

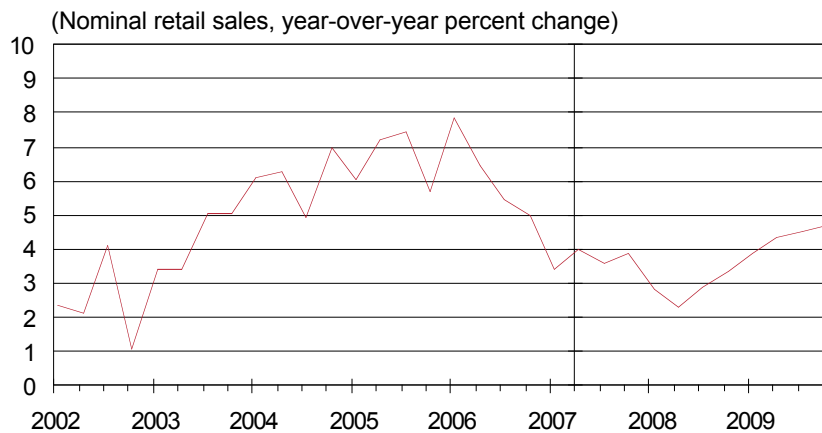
# The Retail Sector Outlook

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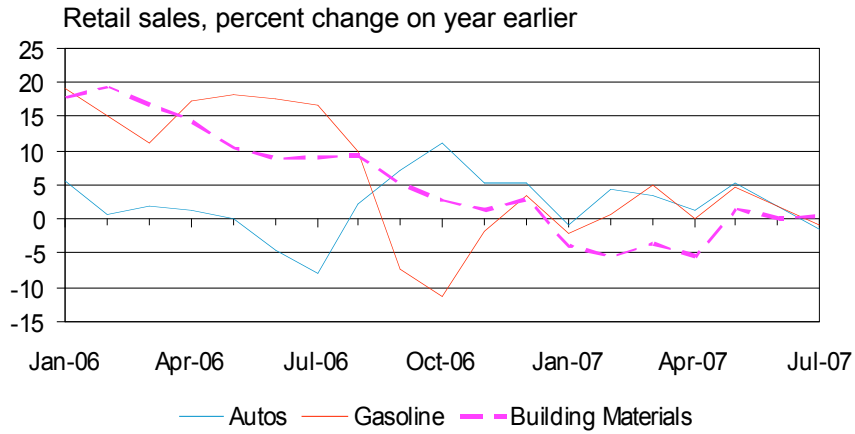
*FTA Revenue Estimating Conference  
Raleigh, North Carolina  
September 17, 2007*

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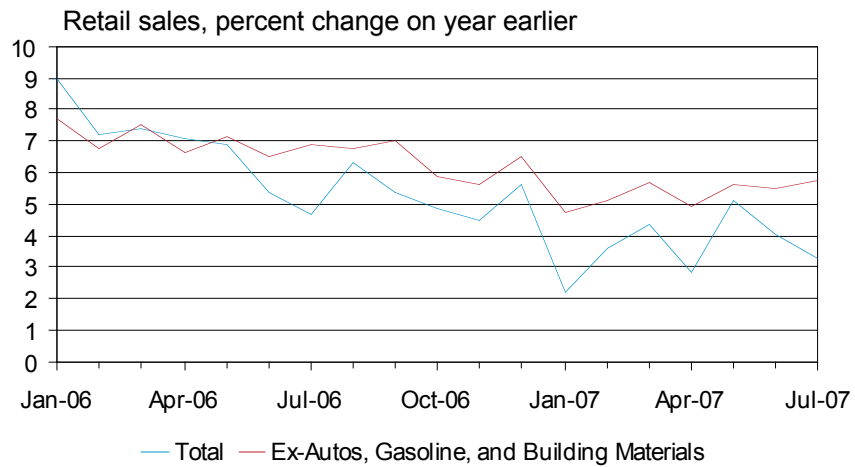
## Retail Sales Growth Has Already Slowed – And Will Slow Even Further in 2008



