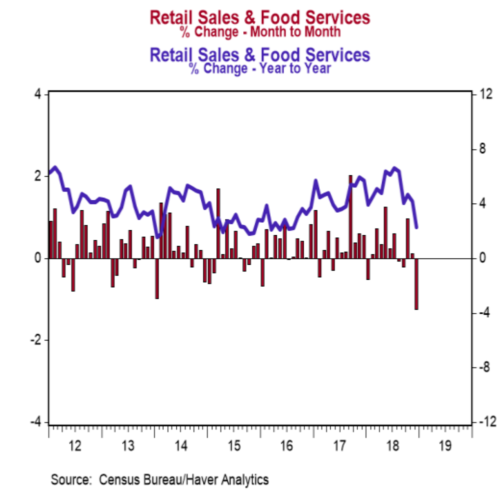
First Trust DATAWATCH

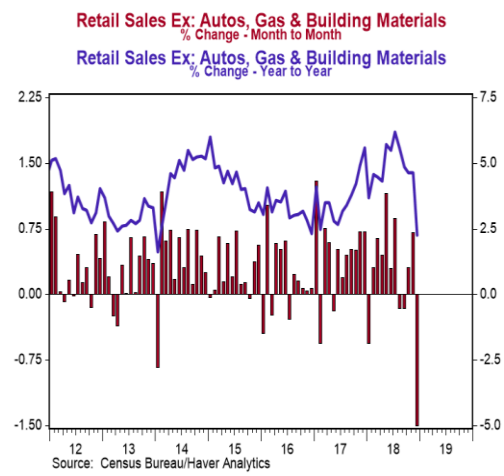
February 14, 2019 • 630.517.7756 • www.ftportfolios.com

December Retail Sales

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

- Retail sales declined 1.2% in December (-1.5% including revisions to prior months), coming in well below the consensus expected gain of 0.1%. Retail sales are up 2.3% versus a year ago.
- Sales excluding autos fell 1.8% in December (-2.3% including revisions to prior months) coming in well below the consensus expected no change. These sales are up 2.0% in the past year. Excluding gas, sales were down 0.9% in December but are up 2.5% from a year ago.
- The drop in sales in December was led by non-store retailers (internet & mail order) and gas stations. The largest gain was for autos.
- Sales excluding autos, building materials, and gas fell 1.6% in December and were down 1.8% including revisions to prior months. These sales were up at a 0.3% annual rate in Q4 versus the Q3 average.





Implications: There's no way around it, today's retail data for December were ugly. Our first inclination, given how inconsistent the report is with other economic data – like surging employment, accelerating wages, and the Johnson-Redbook measure of same-store sales – is to suspect that the partial government shutdown hampered the Census Bureau's ability to collect and process the data. Yes, we know Census said there was no problem, but it certainly appears to be an odd coincidence. Another oddity is that the report shows a 3.9% decline in sales at non-store retailers, which includes internet sales, the largest percentage drop since November 2008 in the midst of the financial crisis. We find that hard to believe and expect either a substantial upward revision or a steep rebound for January. Looking at the report, overall retail sales declined 1.2% in December, falling by the most in nine years, and coming in much lower than any economic forecasting group expected. The declines were broad-based, as eleven of thirteen major categories showed a drop in sales. Sales at gas stations fell 5.1% in December. "Core" sales, which exclude autos, building materials, and gas stations (the most volatile sectors) were down 1.6%, were revised lower for prior months, but are still up 2.3% from a year ago. Plugging today's report into our models suggests "real" (inflation-adjusted) consumer spending, on goods and services combined, will be up at around a 3.0% annual rate in Q4 while real GDP grows at around a 2.5% rate. Given the tailwinds from deregulation and tax cuts, we expect an average real GDP growth rate of close to 3% in both 2018 and 2019, a pace we haven't seen since 2004-05. Jobs and wages are moving up, tax cuts have taken effect, consumer balance sheets look healthy, and serious (90+ day) debt delinquencies are down substantially from post-recession highs. Some may point to household debt at a record high as reason to doubt that consumption growth can continue. But household assets are near a record high, as well. Relative to assets, household debt levels are near the lowest in more than 30 years. In other news today, initial jobless claims rose 4,000 last week to 239,000. Meanwhile, continuing claims rose 37,000 to 1.77 million. However, both remain at very healthy levels and we expect a solid gain in payrolls for February.

Retail Sales *All Data Seasonally Adjusted*	Dec-18	Nov-18	Oct-18	3-mo % Ch. annualized	6-mo % Ch. annualized	Yr to Yr % Change
Retail Sales and Food Services	**-1.2%**	0.1%	1.0%	-0.7%	0.3%	2.3%
Ex Autos	**-1.8%**	0.0%	0.8%	-4.2%	-1.0%	2.0%
Ex Autos and Building Materials	**-2.0%**	0.1%	0.7%	-4.5%	-1.2%	2.0%
Ex Autos, Building Materials and Gasoline	**-1.6%**	0.7%	0.3%	-2.3%	-0.1%	2.3%
Autos	**1.0%**	0.7%	1.6%	13.8%	5.1%	3.4%
Building Materials	**0.3%**	-1.5%	1.3%	0.5%	2.8%	1.4%
Gasoline	**-5.1%**	-4.4%	4.2%	-20.3%	-9.5%	-0.2%

Source: Bureau of Census