



Economics Group

Mark Vitner, Senior Economist
mark.vitner@wellsfargo.com • (704) 383-5635
Michael A. Brown, Economist
michael.a.brown@wellsfargo.com • (704) 715-0569

Retail Sales Pull Back in May, April Sales Revised Downward

Retail sales pulled back in May, as lower gasoline prices and falling sales of homebuilding materials held down total sales. April's retail sales were also revised lower, suggesting slower consumer spending in Q2.

Falling Gasoline Prices Pulled Down Headline Sales in May

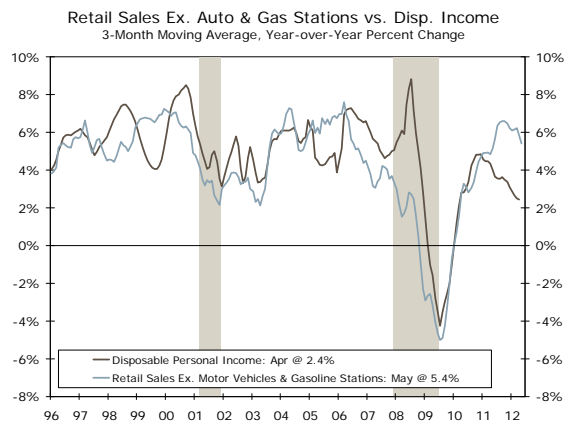
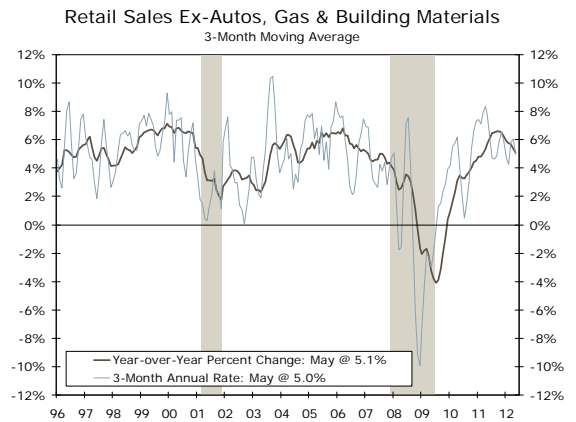
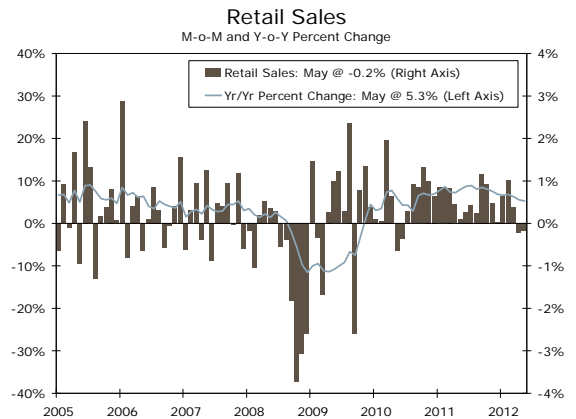
Retail sales slid in May, as declining gasoline prices and a pullback in building material sales during the month helped to pull down the headline retail sales number. Sales at gasoline stations fell 2.2 percent, reflecting the 3.8 percent fall in gasoline price in May. There is also evidence to suggest that prices will continue to trend downward next month, as gasoline prices have declined 3.4 percent thus far in June. Excluding the auto sales and gasoline components, retail sales fell 0.1 percent after falling a revised 0.1 percent in April. Building materials sales were another key weak spot in this morning's report, contracting 1.7 percent after a 2.3 percent decline in April. However, the story with building materials remains the same: Unseasonably warmer weather helped to pull forward housing demand earlier in the year.

Core Sales Also Point Toward Softer Spending

The "core" measure of retail sales, which excludes gasoline sales, auto sales and building materials, remained flat for the month, but more concerning was the sharp downward revision to the April's core sales, which was revised from a 0.4 percent rise to only a 0.1 percent increase. The trend is beginning to point toward softer consumer spending for the second quarter, as the issues in the Eurozone along with slow job gains in the United States weigh on consumers. Indeed, consumer confidence was weaker than expected in May. That said, overall retail sales remain up 5.3 percent from last year's levels. In addition, there were some bright spots in the May report. Motor vehicle sales strengthened, rising 0.8 percent. Sales of electronics also rose a modest 0.8 percent, while sales at clothing stores posted a 0.9 percent increase after falling 1.2 percent in April. Department store sales also bounced back during the month, rising 0.2 percent after a 1.7 percent decline in April. The increased sales in these categories, however, were not enough to offset the contracting sales of building materials and gasoline station sales.

From A Growth Perspective

While the story this month was predominantly gasoline price related, there is a clear trend of somewhat softer retail sales over the past couple of months. Combined with the revised April data, this morning's report suggests that consumer spending should be slightly softer than what we observed in the first quarter. In the absence of strong job gains, personal income growth, and thus consumer spending, will likely continue its subpar pace of growth. We continue to suspect that consumer spending will downshift over the next few quarters, as ongoing uncertainty about the situation in Europe along with increasing uncertainty around fiscal policy in the year ahead will continue to hold back consumer confidence in the second half of the 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	Senior Economist	(704) 715-0575	anika.khan@wellsfargo.com
Azhar Iqbal	Econometrician	(704) 383-6805	azhar.iqbal@wellsfargo.com
Tim Quinlan	Economist	(704) 374-4407	tim.quinlan@wellsfargo.com
Ed Kashmarek	Economist	(612) 667-0479	ed.kashmarek@wellsfargo.com
Michael A. Brown	Economist	(704) 715-0569	michael.a.brown@wellsfargo.com
Joe Seydl	Economic Analyst	(704) 715-1488	joseph.seydl@wellsfargo.com
Sarah Watt	Economic Analyst	(704) 374-7142	sarah.watt@wellsfargo.com
Kaylyn Swankoski	Economic Analyst	(704) 715-0526	kaylyn.swankoski@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 © 2012 Wells Fargo Securities, LLC.

Important Information for Non-U.S. Recipients

For recipients in the EEA, this report is distributed by Wells Fargo Securities International Limited ("WFSIL"). WFSIL is a U.K. incorporated investment firm authorized and regulated by the Financial Services Authority. The content of this report has been approved by WFSIL a regulated person under the Act. WFSIL does not deal with retail clients as defined in the Markets in Financial Instruments Directive 2007. The FSA rules made under the Financial Services and Markets Act 2000 for the protection of retail clients will therefore not apply, nor will the Financial Services Compensation Scheme be available. This report is not intended for, and should not be relied upon by, retail clients. This document and any other materials accompanying this document (collectively, the "Materials") are provided for general informational purposes only.

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