

## Consumers buy cars but stay home for dinner

By Tim Mullaney June 14, 2013

Consumers spent freely on cars and building supplies in May, but a drop in restaurant sales raised questions about whether this year's tax increases are affecting consumers' confidence and crimping their spending.

Overall, retail sales beat expectations, rising 0.6% in May, the Census Bureau reported Wednesday.

Leading the charge: A 1.8% jump in sales of cars and parts, which were also 8.5% higher than this time last year. Building materials and supplies gained 0.9%.

But the newest weak spot was a 0.4% drop at restaurants and bars, which had been among the biggest gainers in April, the bureau reported.

Economists watch restaurant sales for signs of how consumers are handling discretionary income. When restaurant sales held up last year, that was seen as a sign that then-surging gasoline prices wouldn't slow the economy. Their strength in early 2013 was taken as evidence that the impact of the tax hikes was turning out to be smaller than expected, and the latest news doesn't immediately change that, economists said.

"You can't draw conclusions based on one month," said **Bernard Baumohl, chief global economist at the Economic Outlook Group.** "Year-over-year, it's still up about 4%."

The industry has already been dealing with cash-strapped middle-income consumers, said Bryan Elliott, restaurant analyst at stock-brokerage firm Raymond James. Personal income fell for families around the \$50,000-a-year national

median during the recession and hasn't yet recovered, he said.

"That segment has lost considerable purchasing power over the last few years, and lost more in January," when payroll taxes went up by 2 percentage points, reversing a cut in 2010. "Restaurants are the first places consumers cut when they are tight for money."

Restaurants are being managed to boost profits on sales growth of less than 5% a year, he said. A handful of fast-growing brands such as Panera and Chipotle have been exceptions, he said.

A small number of companies, including Red Lobster owner Darden Restaurants, blamed soft sales earlier this year on the tax increase. Darden spokesman Rich Jeffers declined to comment Thursday.

The impact of higher taxes may show up in more demands for discounting and price promotion, said Robin Lee Allen, executive editor of trade journal *Nation's Restaurant News*. She pointed to a promotion by Subway for a \$4 sandwich-and-soda lunch that launched this month. McDonald's said June 11 that discounting drove its May gain in same-store sales.

Excluding autos, retail sales rose 0.3% in May, the Commerce Department reported.

The overall retail sales number beat the 0.5% median forecast of 83 economists surveyed by Bloomberg News.

Any weakness in restaurant spending is likely to be short-lived, said Andrew Wilkinson, economic strategist at Miller Tabak in New York. Restaurants and bars added 38,000 jobs in May, a sign that owners think sales will hold up, he said.

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