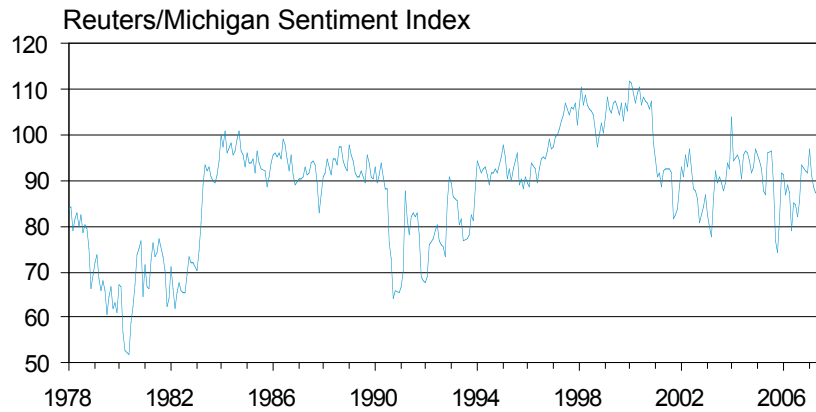
## Recent Evidence: "Volatile" Items



## 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

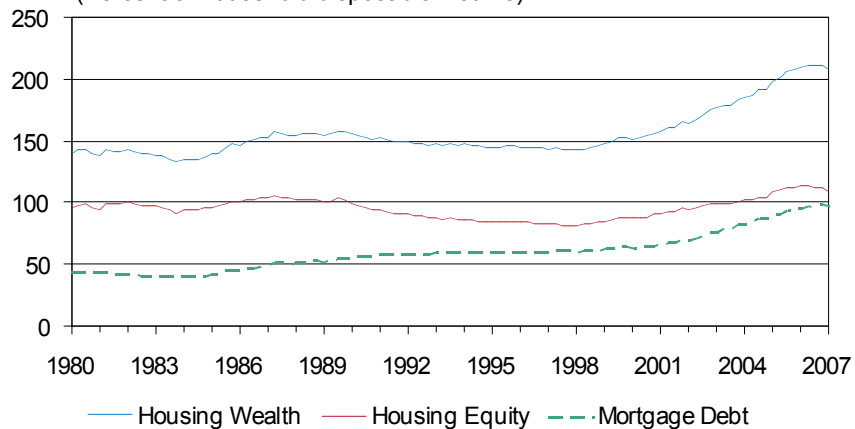
## The Consumer Markets Environment

(Percent change unless noted)

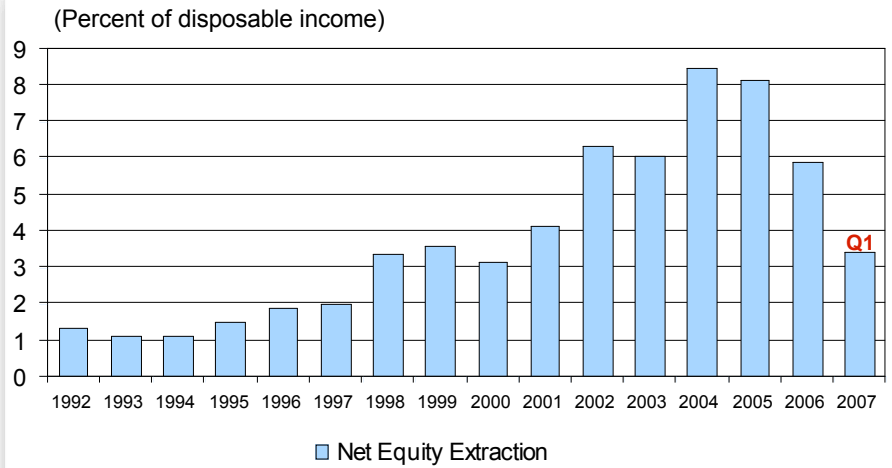
	2006	2007	2008	2009
<b>Real Consumption</b>	3.1	2.9	2.3	2.6
<b>Real Disposable Income</b>	3.1	3.5	3.1	3.1
<b>Real Household Net Worth</b>	5.3	1.7	-2.1	1.4
<b>Payroll Employment</b>	1.9	1.3	0.8	1.1
<b>Real Wage Rate</b>	0.1	1.1	0.9	0.9
<b>Consumption Price Deflator</b>	2.8	2.3	1.8	1.9
<b>Light Vehicle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

