The Retail Sector Outlook

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Consumer Sentiment Has Slipped into the Recession Zone

(Reuters/Univ. of Michigan Sentiment Index)
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 Subsides

(Percent change in outstanding loans)

- Mortgages
- Consumer Credit

Recent Evidence: Retail Sales Growth

Retail sales, percent change on year earlier

- Total

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Recent Evidence: “Volatile” Items

Retail sales, percent change on year earlier

Jan-07 Apr-07 Jul-07 Oct-07 Jan-08 Apr-08 Jul-08

-20 -10 0 10 20 30

Autos Gasoline Building Materials

Recent Evidence: Other Retail Sales

Retail sales, percent change on year earlier

Jan-07 Apr-07 Jul-07 Oct-07 Jan-08 Apr-08 Jul-08

0 1 2 3 4 5 6 7 8

Food Ex-Autos, Gasoline, Building Materials and Food
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

![Graph showing Real Consumption Growth and Consumer Sentiment](chart)

- **(Annual percent change)**
- **(Michigan Index, 1966=100)**
- **Real Consumption Growth**
- **Consumer Sentiment**

Tax rebates
The Consumer Markets Environment

(Percent change unless noted)

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

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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