



Economics Group

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.

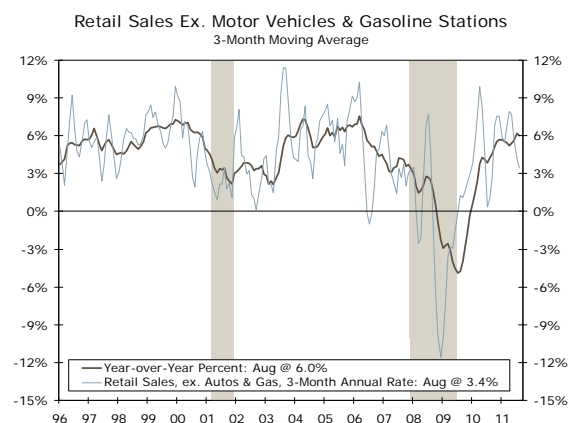
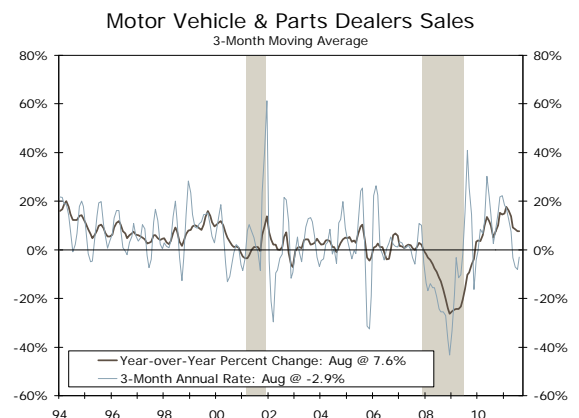
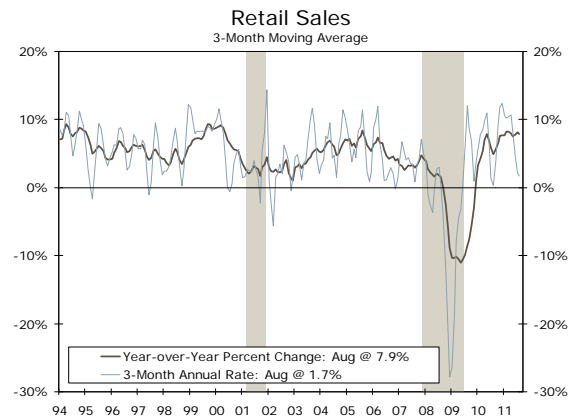
That said, the figures for this month were certainly weaker than expected, though there is no individual category that fully explains the weak outturn. However, there were a few notable misses. For example, clothing store sales fell 0.7 percent in the month, though there are a number of possible explanations 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.



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 |

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, Wells Fargo Securities International Limited, Wells Fargo Securities Asia Limited and Wells Fargo Securities (Japan) Co. 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

