



Economics Group

Mark Vitner, Senior Economist
mark.vitner@wellsfargo.com • (704) 383-5635
 Tim Quinlan, Economist
tim.quinlan@wellsfargo.com • (704) 374-4407

Consumers Still Lack Purchasing Power

Falling gasoline prices restrained retail sales in June. Overall sales rose 0.1 percent, with sales at gasoline stations plummeting 1.3 percent. Discounting helped boost sales elsewhere, particularly at department stores.

Lower Gasoline Prices Fail to Boost Purchasing Power

Retail sales rose 0.1 percent in June, as stronger sales at motor vehicle dealers were offset by reduced spending at gasoline stations. The 0.8 percent rise in motor vehicle sales was a slight surprise and follows three consecutive months of decline. Motor vehicle sales have been held back by shortages of some popular models, less discounting and higher fuel costs. June's rise in sales likely reflects a better mix toward higher priced vehicles, as the number of units sold has been weak the past few months.

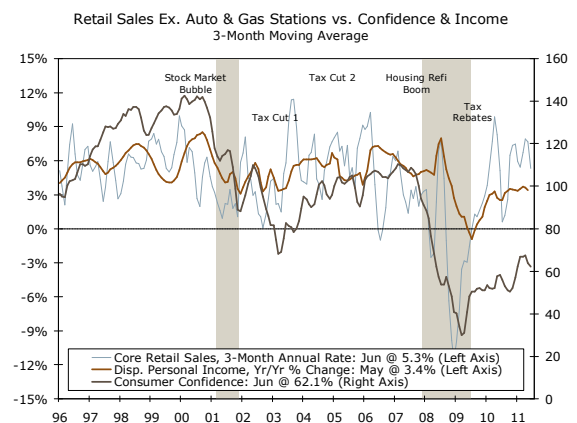
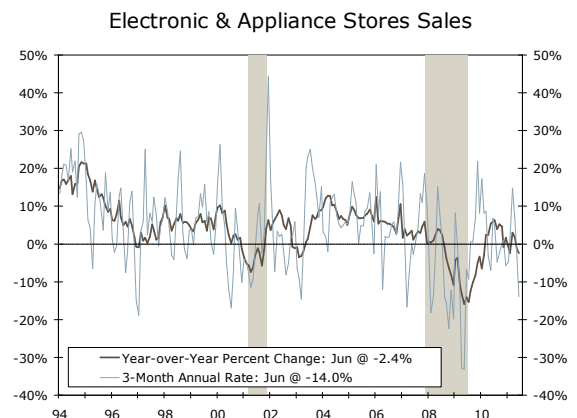
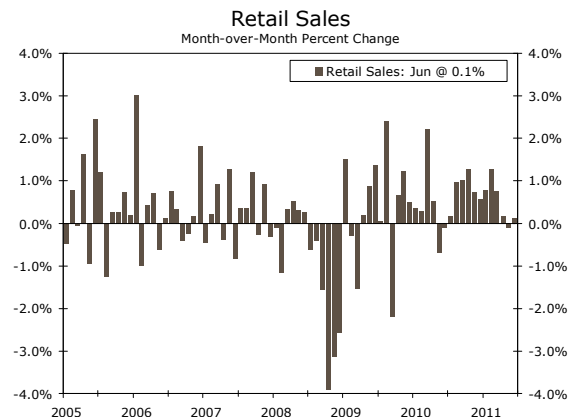
Gasoline station sales fell at about the same pace as expected, falling 1.3 percent in June. Even with the decline, sales at gasoline stations are still running 23.6 percent above their year-ago-level. With consumers still spending more to fill up their gas tanks than they did in early spring and wages and salaries rising ever so slightly, consumers do not have much left to boost spending for other items. Sales did increase across a few categories, including department stores, where sales rose 1.4 percent, and building materials and home improvement centers, where sales rose 1.3 percent. In addition, sales rose 0.7 percent at clothing shops and non-store retailers, which include internet and catalog sales, rose 0.3 percent.

With budgets stretched thin, consumers appear to be waiting for bargains. June is a big discounting month. Department stores and clothing shops tend to clear out summer merchandise to make way for the back to school season. That may be what was behind the big gains reported for June. The increase in department store sales was the largest since February, and the rise in sales at clothing stores was the largest since March.

