First Trust DATAWATCH

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February Retail Sales

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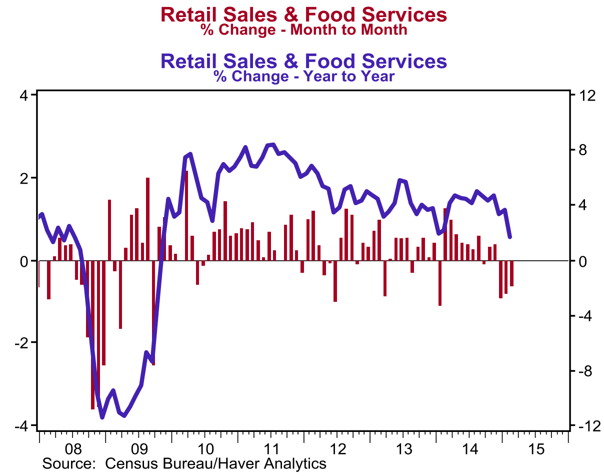
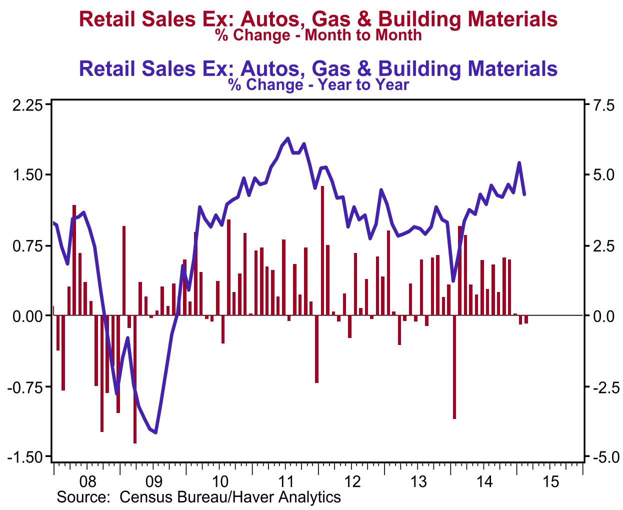
- Retail sales declined 0.6% in February, well below the consensus expected gain of 0.3%. Sales are now up just 1.7% versus a year ago.
- Sales excluding autos declined 0.1% in February (-0.3% including revisions to prior months). The consensus expected a gain of 0.5%. These sales are up just 0.8% in the past year, but excluding autos and gas, sales are up 4.3%.
- The drop in sales in February was led by auto sales and building materials. The strongest categories were nonstore retailers and at gas stations.
- Sales excluding autos, building materials, and gas declined 0.1% in February (-0.3% including revisions to prior months). If unchanged in March, these sales will be up at a 0.4% annual rate in Q1 versus the Q4 average.





Implications: Take the headline drop in retail sales in February with a big grain of salt, the kind used to clear roads, driveways, and sidewalks from winter snow and ice. According to NOAA, this February was the coldest February for the most people since 1979. As a result, consumers huddled indoors, away from auto dealerships in particular. Building materials also dropped steeply, given the weather's effect on construction. Meanwhile, nonstore sales – think online and mail-order – increased the most in 14 months. Most of the major movements in sales in February were in the most volatile sectors: autos and building materials, both influenced by weather, and sales at gas stations, which rose for the first time since May due to a rebound in gas prices. Excluding these volatile sectors, "core" sales were still down 0.1% in February, after a 0.1% dip in January. However, these slight declines are the only two drops in the past year. From 2002-07, during an economic expansion, "core" sales declined about three times per year on average. Although some analysts think today's data will get the Fed to keep the "patient" language at its meeting next week, we strongly disagree. The Fed should and will stay on track to raise rates in June. We expect a strong rebound in consumer spending this Spring as weather patterns return to normal and consumers unleash more of the savings they accumulated due to lower gas prices. Every one cent decline in the price of gas saves consumers about $3.7 million a day. So, today, consumers are spending $130 billion less at an annualized rate versus 6 months ago, or 2.5% of total retail sales. In other news this morning, new claims for unemployment insurance dropped 36,000 last week to 289,000. Continuing claims declined 5,000 to 2.42 million. These figures are consistent with payroll gains of about 250,000 in March. Plugging all today's data into our GDP model, we now estimate that real GDP grew at a 2.4% annual rate in Q4 versus the 2.2% rate reported two weeks ago. For Q1, real GDP estimates are running near 1%, a weak quarter, but not as weak as a year ago when GDP declined.

Retail Sales *All Data Seasonally Adjusted*	Feb-15	Jan-15	Dec-14	3-mo % Ch. *annualized*	6-mo % Ch. *annualized*	Yr to Yr *% Change*
Retail Sales and Food Services	**-0.6%**	-0.8%	-0.9%	-8.8%	-3.2%	1.7%
Ex Autos	**-0.1%**	-1.1%	-0.8%	-7.9%	-3.1%	0.8%
Ex Autos and Building Materials	**0.1%**	-1.2%	-0.9%	-7.9%	-3.1%	0.4%
Ex Autos, Building Materials and Gasoline	**-0.1%**	-0.1%	0.0%	-0.5%	2.8%	4.3%
Autos	**-2.5%**	0.5%	-1.1%	-12.1%	-3.6%	5.4%
Building Materials	**-2.3%**	0.7%	-1.2%	-10.6%	-2.0%	3.9%
Gasoline	**1.5%**	-9.8%	-7.5%	-48.6%	-36.9%	-23.0%

Source: Bureau of Census