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Retail Sales Cap Sluggish Quarter

Consumers Spooked by Uncertainty Reined in Spending in June, Fanning Fears Economy Is Stalling

By NEIL SHAH And JIE JENNY ZOU

Americans reined in their spending for the third straight month in June, fueling fears that the economy is stalling after gathering steam early this year.

Retail sales dropped 0.5% in June, the government said Monday, falling short of the 0.2% rise that most economists were expecting. Retail sales haven't fallen three months in a row since 2008. April's figures were revised down.

Stocks dropped on the disappointing news. The Dow Jones Industrial Average slipped 49.88 points to 12727, while prices of U.S. Treasury bonds climbed as investors sought safer places for their cash.



Associated Press

Shoppers pulled back on spending last month, data showed. Above, a Target store in Chicago.

"Consumers are really holding back," said Guy Berger, an economist at RBS Securities in Stamford, Conn. "It's easy to imagine remaining in a situation where we stay at this stall speed until 2013."

The weak job market makes it hard for many Americans to spend. Mr. Berger points to additional obstacles, such as uncertainty about U.S. tax policy—a big issue in November's presidential election—along with global economic turmoil, especially in Europe and China. "The number of people worried about what's going on in the economy is high," he said.

Consumers tend to cut back on purchases when wary about the economy's prospects. They also cut back when they feel they have less money. While the U.S. housing market has started to show flickers of life, stock prices have wobbled as Europe's debt crisis persists and signs of a global economic slowdown have spread. Consumer confidence sank in June and during July fell to its lowest level since December, recent surveys show.

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June's retail-sales figures spurred many economists to dial back their forecasts for growth in the second quarter, which ended on June 30. Before Monday's numbers, RBS saw the U.S. economy expanding at an annualized rate of 1.5% in the second quarter. It has revised that prediction to 1%. Those numbers are far too slow to keep unemployment from rising and generate the job gains needed to fuel the economy.

The slowdown in spending is likely to reinforce worries among Federal Reserve officials about the economy and could push the central bank a bit closer to taking additional actions to boost growth. Fed Chairman Ben Bernanke is scheduled to update lawmakers in the Senate and House on Tuesday and Wednesday about the economy and the outlook for monetary policy.

Laura Phlong, a 27-year-old secretary, said she is careful now about how much she spends on clothes and shoes and is paying more attention to quality. "I don't just spend like I used to," said Ms. Phlong, who lives in Brooklyn, N.Y., and shops at retail chains such as Uniqlo, H&M and Gap Inc. "I figure out what I need."

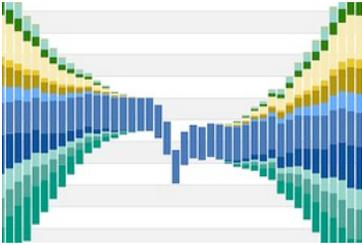
America Shops: U.S. Retail Sales

Since the start of the recession in 2007, U.S. consumer spending has taken a hit. Track monthly estimates by category.

One factor behind June's disappointing retail-sales figures was a recent drop in the price of oil, which reduces the value of sales at gasoline stations. Normally, that is a good thing. Falling prices at the pump should help the economy by putting more cash in consumers' wallets and encouraging spending. Retail sales are an important part of overall consumer spending, which fuels two-thirds of America's economy. But that spending isn't happening yet. In June, sales declined in almost all sectors, including building materials, electronics and sporting goods. Sales of cars and auto parts, a recent bright spot for the economy, fell 0.6% in June.

Tony Dyer, a salesman at Ray Skillman Northeast Buick GMC, a dealership in Indianapolis, said sales of new cars have held up well recently. But he also is seeing customers opting instead for used cars, possibly to save cash.

Instead of spending, consumers appear to be saving. The personal saving rate—savings as a



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percentage of after-tax income—rose to a seasonally adjusted 3.9% in May, up from 3.4% in February.

To be sure, most economists don't believe a new recession is likely. The U.S. consumer is healthier than a year ago. Total retail and food-service sales reached a seasonally adjusted \$401.5 billion in June, 3.8% higher than the same month last year. But the latest report suggests problems in the global economy are taking a toll.

The International Monetary Fund on Monday downgraded its world economic outlook and called on policy makers for bigger moves to combat risks to the recovery.

Economists at Wells Fargo Securities said, "We are beginning to see the effects of both domestic and global economic uncertainty reflected in the retail sales figures."

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