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Economics Group

WELLS FARGO SECURITIES

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

Retail Sales Stall in August

Not only were retail sales unchanged in August, the 0.5 percent gain initially reported for July was revised to a smaller gain of only 0.3 percent. Core sales slowed as well. Consumer spending growth is slowing further.

Uh Oh, Not Again

Zero point zero. Just as we saw with the August jobs report, the retail sales figures for August offer another picture of an economy that has slowed to a virtual standstill. Technically, retail sales actually inched slightly higher, climbing 0.04 percent. All year we have been sticking to our forecast for very slow growth. It does not get much slower than 0.04 percent growth. Despite this disappointing print, we think retail sales will pick up between now and the end of the year, and despite an unemployment rate north of 9 percent, we think that shoppers will still hit the stores as the weather gets cooler and we get closer to the holidays. While it may have been only a small impact, in the Beige Book, the New York Fed reported that Hurricane Irene weighed on sales in the New York area.

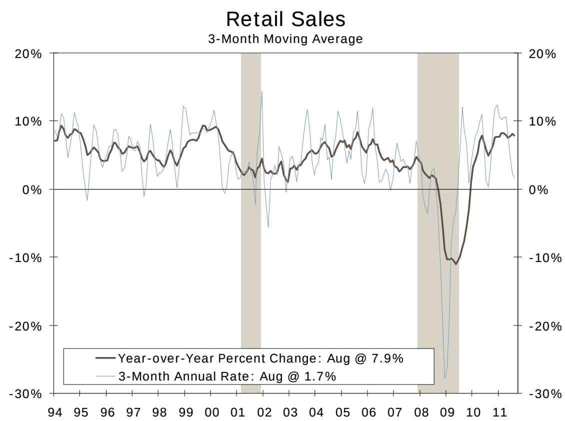
That said, the figures for this month were certainly weaker than expected, though there is no individual category that fully explains the weak outturn. However, there were a few notable misses. For example, clothing store sales fell 0.7 percent in the month, though there are a number of possible explanations for the drop. August is a big back-to-school shopping month, so the decline in clothing stores sales could raise doubts about that critical season for retailers. But given the 5.6 percent jump in this category in the prior month, we suspect perhaps parents just hit the store earlier this year. Also, a lot of apparel brands offered some steep discounts this year, which could also explain the soft number.

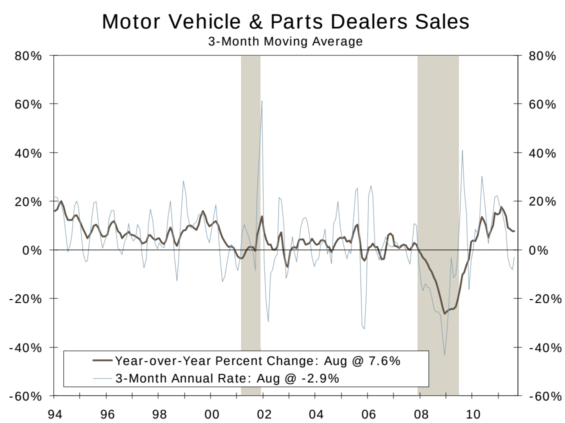
Autos a Drag

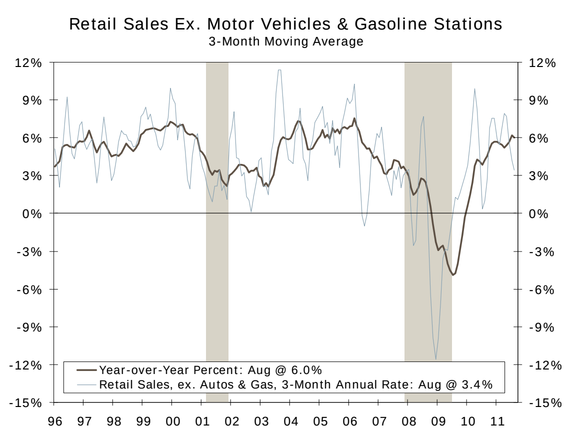
After auto sales jumped more than 6 percent in July, sales on dealer lots slowed 0.3 percent in August, suggesting that perhaps the boost from Japan-related supply chain disruptions has run its course. This would be consistent with original equipment manufacturer sales to dealers, which also came down slightly in August. Looking forward, it is hard to see what would kick auto sales into a higher gear. While we have seen non-revolving debt increasing on trend, consumers seem to be reluctant to make major purchases until the job market firms enough to give would-be new car buyers the confidence to make the leap. The credit is there, the confidence is not.

Core Sales and Consumer Spending Outlook

Core consumer spending also stalled in August. We gauge core spending by stripping out sales of autos, gas and building materials. That measure also posted a 0.0 percent change this month. Somewhat more encouraging, however, is the fact that the three-month annualized rate is still moving along at more than a 3 percent clip. Still, that is a far cry from the more than 8 percent pace we saw earlier this year. We look for consumer spending to grow at about a 1.5 to 2.0 percent pace the rest of this year.







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Wells Fargo Securities, LLC Economics Group

Diane Schumaker-Krieg	Global Head of Research & Economics	(704) 715-8437 (212) 214-5070	diane.schumaker@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

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