## Housing Wealth Has Supported Consumer Spending

(Percent of household disposable income)



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



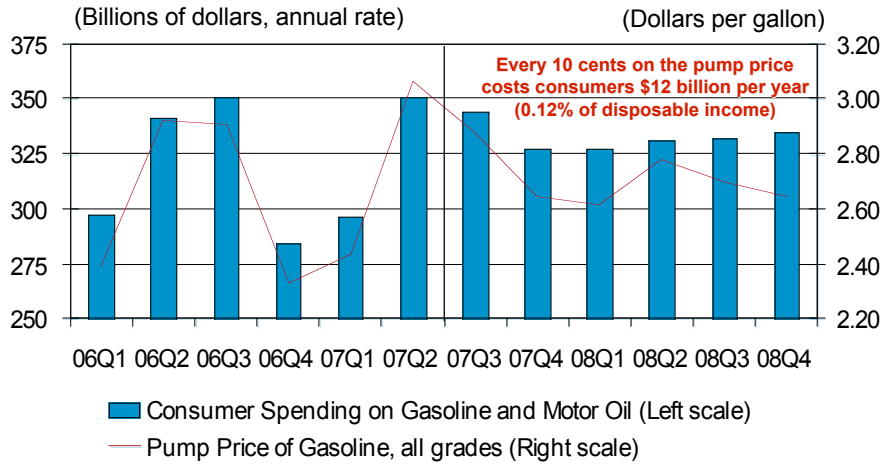
Source: Federal Reserve - Kennedy/Greenspan data updated as of June 2007

## Some Evidence on Use of Funds in Refinancings

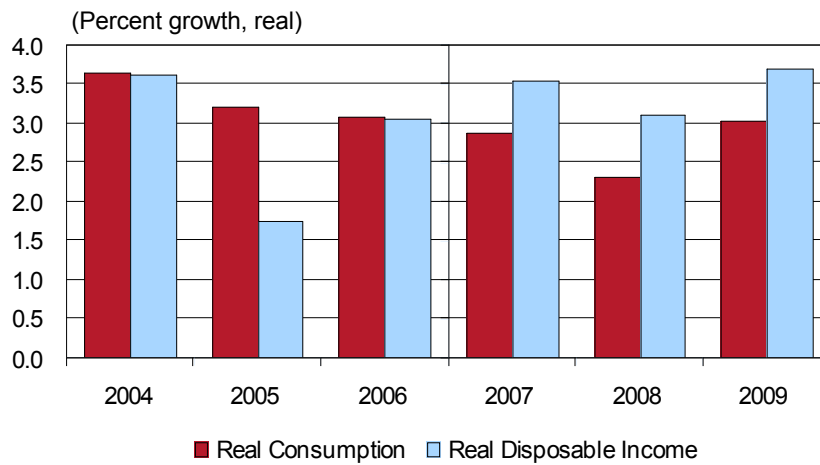
### Federal Reserve Survey of use of funds in 2001/2002 refinancings

	Share of Dollars
Home Improvements	35%
Repayment of other debts	26%
Consumer Expenditures	16%
Stock market or other financial investment	11%
Real estate or business investment	10%
Taxes	2%

