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Data Watch

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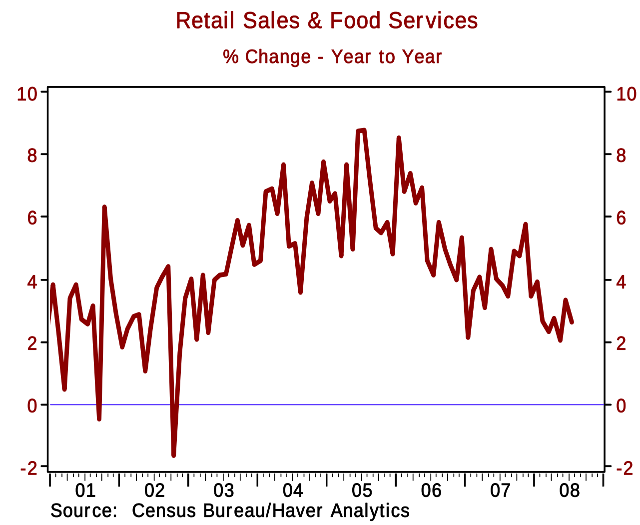
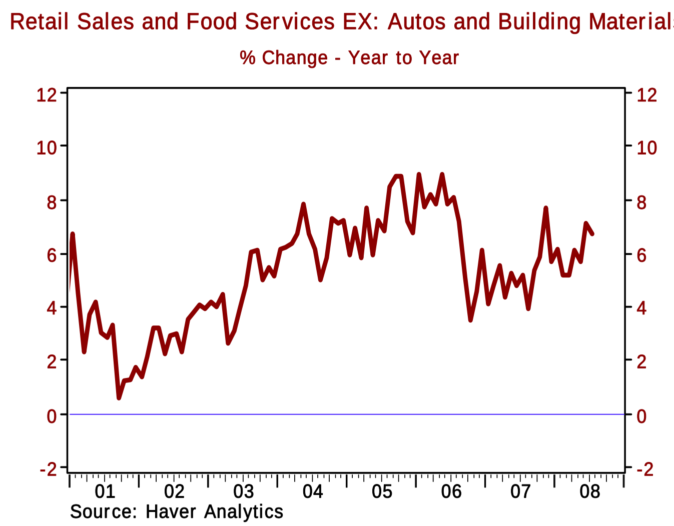
July Retail Sales

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

- Retail sales declined 0.1% in July, exactly as the consensus expected. Retail sales excluding autos increased 0.4% versus a consensus expected 0.5%. Retail sales were revised up for June, largely due to upward revisions for auto sales.
- The weakest component of sales in July, by far, was motor vehicles and parts. The strongest components were gas station sales and non-store retailers (mail order and internet).
- Sales excluding autos, building materials, and gas were up 0.3% in July, up at a 6.2% annual rate in the past six months, and up 3.8% versus last year.





Implications: The US economy is nowhere close to recession. Although overall retail sales declined a slight 0.1% in July, "core" retail sales (excluding autos/building materials/gas) increased a respectable 0.3%, were revised up in June, and are up at a 6.2% annual rate in the past six months. Many analysts will attribute the gains to the tax rebate checks, but the pace of sales growth was slightly faster in the three months before the rebates than the three months after. Also, the (inflation-adjusted) trade deficit is declining rapidly. Neither of these facts is consistent with an economy being supported by government largesse. With gas prices heading down (finally!), look for auto sales to rebound in the months ahead. In other news this morning, inflation is rampant in the trade sector. Import prices increased 1.7% in July and are up 21.6% versus last year, a record high. This is not all due to oil. Ex-petroleum, import prices are up 8%, the most since 1988. Meanwhile, overall export prices are up 10.2% in the past year and exports ex-agriculture are up 7.5%. From the mid-1990s through the mid-2000s, capital goods import prices fell at an annual rate of 3% per year. Now, despite continued productivity growth and globalization, even these items are up 2% in the past year. If the Federal Reserve does not reverse the tide of inflation by tightening monetary policy, it risks an erosion of the long term growth potential of the US economy.

Retail Sales *All Data Seasonally Adjusted*	**Jul-08**	**Jun-08**	**May-08**	**3-mo % Ch.** ***annualized***	**6-mo % Ch.** ***annualized***	**Yr to Yr** ***% Change***
Retail Sales and Food Services	**-0.1%**	0.3%	0.8%	4.1%	2.4%	2.6%
Ex Autos	**0.4%**	0.9%	1.2%	10.3%	8.3%	6.0%
Ex Autos and Building Materials	**0.4%**	1.0%	1.0%	10.3%	8.4%	6.7%
Ex Autos, Building Materials and Gasoline	**0.3%**	0.5%	0.7%	6.0%	6.2%	3.8%
Autos	**-2.4%**	-2.1%	-0.9%	-19.7%	-19.6%	-10.5%
Building Materials	**0.3%**	-0.3%	2.5%	10.2%	7.7%	-1.0%
Gasoline	**0.8%**	4.0%	3.3%	37.1%	21.1%	24.6%

Source: Bureau of Census