



Economics Group

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Retail Sales Finally Bounce Back

Retail sales bounced back in July, rising 0.8 percent after three consecutive months of declines. The modest rise in sales can be partially attributed to price increases, even as consumption appeared to strengthen.

Rising Prices Partially to Blame for Rise in Sales

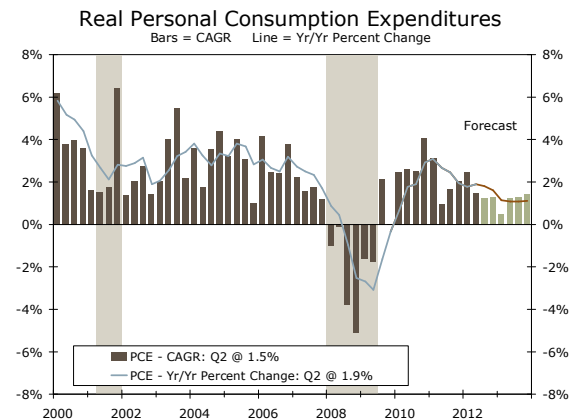
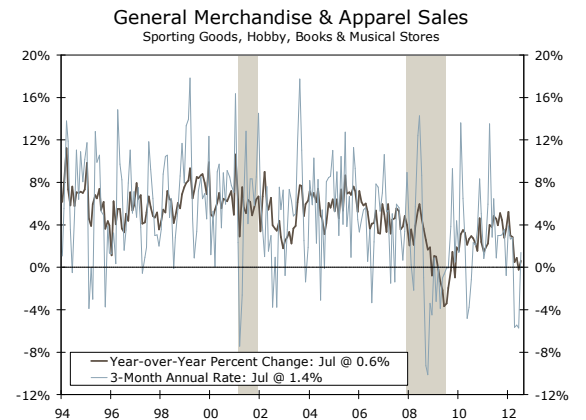
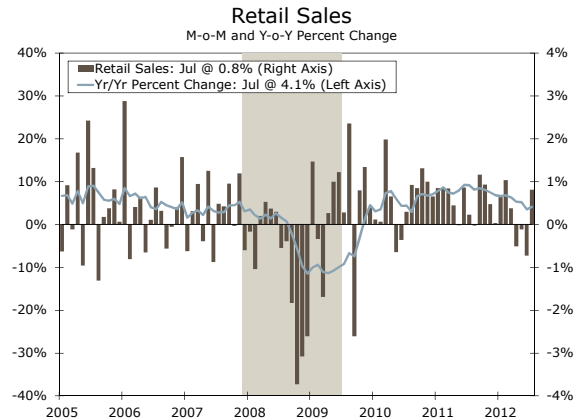
Retail sales rose a modest 0.8 percent in July, the first rebound in retail sales since March. Sales in June were revised down to a decline of 0.7 percent from the originally reported 0.5 percent decline. Excluding automobile sales, retail sales in July rose 0.8 percent as auto sales bounced back, also rising 0.8 percent. Part of the reason for the somewhat higher retail sales numbers was a rise in gasoline prices which rose an average of 19 cents during the month of July. As a result, sales at gasoline stations rose 0.5 percent for the month. Core retail sales remained soft, however, as retail sales excluding gasoline, building material and motor vehicle sales rose 1.2 percent.

The Back-to-School Shopping Season

Retailers saw an improvement in several consumer goods items in July, as end-of-summer clearance sales helped to lift spending. In a separate release, U.S. chain store sales excluding drug stores rose a robust 4.6 percent, as consumers opted to take advantage of deep discounts in the current slow growth environment. This month's retail sales report also reflected consumer's willingness to take advantage of bargains, as sales at clothing stores rose 0.8 percent while electronics sales rose a modest 0.9 percent. In addition, non-store retailers, which capture online sales, improved 1.5 percent, sending non-store retail sales up 15.4 percent on a year-over-year basis. Department store sales on the other hand continue to experience difficulty. Sales among department stores rose 0.6 percent for the month; however, department store sales remain down 3.5 percent on a year-over-year basis. Other areas that saw sales edge higher were furniture which rose 1.1 percent and building materials which climbed 1.0 percent. Sales of personal care items also edged higher for the month.

Retail Sales Likely to Remain Constrained Going Forward

The months ahead will continue to be challenging for consumers, as slow personal income growth and increased economic and political uncertainty will weigh on the willingness of consumers to spend. Consumer confidence remains low, suggesting that consumers are less willing to invest in major durable goods items. While back-to-school shopping in tangent with some state's sales tax holidays should help to support modest retail sales growth in August, the growth trend in sales is not one we expect to continue. Our expectation is that retail sales will continue to downshift over the next couple of quarters averaging just 3.5 percent in the second half of the year, after rising an average of 5.6 percent in the first half of the year. The slow pace of sales will continue to translate into a drag on headline consumer spending, keeping overall personal consumption in the 1.2 percent to 1.3 percent range for the remaining two quarters of 2012.



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