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Data Watch

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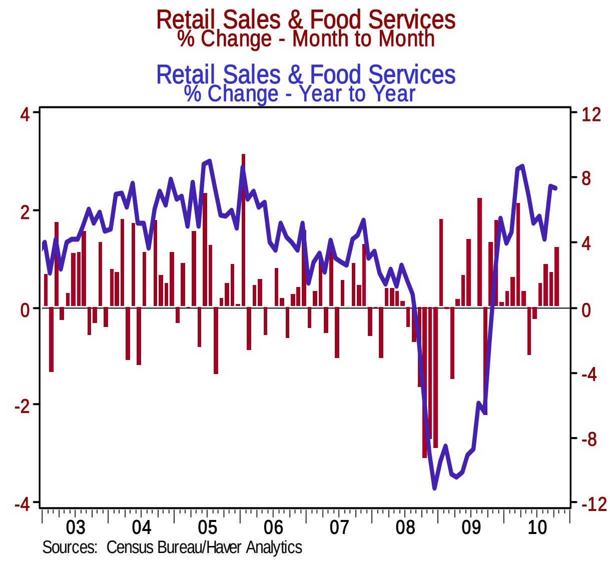
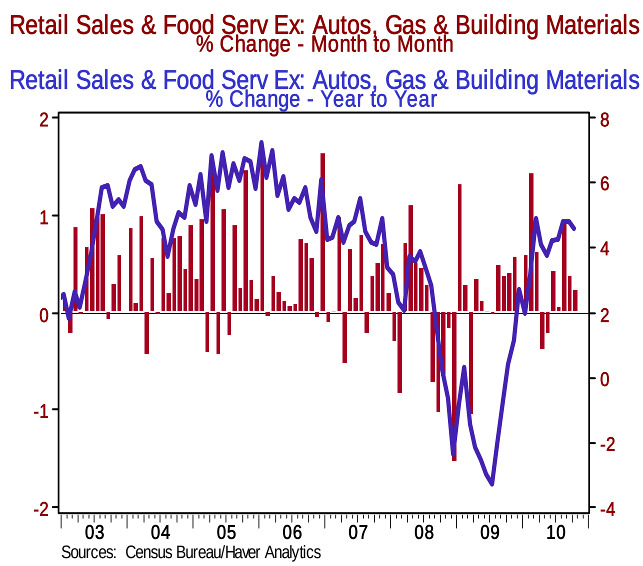
October Retail Sales

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

- Retail sales increased 1.2% in October, beating consensus expectations. Excluding autos, sales increased 0.4%, matching consensus expectations.
- Retail sales were revised up for August and September. Including these revisions, overall sales were up 1.5% and sales ex-autos were up 0.6%. Retail sales are up 7.3% versus a year ago; sales ex-autos are up 6.0%.
- The rise in retail sales in October was led by motor vehicles/parts and building materials. No category of sales had any significant weakness.
- Sales excluding autos, building materials, and gas were up 0.2% in October and are up 4.6% versus last year. This calculation is important for estimating GDP.

Implications: The US economy is picking up steam going into the end of the year. Including upward revisions to prior months, retail sales increased 1.5% in October, the largest gain in seven months. Retail sales are now at their highest level since August 2008 and should hit an all-time high in the coming months. Sales are up 7.3% in the past year; if this is the "new normal," we love it. With growth like this, the Federal Reserve should not be keeping short-term interest rates near zero, much less be experimenting with "quantitative easing." Autos again lead the way in sales in October, but most other major categories of sales increased as well. Two major factors are driving improved consumer spending going into the holiday season. First, paychecks are rising. Total cash earnings in the private sector are up 4.5% in the past year. Second, although consumers are still paying down their debts, they are doing so more slowly. That difference allows them to increase their spending even faster than the gains in their pay. Now, with obligatory household payments (debt service, rent,…etc) a much smaller drag on after-tax incomes, we expect continued solid growth in consumer spending. In other news this morning, the Empire State index, a measure of manufacturing in New York, declined to -11.1 in November from +15.7 in October. That's the lowest reading since the recovery began in mid-2009. We're not concerned about this one drop, but it's worth watching other regional surveys to see if a pattern develops.





Retail Sales *All Data Seasonally Adjusted*	Oct-10	Sep-10	Aug-10	3-mo % Ch. annualized	6-mo % Ch. annualized	Yr to Yr % Change
Retail Sales and Food Services	**1.2%**	0.7%	0.9%	11.8%	3.9%	7.3%
Ex Autos	**0.4%**	0.5%	1.0%	8.2%	1.9%	6.0%
Ex Autos and Building Materials	**0.3%**	0.5%	1.0%	7.4%	3.2%	5.5%
Ex Autos, Building Materials and Gasoline	**0.2%**	0.4%	1.0%	6.3%	3.6%	4.6%
Autos	**5.0%**	1.5%	0.2%	30.5%	13.9%	14.0%
Building Materials	**1.9%**	1.3%	1.3%	19.2%	-10.5%	12.2%
Gasoline	**0.8%**	1.2%	1.6%	15.5%	0.6%	12.3%

Source: Bureau of Census