

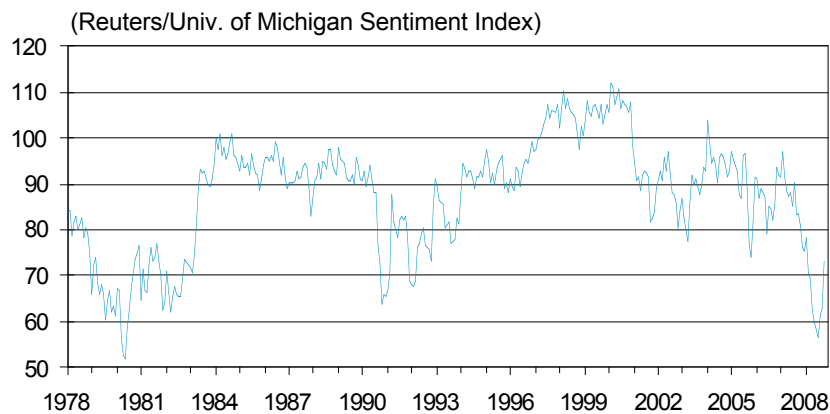
# The Retail Sector Outlook

**Nigel Gault**  
**Chief U.S. Economist**  
**North American Macroeconomic Services**

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## Consumer Sentiment Has Slipped into the Recession Zone



## Bad News Everywhere For Consumer Finances

### Negative Forces

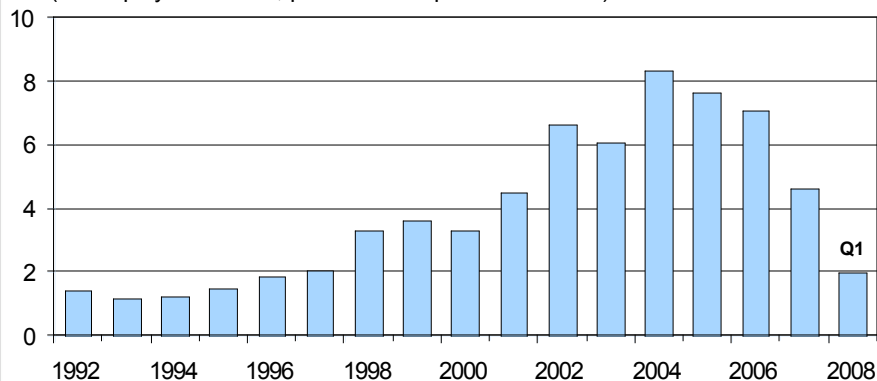
- Falling Employment
- Falling Real Wages
- Declining Housing Wealth
- Declining Stock Market
- Tightening Credit Conditions
- Mounting Debt Burdens
- Low Saving Rate

### Positive Forces

- Stimulus Payments
- Gasoline is below its peak

## Mortgage Equity Withdrawal Has Been Fueling Consumer Spending, and Is Fading

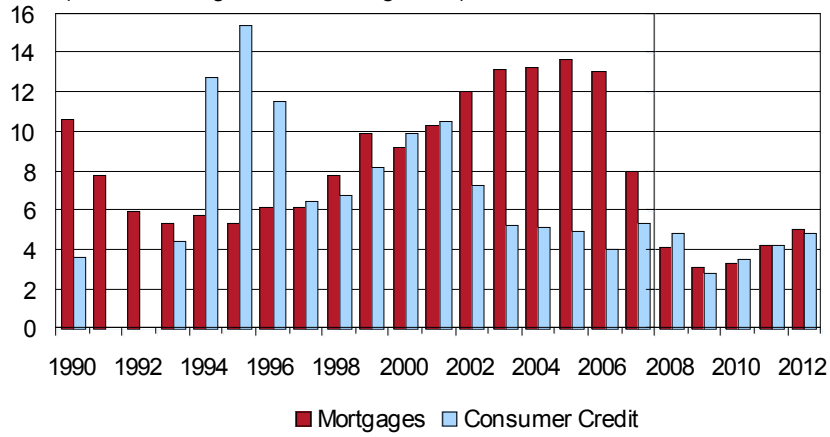
(Net equity extraction, percent of disposable income)