Discretionary Purchases Continue to Lag

Despite the slight increase in motor vehicle sales, spending for most major discretionary categories remains weak. Sales at furniture stores fell 0.8 percent in June, and sales at electronics stores declined 0.2 percent. In addition, sales fell 0.7 percent at sporting goods stores. All three categories have fallen for the past three months and also show the weakest year-to-year trend of any major category. Sales at electronics stores have fallen 2.3 percent year-on-year, while sales at furniture stores are up a paltry 0.2 percent and sales at sporting goods stores are up just 1.4 percent.

The lack of discretionary spending is a true sign that household budgets are still being stretched by higher gasoline prices. Sales excluding spending at gasoline stations, motor vehicle dealers and home improvement stores rose just 0.1 percent in June and are up at just a 2.0 percent annual rate since gasoline prices spiked in March. After falling in late May and June, gasoline prices have risen more recently, suggesting we will see little relief over the summer, which means consumer spending will likely continue to rise at a 2.0 percent pace or less in the current quarter.



Wells Fargo Securities, LLC Economics Group

Diane Schumaker-Krieg	Global Head of Research & Economics	(704) 715-8437 (212) 214-5070	diane.schumaker@wellsfargo.com
Paul Jeanne	Associate Director of Research & Economics	(443) 263-6534	paul.jeanne@wellsfargo.com
John E. Silvia, Ph.D.	Chief Economist	(704) 374-7034	john.silvia@wellsfargo.com
Mark Vitner	Senior Economist	(704) 383-5635	mark.vitner@wellsfargo.com
Jay Bryson, Ph.D.	Global Economist	(704) 383-3518	jay.bryson@wellsfargo.com
Scott Anderson, Ph.D.	Senior Economist	(612) 667-9281	scott.a.anderson@wellsfargo.com
Eugenio Aleman, Ph.D.	Senior Economist	(704) 715-0314	eugenio.j.aleman@wellsfargo.com
Sam Bullard	Senior Economist	(704) 383-7372	sam.bullard@wellsfargo.com
Anika Khan	Economist	(704) 715-0575	anika.khan@wellsfargo.com
Azhar Iqbal	Econometrician	(704) 383-6805	azhar.iqbal@wellsfargo.com
Ed Kashmarek	Economist	(612) 667-0479	ed.kashmarek@wellsfargo.com
Tim Quinlan	Economist	(704) 374-4407	tim.quinlan@wellsfargo.com
Michael A. Brown	Economist	(704) 715-0569	michael.a.brown@wellsfargo.com
Tyler B. Kruse	Economic Analyst	(704) 715-1030	tyler.kruse@wellsfargo.com
Joe Seydl	Economic Analyst	(704) 715-1488	joseph.seydl@wellsfargo.com
Sarah Watt	Economic Analyst	(704) 374-7142	sarah.watt@wellsfargo.com

Wells Fargo Securities Economics Group publications are produced by Wells Fargo Securities, LLC, a U.S broker-dealer registered with the U.S. Securities and Exchange Commission, the Financial Industry Regulatory Authority, and the Securities Investor Protection Corp. Wells Fargo Securities, LLC, distributes these publications directly and through subsidiaries including, but not limited to, Wells Fargo & Company, Wells Fargo Bank N.A, Wells Fargo Advisors, LLC, and Wells Fargo Securities International Limited. The information and opinions herein are for general information use only. Wells Fargo Securities, LLC does not guarantee their accuracy or completeness, nor does Wells Fargo Securities, LLC assume any liability for any loss that may result from the reliance by any person upon any such information or opinions. Such information and opinions are subject to change without notice, are for general information only and are not intended as an offer or solicitation with respect to the purchase or sales of any security or as personalized investment advice. Wells Fargo Securities, LLC is a separate legal entity and distinct from affiliated banks and is a wholly owned subsidiary of Wells Fargo & Company © 2011 Wells Fargo Securities, LLC.

SECURITIES: NOT FDIC-INSURED/NOT BANK-GUARANTEED/MAY LOSE VALUE