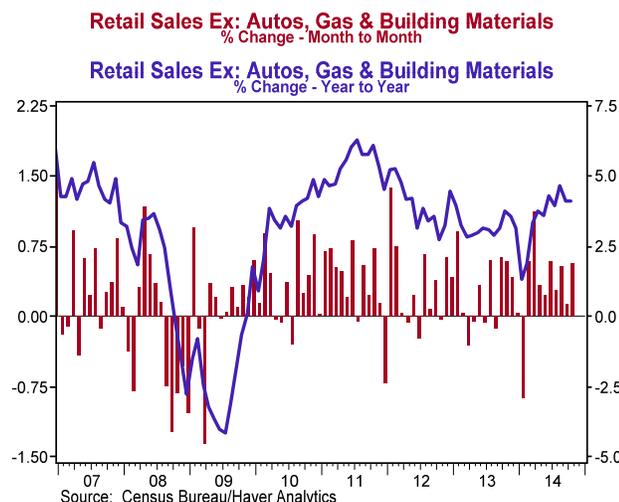
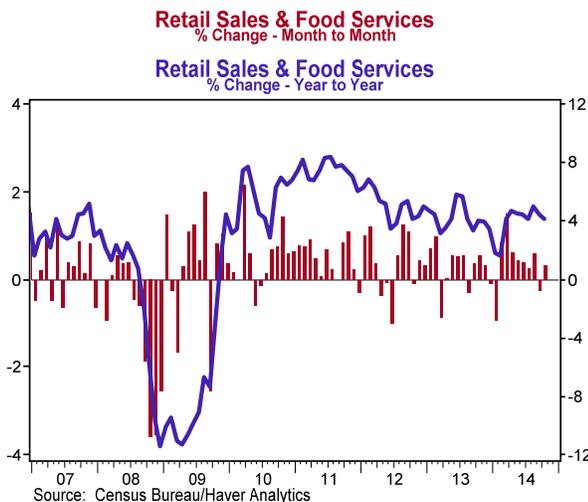


# October Retail Sales

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- Retail sales increased 0.3% in October, and including revisions to prior months were up 0.4%, coming in above the consensus expected gain of 0.2%. Sales are up 4.1% versus a year ago.
- Sales excluding autos rose 0.3% in October, and were up 0.5% including revisions to prior months, coming in above the consensus expected gain of 0.2%. These sales are up 3.3% in the past year.
- The increase in sales in October was led by non-store retailers (internet and mail-order), autos, and restaurants & bars. The weakest category, by far, was gas stations.
- Sales excluding autos, building materials, and gas were up 0.6% in October and, including revisions to prior months, were up 0.8%. If unchanged in November and December, these sales will be up at a 3.5% annual rate in Q4 versus the Q3 average.

**Implications:** Retail sales rebounded in October after a temporary dip in September. Although sales increased a pedestrian 0.3%, what makes this so impressive is that, due to plummeting oil prices, sales at gas stations dropped 1.5%. Gas prices are down 7.6% from a year ago and may continue to be a good headwind for total retail sales. Largely due to horizontal drilling and fracking, US oil production just crossed 9 million barrels a day, the most since 1986. The reason we call it a good headwind is that lower gas prices will hold down overall inflation even as consumers take the money they save on gas and buy other items, so “real” (inflation-adjusted) consumer spending will not be affected. Today’s report shows signs of that shift. “Core” sales, which exclude autos, building materials and gas, increased 0.6% in October and 0.8% including upward revisions to August and September. These sales, which are a key input into GDP calculations, are up nine months in a row. If unchanged in November and December, core sales would still be up 3.5% at an annual rate in Q4 versus Q3. We expect consumer spending to accelerate in the year ahead, as lower unemployment means an acceleration in income gains at the same time consumer debt service is hovering near multiple-decade lows. In other news this morning, still no sign of inflation in the trade sector. Import prices fell 1.3% in October, although they declined only 0.1% excluding petroleum. Export prices fell 1% in October. In the past year, import prices are down 1.8% while export prices are down 0.8%. In other recent news, new claims for jobless benefits rose 12,000 last week to 290,000. Continuing claims for regular state benefits increased 36,000 to 2.39 million. Despite these increases, our models still show solid payroll growth of around 195,000 in November. The economy came into 2014 as a Plow Horse and looks like it’ll be leaving it a Plow Horse as well.



| Retail Sales<br><i>All Data Seasonally Adjusted</i> | Oct-14       | Sep-14 | Aug-14 | 3-mo % Ch.<br><i>annualized</i> | 6-mo % Ch.<br><i>annualized</i> | Yr to Yr<br><i>% Change</i> |
|---|--------------|--------|--------|---------------------------------|---------------------------------|-----------------------------|
| <b>Retail Sales and Food Services</b>               | <b>0.3%</b>  | -0.3%  | 0.6%   | 2.7%                            | 3.6%                            | 4.1%                        |
| <b>Ex Autos</b>                                     | <b>0.3%</b>  | 0.0%   | 0.3%   | 2.3%                            | 3.2%                            | 3.3%                        |
| <b>Ex Autos and Building Materials</b>              | <b>0.3%</b>  | 0.0%   | 0.3%   | 2.4%                            | 3.0%                            | 3.0%                        |
| <b>Ex Autos, Building Materials and Gasoline</b>    | <b>0.6%</b>  | 0.1%   | 0.6%   | 5.2%                            | 4.9%                            | 4.1%                        |
| <b>Autos</b>  | <b>0.5%</b>  | -1.2%  | 1.8%   | 4.4%                            | 5.0%                            | 7.6%                        |
| <b>Building Materials</b>                           | <b>0.4%</b>  | -0.6%  | 0.7%   | 2.3%                            | 3.9%                            | 6.4%                        |
| <b>Gasoline</b>                                     | <b>-1.5%</b> | -0.8%  | -1.5%  | -14.1%                          | -7.9%                           | -4.0%                       |

Source: Bureau of Census

This report was prepared by First Trust Advisors L. P., and reflects the current opinion of the authors. It is based upon sources and data believed to be accurate and reliable. Opinions and forward looking statements expressed are subject to change without notice. This information does not constitute a solicitation or an offer to buy or sell any security.