Source: Federal Reserve - Kennedy/Greenspan data updated as of June 2008

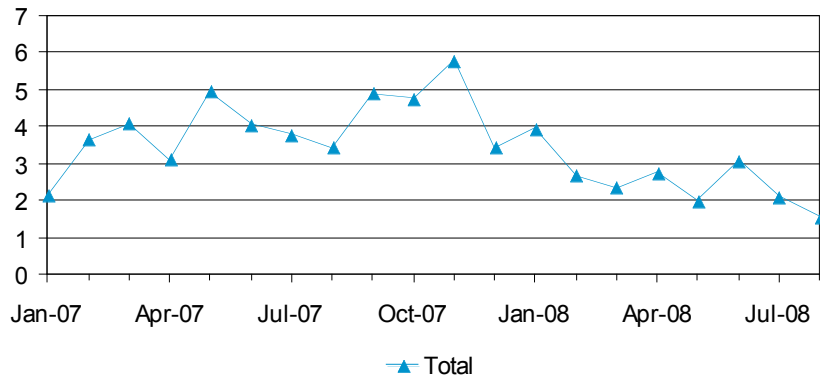
## Growth in Household Debt Subsidies

(Percent change in outstanding loans)

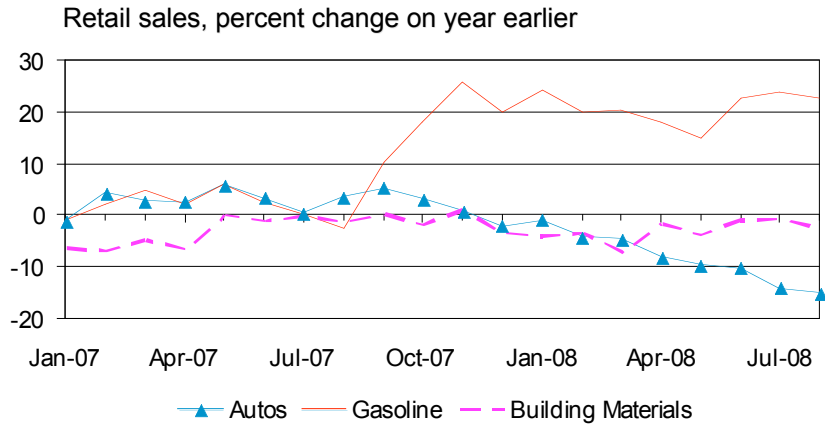


## Recent Evidence: Retail Sales Growth

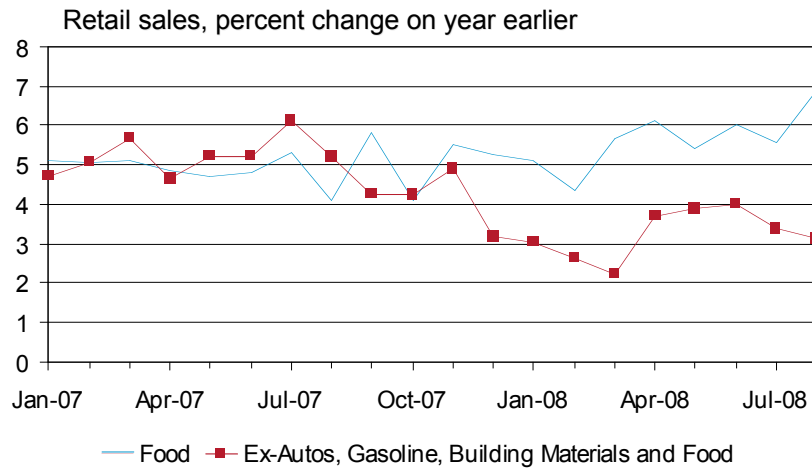
Retail sales, percent change on year earlier



