

## Shoppers Spend More Despite Dreary Outlook

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Americans shrugged off deepening gloom about the health of the economy and stepped up their shopping last month, but it's unclear how long they can keep spending without stronger job growth in the months ahead.

Retail sales rose 1.1% to \$395.5 billion in September—the biggest jump since February and a number that, while not huge, is normal for a recovery. The government also revised upward sales numbers for July and August.

But this recovery is far from normal. With unemployment stuck above 9% and waves of turmoil in financial markets, the mood of consumers has plunged to recessionary levels. Thomson Reuters/University of Michigan's index of consumer sentiment, released Friday, clicked down to 57.5 in early October from 59.4 at the end of September. The same report showed consumer expectations of future conditions have dropped to the lowest level in more than three decades.

"Something has to give here," Bernard Baumohl, an economist with **Economic Outlook Group LLC**, wrote in a note. "It is simply not possible for consumers to accelerate spending when they suffer a steady deterioration in purchasing power," as has occurred in the past year.

Consumer spending is a linchpin of the economy because it accounts for 70% of all economic activity. Last month's retail spending showed some surprising muscle, but the larger picture is one of continuing struggles. Housing prices remain depressed and the job market weak, keeping spending far below levels normally associated with an economic recovery.

Last month's retail gains were broad-based, with Americans spending more on essentials, such as gasoline, as well as discretionary items, such as meals at restaurants. Shoppers also increased spending at clothing and accessories stores last month, where sales rose 1.3%. Retailers say if products are on trend and priced right, people are still buying.

"Women still want retail therapy, so if you give them value, they are there to shop," said Charlie Chanaratsopon, founder and chief executive of Charming Charlie, a Houston-based chain of 155 stores that sell moderately priced fashion jewelry and accessories. Its

average sale is \$11.95. Charming Charlie's biggest seller this year: jewelry adorned with feathers. "I don't get it, but it's on fire," Mr. Chanaratsopon said.

A large chunk of the sales increase last month came from automobile and parts dealers, where sales rose 3.6%. Auto sales have gained strength as supply-chain disruptions from the Japanese earthquake eased, suggesting some of the growth in sales is the result of pent-up demand.

Sales also ticked up at department stores, furniture stores and nonstore retailers, which are mainly online stores. Building-materials retailers, grocery stores and sporting-goods shops saw sales decline last month.

After years of crimped spending, Donalee King, 53 years old, is splurging on the occasional night out and new outfits, she said. Ms. King, who formerly lived in California's San Diego County, sold off her jewelry and antique furniture during her nearly five-year spell of unemployment to collect enough cash to move to Yukon, Okla., where she figured she would find better job prospects and lower living costs.

The unemployment rate in Oklahoma was 5.6% in August, compared with 12.1% in California. Within a month, Ms. King landed a \$16.50-an-hour temporary position rectifying erroneous Medicare payments.

"I'm budgeting for entertainment; I'm budgeting for clothing," Ms. King said. "These are things I didn't have a dime to spend on when I was unemployed." She and her fiancé are living with family and saving to buy a home. They celebrate their good fortune with weekly "Mimosa Sundays," a couple of the bubbly beverages and a DVD.

Increased prices, meanwhile, are making the business environment tricky for some retailers, who have found it tough to pass along rising costs. Import prices rose 0.3% last month as costs for fuel, industrial supplies, consumer goods and food rose. Import prices have risen 13.4%, compared with a year ago, largely from a fuel-price spike that has since moderated.

Heading into the holiday season, the combination of a cautious consumer and firming prices have retailers on edge.

Christmas is the most important holiday for the jewelry industry, accounting for more than 50% of annual sales. The recession decimated the sector as about 10% of stores closed. This year, jewelers are facing a double whammy: skittish shoppers and rising gold and silver costs.

"We understand the stress the consumer is under and the marketplace pressures of unemployment and rising commodity costs," said Matt Appel, chief administrative officer of Zale Corp., which had begun to notch sales gains last winter after years of dwindling sales and management shake-ups. But the Irving, Texas, chain continues to lose money and lingers under a heavy debt load.

"We are in choppy waters, and we're prepared for that," Mr. Appel said.