



Economics Group

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Retail Sales Disappoint Again in June

Retail sales fell again in June, declining 0.5 percent after a 0.2 percent decline in May. The disappointing pace of retail sales over the past three months reflects a downshift in the consumer sector in the second quarter.

Broad-Based Weakness Pulls Sales Down Further

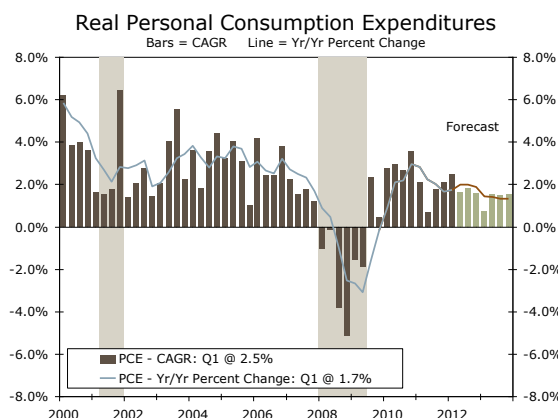
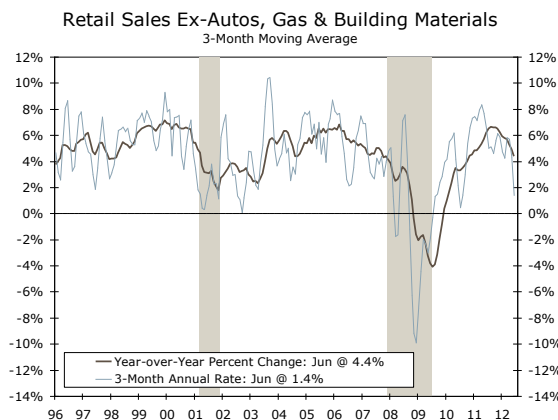
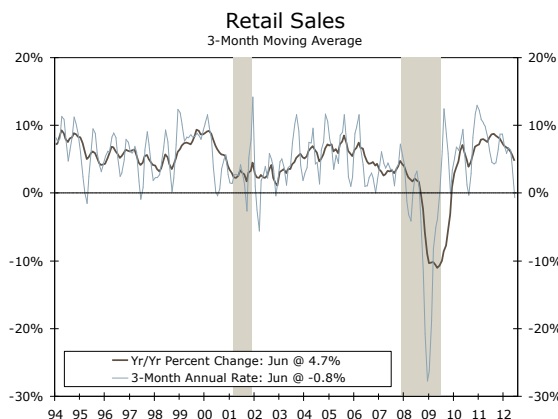
Retail sales fell sharply in June with a decline of 0.5 percent, marking the third consecutive month of declines in retail sales. The three-month annualized rate of retail sales is now down 0.8 percent. Excluding automobiles, sales declined 0.4 percent. The weakness was observed nearly across the board, with sales falling sharply for motor vehicles and parts, furniture, electronics, building materials, health, gasoline stations, sporting goods and department store sales. The automobile category was especially disappointing given the stronger-than-expected June sales to domestic auto dealers which rose to an 11.05 million-unit pace for the month. The 0.6 percent decline in motor vehicle and parts suggests that dealers are having a hard time passing vehicles along to consumers. Among the categories posting a positive reading were the food and beverage and clothing categories.

Special Factors Aside, Weakness Persists

While some of the decline in headline retail sales can be attributed to a pullback in gasoline prices, there is now a clear trend of weakening consumer spending conditions given the broad-based nature of the declines. Another special factor that has been cited over the past couple of months is the unseasonably warm weather that may have pulled demand forward for building materials. However, when looking at the “control” group of retail sales, which strips out auto sales, building materials and gasoline stations, sales still declined 0.1 percent for the month. Given the recently reported pullback in consumer confidence, it is no surprise that we continue to see retail sales consistently disappoint. The University of Michigan consumer confidence report released last Friday, weakened to 72.0 from the prior month’s 73.2 reading. With confidence among consumers eroding, we are beginning to see the effects of both domestic and global economic uncertainty reflected in the retail sales figures as well.

Retail Sales and Our Outlook

The pullback in consumer spending is consistent with our current forecast of 1.7 percent increase in consumer spending in the second quarter, leading to a headline GDP growth rate of around 1.2 percent in Q2. Going forward, we continue to expect consumers to restrain their spending as a combination of economic and political uncertainty weighs on consumer confidence. The uncertainty surrounding the November elections, unknown fiscal policy and increasing global economic uncertainty are just a few of the factors that will reinforce the pullback in consumer spending over the next few months. We expect consumer spending to remain soft, averaging around 1.7 percent. The weaker consumer spending will in turn keep a lid on headline GDP growth in the second half of the year.



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