First Trust DATAWATCH

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January Retail Sales

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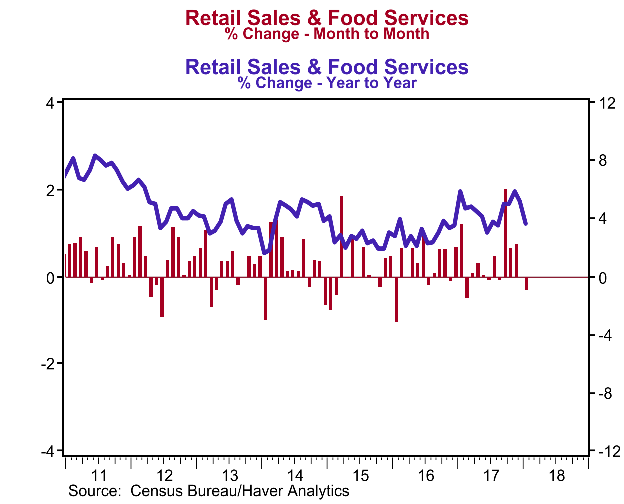
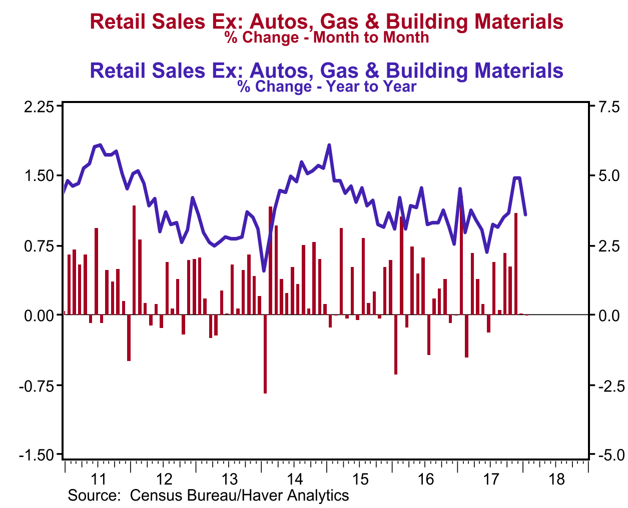
- Retail sales declined 0.3% in January (-0.7% including revisions to prior months), lagging the consensus expected 0.2% gain. Retail sales are up 3.6% versus a year ago.
- Sales excluding autos were unchanged in January (-0.4% including revisions to prior months), coming in below the consensus expected 0.5% gain. These sales are up 4.2% in the past year. Excluding gas, sales were down 0.4% in January, but are up 3.2% from a year ago.
- The decline in sales in January was led by autos and building materials. The largest gain was for sales at gas stations.
- Sales excluding autos, building materials, and gas were unchanged in January (-0.5% including revisions to prior months). If unchanged in February/March, these sales will be up at a 1.5% annual rate in Q1 versus the Q4 average.





Implications: Retail sales fell well short of expectations in January and were revised down for November and December. Overall, a dismal report relative to expectations that have improved with growing optimism about the economy. Retail sales in January itself declined 0.3%, versus the consensus expected gain of 0.2%. As a result, it now looks like real GDP grew at a 2.3% annual rate in the fourth quarter instead of the original report of 2.6%. In addition, it also looks like real GDP is growing at about a 3.0% annual rate in Q1 versus our prior estimate of 4.0%. That said, today's report has more to do with the *timing* of economic growth; it does not alter our general optimism about an acceleration of growth in 2018. At present we estimate that real GDP will grow 3.4% this year, which would be the best year since 2003. It is not unusual for retail sales to fall three or four months in a year, even during periods of robust growth. January was one of those months. Hurricanes in the second half of last year pulled some sales forward. It makes sense that autos and building materials were the largest decliners in January, as hurricane victims were fixing and replacing houses and buying new cars at a rapid clip late last year. As we get back to normal, expect retail sales to resume their trend higher in the months to come. Even with today's decline, both overall retail sales and "core" sales, which exclude autos, building materials, and gas, are up a respectable 3.6% from a year ago. Why are we optimistic about retail sales growth in the months ahead? Jobs and wages are moving up, tax cuts are taking effect, consumers' financial obligations are less than average relative to incomes, and serious (90+ day) debt delinquencies are down substantially from post-recession highs.

Retail Sales *All Data Seasonally Adjusted*	Jan-18	Dec-17	Nov-17	3-mo % Ch. *annualized*	6-mo % Ch. *annualized*	Yr to Yr *% Change*
Retail Sales and Food Services	**-0.3%**	0.0%	0.8%	2.1%	6.5%	3.6%
Ex Autos	**0.0%**	0.1%	1.2%	5.2%	7.3%	4.2%
Ex Autos and Building Materials	**0.2%**	0.0%	1.4%	6.5%	7.7%	4.2%
Ex Autos, Building Materials and Gasoline	**0.0%**	0.0%	1.1%	4.6%	4.9%	3.6%
Autos	**-1.3%**	-0.1%	-1.0%	-9.1%	3.4%	1.5%
Building Materials	**-2.4%**	0.7%	0.0%	-6.9%	2.6%	3.6%
Gasoline	**1.6%**	0.3%	3.4%	22.8%	33.8%	9.0%

Source: Bureau of Census