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Economic Flash!

August 13, 2008

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US Retail Sales: The Calm Before the Storm

Percent Changes:	Jul	Jun	Rev From	May	Apr	Jul08/07
Retail Sales	-0.1	0.3	0.1	0.8	0.2	2.6
Excluding Autos	0.4	0.9	0.8	1.2	1.0	6.0
Motor vehicles/parts	-2.4	-2.1	-3.3	-0.9	-3.1	-10.5
Auto/other motor veh.	-2.5	-2.4	-3.6	-1.1	-3.4	-11.7
Furniture/home furn	1.0	-1.2	-1.4	0.5	-0.2	-4.8
Electronics/appliances	0.8	-0.8	-0.6	1.6	1.4	4.8
Building/garden equip	0.3	-0.3	-0.9	2.5	2.2	-1.0
Food/beverage	0.4	1.0	0.7	-0.1	0.8	5.6
Grocery stores	0.3	0.9	0.6	-0.2	0.7	5.6
Health/personal care	0.0	0.6	0.6	0.0	0.7	2.8
Gasoline stations	0.8	4.0	4.6	3.3	0.6	24.6
Clothing/accessories	0.2	-0.1	0.6	0.6	0.5	0.9
Sporting goods/hobbies	-0.2	0.2	0.7	0.8	0.7	0.6
General merchandise	0.3	0.6	0.4	1.4	0.7	5.2
Department stores	0.1	0.3	0.3	0.6	0.2	-2.1
Misc store retailers	0.0	1.5	0.8	-0.1	0.8	0.0
Non-store retailers	1.1	0.8	0.8	1.0	2.4	7.7
Food/drink services	-0.2	0.3	-0.2	0.8	1.1	3.2
Excluding autos/ gasoline/bldg materials	0.3	0.5	0.4	0.6	N/A	3.9

- As expected, US retail sales fell by 0.1% m/m on the back of dismal car sales, but excluding this particular weak point sales were actually up a respectable 0.4%. This is a little below what many economists had forecast, but was accompanied by an upward revision to the previous month's tally, and caps off four consecutive months of strong consumer demand.

- Despite signs of lingering consumer strength in July once one excludes autos, there is no doubt that this result, along with the results of the previous three months, were bolstered by over $100 billion in government stimulus payments. The only problem is that this government support ran dry in the middle of the month, and therefore the outlook for August, and the third-quarter as a whole, is decidedly negative.

- A number of major retailers have cut their sales and earning guidance for the year, and despite the recent drop in energy prices, consumers are still paying much more at the pump than they did only a year ago. Meanwhile, home prices continue to fall, and the labour market continues to shed jobs. All of these factors should remain big negatives for consumers until at least the end of the year.

- In terms of the details of the report, as mentioned above, the big negative was autos, which slid 2.4%, capping six straight months of declines. Besides that there were no other notable areas of weakness, although clothing and general merchandise sales were a little sluggish. In the plus column, gasoline station receipts rose by 0.8%, but with gasoline prices down in August, we may see a drop in this category next month. Also very strong were purchases of furniture and electronics, but both gains came after significant declines the month before.

Implications & Actions

Re: Economic Forecast — Although July's retail sales numbers were quite respectable once one excludes autos, it appears increasingly clear that the recent spike in consumer demand is not sustainable. The current stimulus package has all been distributed, and barring another financial boost from Congress, US consumer spending is likely to take a fall in Q3. This will have negative implications for real GDP growth in the quarter, which we believe will decline by close to 2%, after the second quarter grew by 1.9%.

Re: Markets — July's retail sales report failed to make a material market impact as the details came in largely as expected. Furthermore, investors are waiting to see what consumer demand looks like after July, when stimulus payments are no longer a factor, and as energy prices continue to give back some of their gains.