



Economics Group

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Retail Sales Stalled in June

June's retail sales figures provide further evidence that economic activity has slowed in a major way. Overall retail sales fell 0.5 percent, following a 1.1 percent drop in May. Sales ex autos fell 0.1 percent.

One More Reason to Ratchet Down Expectations

Retail sales fell slightly more than expected in June, with overall sales declining 0.5 percent and sales excluding motor vehicles declining 0.1 percent. The weakness was not totally unexpected as several weekly sales measures have been posting declines for much of the past two months and consumer confidence and buying plans both fell sharply in June. The loss of momentum is most apparent in the three-month rate of growth, which has slowed to a 4.1 percent pace for overall sales and just a 2.7 percent pace for sales excluding motor vehicles.

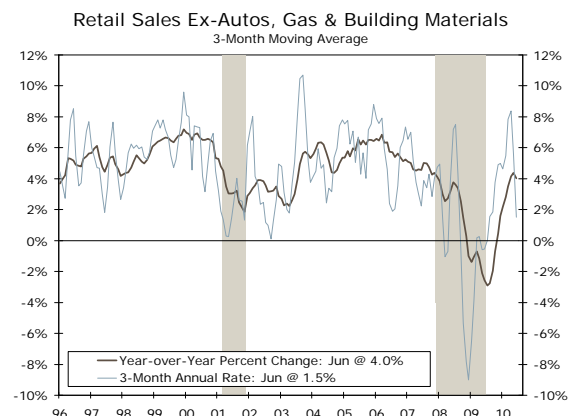
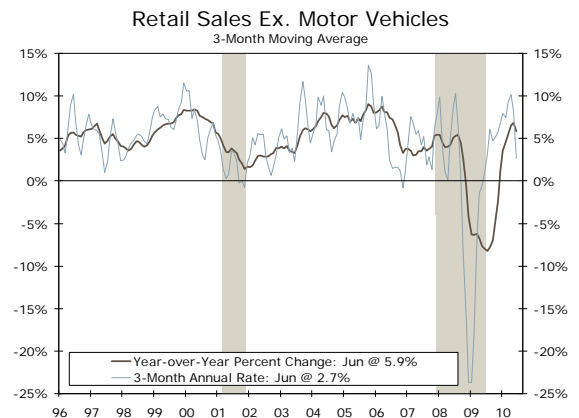
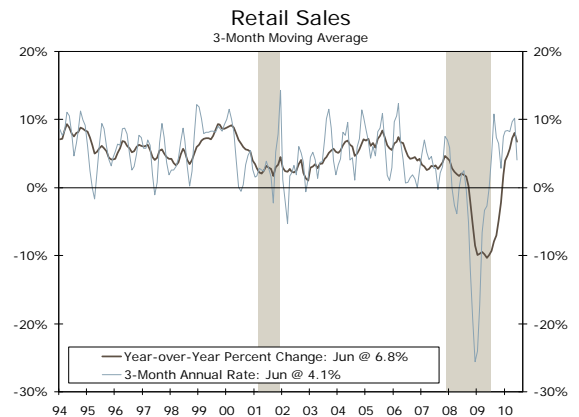
Sales at motor vehicle dealers fell 2.3 percent following a 0.6 percent drop in May. The major motor vehicle manufacturers recently announced they would keep assembly plants operating throughout the summer, as sales were reported to be robust and inventories were reported to be in line with demand or possibly even a bit tight. This morning's sales figures cast some doubt on these predictions and raise the possibility that we may see an unintended build in inventories this summer that requires more extensive sales incentives or production cutbacks to clear out inventory.

Maybe the iPhone Will Save Us

Sales were down across most major categories. Spending at furniture stores fell 1.1 percent in June, marking its third consecutive monthly drop. Spending also fell 1.0 percent at building materials stores and home improvement centers. The drop follows a 9.0 percent plunge in May. Spending had posted much stronger gains earlier this year, when rebates for purchases of energy-efficient appliances boosted sales. Spending also fell sharply at sporting goods stores, gas stations and grocery stores. Sales at the latter two are also being held back by price declines, which are a good thing and provide consumers with a little more discretionary income. Sales rose modestly at department stores and clothing shops, which reportedly discounted heavily in June to clear out summer merchandise.

The one big gainer for the month was electronics stores, where sales jumped 1.3 percent, following a 0.9 percent jump in May. The increases likely reflect the introduction of a number of new smartphones, most notably the newest iPhone, which debuted in June.

Core retail sales, which excludes spending at car dealers, gasoline stations and building materials stores, rose 0.2 percent in June, reversing a similar decline in May. This category matches up well with personal consumption expenditures on goods. While outlays rose 0.2 percent in June, downward revisions to previously reported figures mean personal consumption likely rose less than the 3 percent pace we were expecting. Moreover, since the quarter ended on a weak note, outlays will be hard pressed to post stronger gains in the current quarter.



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