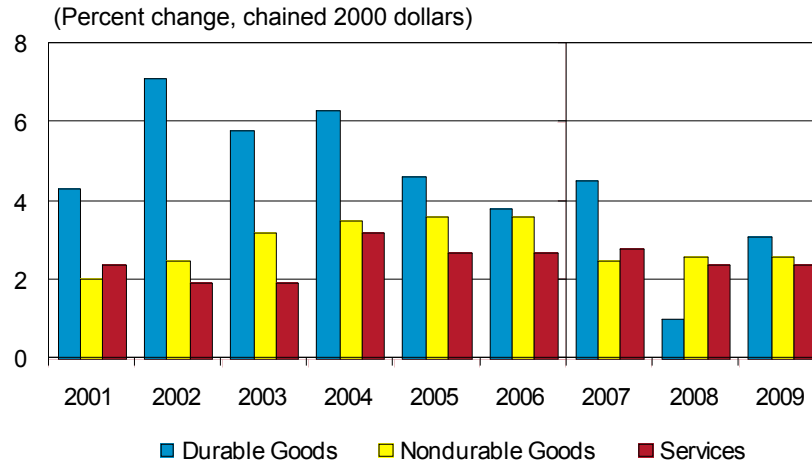
## Gasoline Hit Probably Peaked in Q2



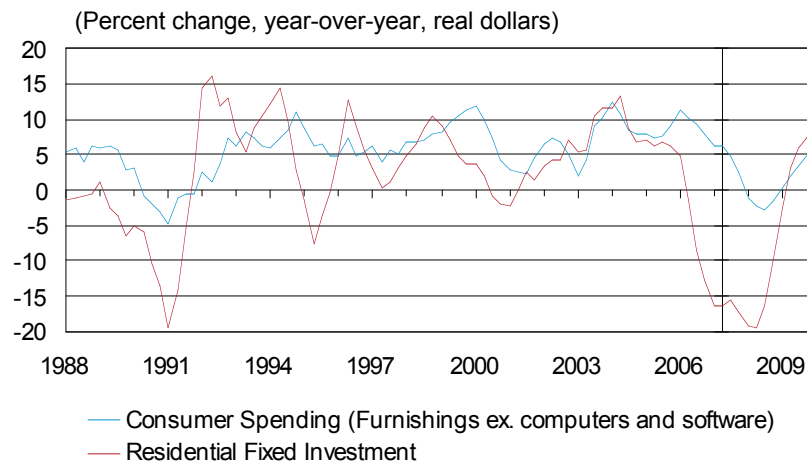
## Some Rebuilding of Savings Is Likely



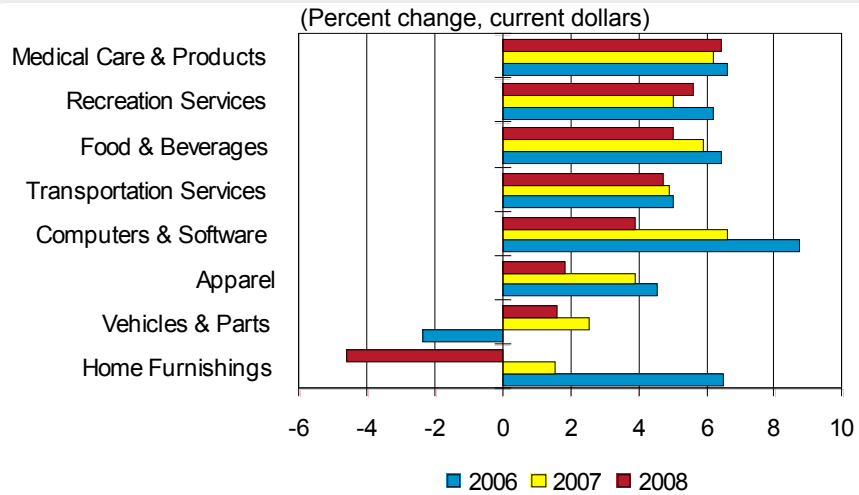
## Real Consumer Spending on Durables Is Cyclical



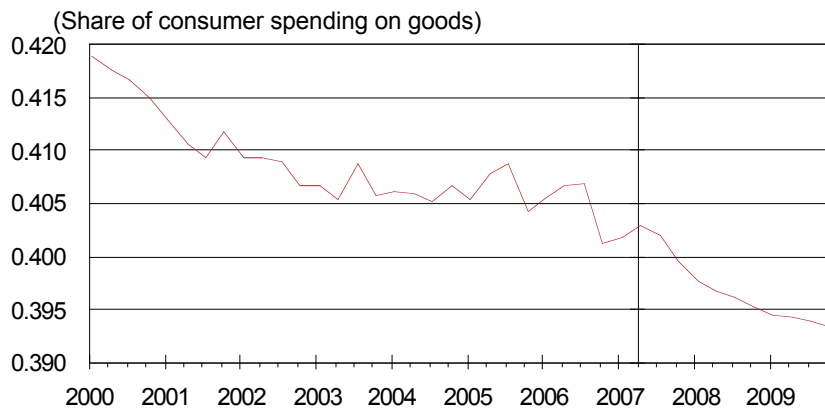
## Spending on Home Furnishings Will Be Hurt by the Housing Downturn



## 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

# Thank You!

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