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## Car stall puts brake on retailers

### Spending declines as gas, credit woes cut auto purchases

From Chicago Tribune news services

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Sales at U.S. retailers dropped in July for the first time in five months as record gasoline prices and tighter credit reduced automobile purchases, the government said Wednesday.

Spending fell 0.1 percent from June, according to the Commerce Department, the first decline since sales fell by 0.5 percent in February. Excluding cars, sales rose, but the 0.4 percent increase was less than anticipated and was the weakest showing in five months.

Consumer spending, which makes up more than two-thirds of the economy, is likely to fade further as a boost from tax rebates wanes and households cope with lost jobs and declining home prices, experts said.

"With the tax-rebate effects dissipating and the labor market weakening, we should see consumer spending slow through the remainder of the year," said Dana Saporita, an economist at Dresdner Kleinwort in New York.

Americans are buying fewer cars as gasoline prices soar. The Commerce Department said sales at auto dealers and parts stores dropped 2.4 percent, after industry figures this month showed the weakest annual pace of buying since 1993.

Much of what little strength there was in July came from a big jump in sales at gasoline stations, which were up 0.8 percent. That increase reflected surging prices rather than increased demand, however.

Analysts said the poor showing in July raised concerns about consumer spending going forward.

"Cautious and uncertain consumers are watching their wallets and with the back-to-school shopping season under way, that does not bode well for retailers," said Joel Naroff, chief economist for Naroff Economic



Advisors.

Separately, the Labor Department said prices of imported goods soared 21.6 percent in the first seven months of the year, the most since at least 1982. Import prices rose 1.7 percent in July from the previous month, more than economists had projected, after a 2.9 percent increase in June.

"We are in the midst of a long-term trend in inflation," said Joe Brusuelas, chief economist at Merk Investments LLC in Palo Alto, Calif. "We can't sugarcoat this. It's not a good thing."

Separate Commerce Department figures showed that business inventories rose by 0.7 percent in June, nearly double the 0.4 percent gain in May and the biggest increase since January.

Analysts believe that businesses will continue boosting inventories in the months ahead. The ratio of inventories to sales fell to an all-time low of 1.23 months in June, meaning it would take that long to exhaust stockpiles at the June sales rate. Sales at all levels of business rose by 1.7 percent in June, up from a 1.1 percent gain in May.

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