## Recent Evidence: "Volatile" Items



## Recent Evidence: Other Retail Sales



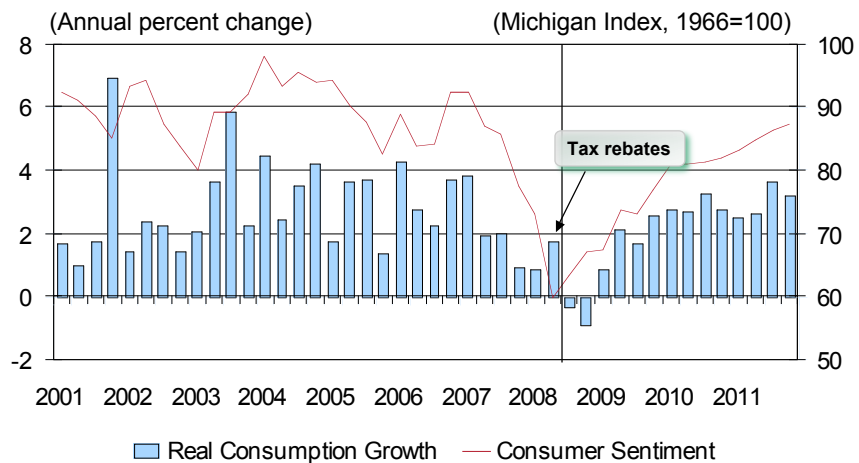
## Spending Weak Despite Huge Tax Rebates

- \$93 billion in personal tax rebates have been paid as of the end of August

How big is the personal tax rebate?

- Consumers spend about \$2.5 trillion per quarter (not annualized)
- So a \$93 billion rebate is about 3.7% of quarterly spending

## Subdued Consumer Confidence and Spending



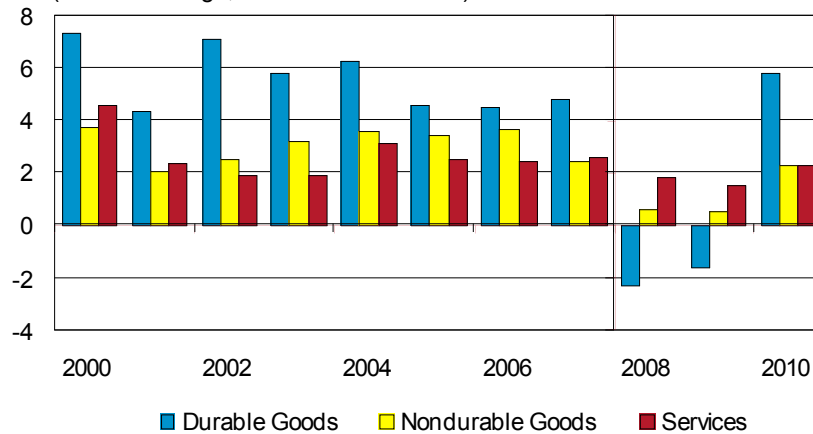
## The Consumer Markets Environment

(Percent change unless noted)

	2007	2008	2009	2010
<b>Real Consumption</b>	2.8	1.0	0.9	2.6
<b>Real Disposable Income</b>	2.8	1.1	1.2	2.7
<b>Real Household Net Worth</b>	3.7	-8.7	-3.6	3.8
<b>Payroll Employment</b>	1.1	0.0	-0.1	1.2
<b>Real Wage Rate</b>	0.8	-0.7	0.3	0.7
<b>Consumption Price Deflator</b>	2.6	3.9	2.4	1.8
<b>Light Vehicle Sales (Millions)</b>	16.1	14.0	14.1	15.0
<b>30-Year Mortgage Rate</b>	6.3	6.2	6.0	6.9

## Consumer Spending on Durables Is Hit Hard

(Percent change, chained 2000 dollars)



## Shift From Goods To Services Accelerates



## Bottom Line

- **Consumer fundamentals are much weaker**
- **The home equity pump is being turned off**
- **Cyclical items are leading the way down – especially autos and home-related goods**
- **Real consumer spending likely to decline in Q3 and Q4**
- **No turning point before mid-2009**

**Thank You!**

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