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Post-Clunkers, retail sales drop 1.5% in September

Decline less severe than expected, and sales rose in most categories.

By Martin Crutsinger

WASHINGTON — Retail sales declined in September by the largest amount this year as car sales plummeted after the end of the government's Cash for Clunkers rebate program. But apart from autos, sales were better than expected, and the overall decline was less severe than forecast.

The U.S. Department of Commerce said Wednesday that retail sales dropped 1.5 percent last month, smaller than the 2.1 percent decrease that economists had expected but still the biggest setback since sales dropped 3.2 percent in December.

Car sales plunged 10.4 percent, but excluding autos, sales rose 0.5 percent, better than the 0.2 percent increase expected and building on August's 0.7 percent gain.

The report eased concerns that consumer spending, which makes up about 70 percent of the economy, would sag without government support.

"The increase in sales excluding autos is still fairly modest by normal standards," Paul Dales, an economist at Capital Economics, wrote in a research note. "Moreover, with households' finances likely to remain constrained by falling employment, declining real incomes and tight credit, we doubt that consumption will continue to grow at such rates."

Also Wednesday, the Commerce Department reported that businesses reduced their inventories by 1.5 percent in August, the 13th straight decline and more than the 0.9 percent decrease that analysts had expected.

Many economists say businesses will soon begin restocking depleted store shelves after more than a year of cuts. If that were to occur, factory production would begin to rise and help bolster a broad recovery from the worst recession since the 1930s.

Demand for new cars surged in August in conjunction with the Cash for Clunkers program, in which the government issued rebates of up to \$4,500 to trade in old models for more fuel-efficient vehicles.

Outside of autos, only three of the other 12 categories showed a drop in sales last month, building on the broad gains seen in August when purchases climbed in every category except one. Last month's sales gains were led by furniture stores, which showed a 1.4 percent jump, the most since January 2007 and a reflection of the rebound in the housing industry. Purchases increased 0.4 percent at department stores, 0.9 percent at grocery stores and 0.5 percent at clothing outlets.

Sales at general merchandise stores, a category that includes big retailers such as Wal-Mart Stores Inc. and Target Corp., rose 0.9 percent. Analysts had expected increases at general merchandise stores following reports last week from national retailers that sales grew in September at stores open at least a year compared with activity in the same month last year. It marked the first year-over-year rise in sales after a year of declines, according to data from the International Council of Shopping Centers.

"Consumers are replenishing and replacing in a careful way," said retail analyst Dana Telsey with the Telsey Advisory Group in New York.