

Retail Sales At Highest Level In Four Months

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WASHINGTON (AP) — Consumers spent more on autos, furniture, clothing and gas in July, pushing up retail sales by the largest amount in four months. The gain signaled that Americans are a little more confident in the economy and could help dispel fears that the country is headed for another recession.

Retail sales rose 0.5 percent last month, the Commerce Department said Friday. It was the best showing since March. The government also revised sales higher in the previous two months.

Even after excluding sales at gas stations, which were influenced by an increase in gas prices, sales rose 0.3 percent last month.

The better-than-expected retail sales report is the second strong signal on the economy in as many days. Stocks rose in early trading. The Dow Jones industrial average gained 120 points.

On Thursday, the Dow closed up 423 points for the day after the government said the number of people applying for unemployment benefits dropped below 400,000 for the first time since early April.

"Don't write off the American consumer or economy just yet," said Sal Guatieri, senior economist at BMO Capital Markets. "The solid July retail sales report should help allay recession fears."

A batch of poor data and a gloomy outlook from the Federal Reserve this week have made investors more nervous that the economy could fall back into a recession. Stock markets have tumbled in recent weeks. The Dow has lost more than 1,400 points, or more than 11 percent, since July 22.

But data for July suggest the economy may be in better shape than some had feared. Layoffs are down, retail sales are up and gas prices are falling. Employers added 117,000 net jobs last month. That's not enough to significantly lower the unemployment rate, but it was a notable improvement after two dismal months of hiring.

"The fact that retail sales held up over the last few months even though the labor market was foundering is a positive economic development," said Joseph LaVorgna, chief U.S. economist at Deutsche Bank. "However, the true test will be to see if consumer activity held up in the face of recent financial market gyrations and slumping economic confidence. So the August data will be of much greater significance."

In a separate report, the Commerce Department said that businesses added to their

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stockpiles for an 18th straight month in June. But the 0.3 percent rise in business inventories was the smallest gain in 13 months. Total business sales rose 0.4 percent after a 0.1 percent drop in May. The rebound in sales should help to bolster shaky business sentiment and spur further inventory restocking in coming months.

The retail sales report is the government's first read on consumer spending for the July-September quarter. Consumer spending is always closely watched because it accounts for 70 percent of economic growth. But in June, consumers cut spending for the first time in 20 months, a troubling sign.

Retail sales, which don't include spending on services, have been slowing since February.

For July, auto sales rose 0.4 percent after a 0.7 percent gain in June. Demand for cars has been low this year, and many dealers have also had a hard time stocking popular models because of supply chain disruptions stemming from the Japan crisis.

Gasoline sales rose 1.6 percent. The increase was largely because of the rise in gas prices that have since been reversed.

Purchases of furniture rose 0.5 percent, electronics store sales increased 1.4 percent, and sales at specialty clothing stores climbed 0.5 percent.

Sales at department stores fell 0.8 percent in July. Economists had expected them to show a rise following reports from big retailers that they had a decent start to the back-to-school shopping season.

Sales at a broader category of general merchandise stores, which includes department stores and big retailers such as Wal-Mart, were flat in July following a 0.5 percent rise in June.

Many retailers had reported last week that back-to-school promotions had helped boost their sales in July. Target, Macy's and luxury chain Saks all reported gains that beat Wall Street expectations. But retailers are worried that consumers may be thrifty when shopping this summer, sticking with basic necessities and holding out for sales. That's a popular strategy in tighter economies, but one that hurts stores' profits.

High unemployment and a spike in gas prices have forced many consumers to be more cautious about spending. Their hesitation was a major reason the economy grew a meager 0.8 percent in the first six months of the year, the weakest growth since the recession officially ended.

Many economists, including Federal Reserve Chairman Ben Bernanke, had thought the economic slowdown was mostly because of temporary factors, such as high gas prices and the parts shortage out of Japan.

But this week the Fed acknowledged that the economy's problems are deeper. Its statement suggested growth could be dismal for at least two more years.

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As a result, the Fed took the unprecedented step of pledging to keep a key interest rate it controls at a record low near zero at least through mid-2013.

Private economists have been busy marking down their own forecasts. Analysts at JPMorgan Chase said they expect the just 1.5 percent growth in the July-September quarter, a full percentage point lower than their previous forecast.

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