.7% from a year ago.
- The decline in sales in February was led by autos and gasoline stations. The largest gain was for building materials.
- Sales excluding autos, building materials, and gas rose 0.1% in February (unchanged including revisions to prior months). If unchanged in March, these sales will be up at a 1.5% annual rate in Q1 versus the Q4 average.





Implications: Retail sales disappointed in February, falling for the third straight month and coming in below consensus expectations. Despite the negative headline number, the recent weakness in spending looks to be moderating; including upward revisions to prior months, sales would have been unchanged in February. Further, retail sales are still up a healthy 4% from a year ago. That being said, plugging in today's report into our GDP models suggests real consumer spending will be up at a roughly 1.0% annual rate in Q1, the slowest pace for any quarter in almost five years. As a result, it now looks like real GDP is only growing at about a 2.0 – 2.5% annual rate in Q1. However, this has more to do with the timing of economic growth than the trend. We remain very optimistic about an acceleration of growth in 2018. At present we estimate that real GDP will grow 3.0%+ this year, which would be the best year since 2005. It is not unusual for retail sales to fall three or four months in a year, even during periods of robust growth. February was one of those months. Hurricanes in the second half of last year pulled some sales forward. It makes sense that autos represented the largest decline in February, as hurricane victims were buying new cars at a rapid clip to replace those destroyed in the storms late last year. Removing autos, sales were up 0.2% in February and 4.4% in the past year, showing the consumer isn't dead. As we get back to normal, expect overall retail sales to resume their trend higher in the months to come. Why are we optimistic about retail sales growth in the months ahead? Jobs and wages are moving up, tax cuts are taking effect, consumers' financial obligations are less than average relative to incomes, and serious (90+ day) debt delinquencies are down substantially from post-recession highs.

Retail Sales *All Data Seasonally Adjusted*	Feb-18	Jan-18	Dec-17	3-mo % Ch. annualized	6-mo % Ch. annualized	Yr to Yr % Change
Retail Sales and Food Services	-0.1%	-0.1%	-0.1%	-0.9%	6.6%	4.0%
Ex Autos	0.2%	0.1%	0.0%	0.9%	6.7%	4.4%
Ex Autos and Building Materials	0.0%	0.2%	-0.1%	0.4%	6.5%	4.4%
Ex Autos, Building Materials and Gasoline	0.1%	0.0%	-0.1%	0.1%	4.8%	3.9%
Autos	-0.9%	-0.9%	-0.2%	-7.6%	6.3%	2.3%
Building Materials	1.9%	-1.7%	1.0%	4.6%	7.9%	4.6%
Gasoline	-1.2%	1.9%	0.1%	3.0%	22.4%	7.9%

Source: Bureau of Census