The Retail Sector Outlook

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FTA Revenue Estimating Conference
Raleigh, North Carolina
September 17, 2007

Retail Sales Growth Has Already Slowed – And Will Slow Even Further in 2008
Recent Evidence: “Volatile” Items

Recent Evidence: Other Retail Sales
Some Good News: Consumer Sentiment Is Not Near Recession Levels

Cross-Currents Affecting Consumer Finances

Positive Forces
- Job Growth (now at risk)
- Rising Wage Rates
- Moderating Inflation

Negative Forces
- Declining Home Sales
- Declining Housing Wealth
- Mounting Debt Burdens
- Low Saving Rate
### The Consumer Markets Environment

(Percent change unless noted)

<table>
<thead>
<tr>
<th></th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Real Consumption</td>
<td>3.1</td>
<td>2.9</td>
<td>2.3</td>
<td>2.6</td>
</tr>
<tr>
<td>Real Disposable Income</td>
<td>3.1</td>
<td>3.5</td>
<td>3.1</td>
<td>3.1</td>
</tr>
<tr>
<td>Real Household Net Worth</td>
<td>5.3</td>
<td>1.7</td>
<td>-2.1</td>
<td>1.4</td>
</tr>
<tr>
<td>Payroll Employment</td>
<td>1.9</td>
<td>1.3</td>
<td>0.8</td>
<td>1.1</td>
</tr>
<tr>
<td>Real Wage Rate</td>
<td>0.1</td>
<td>1.1</td>
<td>0.9</td>
<td>0.9</td>
</tr>
<tr>
<td>Consumption Price Deflator</td>
<td>2.8</td>
<td>2.3</td>
<td>1.8</td>
<td>1.9</td>
</tr>
<tr>
<td>Light Vehicle Sales, millions</td>
<td>16.5</td>
<td>16.1</td>
<td>16.1</td>
<td>16.3</td>
</tr>
<tr>
<td>30-Year Mortgage Rate, %</td>
<td>6.4</td>
<td>6.3</td>
<td>6.4</td>
<td>6.7</td>
</tr>
</tbody>
</table>

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### Housing Wealth Has Supported Consumer Spending

(Percent of household disposable income)

- **Housing Wealth**
- **Housing Equity**
- **Mortgage Debt**

![Graph](chart.png)
Mortgage Equity Withdrawal Has Been Fueling Consumer Spending, and Is Fading…

Some Evidence on Use of Funds in Refinancings

Federal Reserve Survey of use of funds in 2001/2002 refinancings

<table>
<thead>
<tr>
<th>Share of Dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Home Improvements</strong></td>
</tr>
<tr>
<td><strong>Repayment of other debts</strong></td>
</tr>
<tr>
<td><strong>Consumer Expenditures</strong></td>
</tr>
<tr>
<td><strong>Stock market or other financial investment</strong></td>
</tr>
<tr>
<td><strong>Real estate or business investment</strong></td>
</tr>
<tr>
<td><strong>Taxes</strong></td>
</tr>
</tbody>
</table>

Source: Federal Reserve - Kennedy/Greenspan data updated as of June 2007
Gasoline Hit Probably Peaked in Q2

Every 10 cents on the pump price costs consumers $12 billion per year (0.12% of disposable income)

Some Rebuilding of Savings Is Likely

Real Consumption  Real Disposable Income

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Real Consumer Spending on Durables Is Cyclical

Spending on Home Furnishings Will Be Hurt by the Housing Downturn
Nominal Consumer Spending Shifts to Services

Shift From Goods To Services Accelerates
Bottom Line

- Consumer fundamentals have weakened
- The home equity pump is being turned off
- Retail sales growth will decelerate further
- Cyclical items will lead the way down – especially home-related goods
- The downward trend in the share of goods spending will accelerate

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