First Trust DATAWATCH

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September Retail Sales

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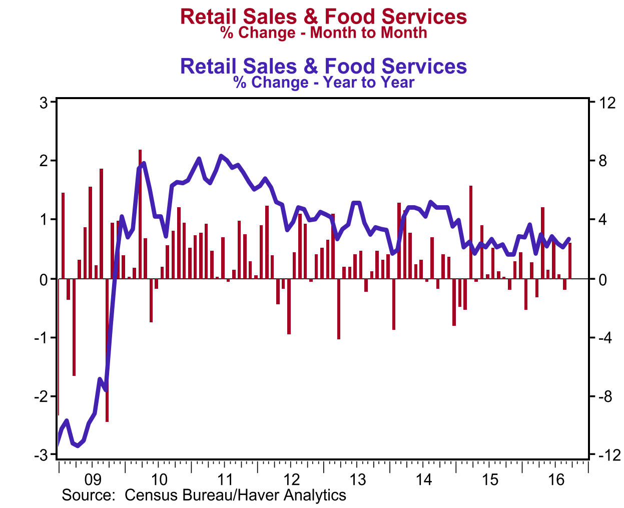
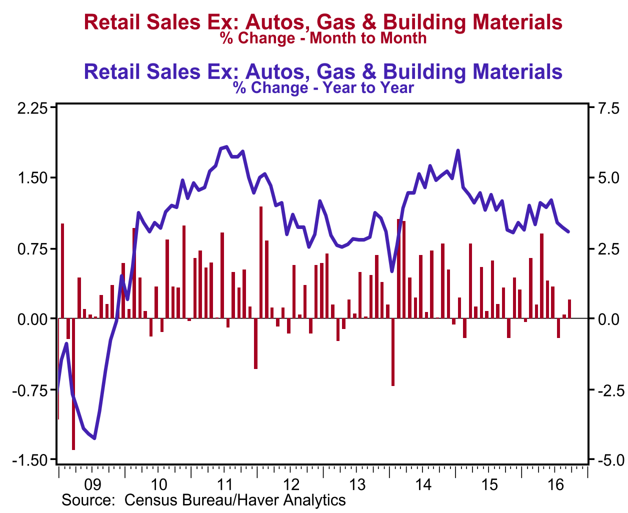
- Retail sales rose 0.6% in September matching consensus expectations. Including revisions to prior months, retail sales increased 0.8%. Retail sales are up 2.7% versus a year ago.
- Sales excluding autos rose 0.5% in August, also matching consensus expectations. These sales are up 2.7% in the past year. Excluding both autos and gas, sales are up 3.4% versus a year ago.
- The increase in sales in September was led by autos, gas stations, and restaurants & bars. The largest decline was for general merchandise stores.
- Sales excluding autos, building materials, and gas rose 0.2% in September. These sales were up at a 1.1% annual rate in Q3 versus the Q2 average.





Implications: Retail sales rebounded at a robust pace in September, finishing the third quarter on a strong note. Sales rose 0.6% in September, led by volatile components, such as autos and gas stations. However, the gains were also broad, with ten of thirteen major categories of sales growing in September. "Core" sales, which exclude autos, building materials, and gas, rose 0.2% in September and are up 3.1% from a year ago. Although sales at gas stations rose 2.4% in September, they're still down 3.4% from a year ago due to lower oil prices; vehicle miles driven in the United States are at the highest levels in history over the past twelve months. In other words, weakness at gas stations signals the ability to consume elsewhere. Incorporating today's data into our models, we now estimate that "real" (inflation-adjusted) consumer spending on goods and services, combined, rose at about a 2.5% annual rate in Q3. As a result, we're now forecasting that real GDP grew in the 2.0-2.5% annual rate range in Q3. We'll be looking at the numbers more closely this weekend and then generate a detailed forecast in next week's Monday Morning Outlook. Either way, look for continued growth in both real GDP and real consumer spending in the months ahead. Employment continues to expand, while wage growth is accelerating and consumer debt service obligations are low by historical standards. Overall, the economy remains a Plow Horse, but consumer purchasing power and, therefore, spending, should remain one of the bright spots. An even brighter spot is the labor market. Yesterday, it was reported that initial unemployment claims remained unchanged last week at 246,000, tying the lowest level since November 1973 and the 84th consecutive week below 300,000. Meanwhile, continuing claims declined 16,000 to 2.046 million, a new cycle low. Plugging these figures into our models suggests payroll growth in the 200,000 to 225,000 range for October, which will keep the Fed firmly on track for raising rates by the end of the year.

Retail Sales *All Data Seasonally Adjusted*	**Sep-16**	**Aug-16**	**Jul-16**	**3-mo % Ch.** ***annualized***	**6-mo % Ch.** ***annualized***	**Yr to Yr** ***% Change***
Retail Sales and Food Services	**0.6%**	-0.2%	0.1%	2.1%	5.4%	2.7%
Ex Autos	**0.5%**	-0.2%	-0.4%	-0.1%	3.9%	2.7%
Ex Autos and Building Materials	**0.4%**	-0.1%	-0.4%	-0.3%	4.2%	2.4%
Ex Autos, Building Materials and Gasoline	**0.2%**	0.0%	-0.2%	0.2%	3.5%	3.1%
Autos	**1.1%**	-0.3%	2.0%	11.5%	11.4%	2.5%
Building Materials	**1.4%**	-0.8%	-0.3%	1.6%	-0.3%	5.6%
Gasoline	**2.4%**	-1.4%	-2.2%	-4.7%	11.2%	-3.4%

Source: Bureau of Census