

Bleak sales are another reality check for economy

By CHRISTOPHER S. RUGABER (AP) – 3 hours ago

WASHINGTON — A bleak report on retail sales Thursday reinforced a nagging worry of economists: Shoppers won't spend enough to help a recovery take hold.

The figures served as a reality check for an economy that lately has appeared poised to emerge from recession and grow again. Consumer spending powers about 70 percent of economic activity.

The Cash for Clunkers rebate program helped give auto sales to their biggest jump in six months in July, but sales sank elsewhere. Gas stations, department stores, electronics outlets and furniture stores all suffered.

Overall, sales fell 0.1 percent, the Commerce Department said, after two months of modest gains. Economists had expected a 0.7 percent increase. Excluding autos, sales fell 0.6 percent, also much worse than predicted.

Unemployment, flat wages, tighter credit, fear of layoffs and to urge to save more have caused many consumers to spend less. Shrinking home equity and stock portfolios have compounded the problem.

As a result, "Households are in no position to drive a decent economic recovery," Paul Dales, U.S. economist at Capital Economics, wrote in a note to clients.

Even Wal-Mart, which had managed to post robust sales during the recession, reported an unexpected drop in quarterly earnings. The company faulted lower prices for groceries and other products. But it warned that the economy is also still forcing customers to scale back their purchases.

The latest figures came just a day after the Federal Reserve said the economy appeared to be "leveling out." The Fed, signaling the recession appears to be ending, said it would hold interest rates at their current record lows.

Meanwhile, the number of newly laid-off workers seeking jobless benefits for the first time rose last week, the government said, in another sign of a weak job market. And for those who still have jobs, fear of losing them can cause them to spend less.

"The dismal job situation is the dark storm cloud hanging over consumers," said Jennifer Lee, an economist at BMO Capital Markets.

In the one bright spot in the retail sales report, Cash for Clunkers pushed auto sales up 2.4 percent in July. The popular program offers drivers up to \$4,500 to trade in older vehicles and buy new, more fuel-efficient models.

But some analysts people buying cars under Cash for Clunkers might be holding that money back from other sectors of the economy where they might otherwise spend it.

Some of Europe's largest economies also benefited from government programs to support the auto industry. Germany and France returned to economic growth in the second quarter, raising hopes the recession will end throughout Europe sooner than thought.

In the United States, weak retail sales were widespread in July. One gauge that excludes autos, gas and building materials fell slightly, the fifth straight month of declines.

Department store sales fell 1.6 percent last month. And the broader category of general merchandise stores, which includes big chains such as Wal-Mart Stores Inc. and Target Corp., dropped 0.8 percent.

Gas station sales plunged 2.1 percent in July — more because of falling prices at the pump than shrinking demand.

A separate report Thursday showed that even as home prices and sales are stabilizing, record foreclosures are persisting. The number of U.S. households on the verge of losing their homes rose 7 percent in July.

Foreclosure filings were up by nearly one-third from the year before, according to RealtyTrac Inc. More than 360,000 households — one in every 355 homes — received some type of foreclosure notice.

On Wall Street, stocks rose modestly. The Dow Jones industrials finished up about 37 points at just above 9,398 — their highest close since

the market lows of early March.

Employers cut the fewest number of jobs in July in nearly a year, and the unemployment rate fell for the first time in 15 months. But jobs remain scarce.

More than 6.2 million Americans are receiving jobless benefits, the government said Thursday, 140,000 fewer than the previous week. Counting people taking advantage of an unemployment benefits program enacted by Congress, 9.25 million people received unemployment compensation in the week that ended July 25, down about 100,000 from the week before.

While there were more initial claims than expected, the total number likely dropped because some recipients ran out of benefits and fell off the rolls, economists said.

The nonprofit National Employment Law Project has calculated that 540,000 people will exhaust their emergency benefits without finding work by the end of September. And by the end of the year, it predicts 1.5 million will run out.

That prospect has some in Congress calling for a further extension of benefits. Obama administration officials have said they would support an extension.

AP Business Writers Martin Crutsinger and Alan Zibel in Washington, and Anne D'Innocenzio in New York contributed to this report.

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