...much room left."

Retail Sales Could Bring Relief

By Justin Lahart

Shoppers are shaking off their winter blues, but that doesn't mean the outlook for retailers is entirely rosy.

AHEAD OF THE TAPE

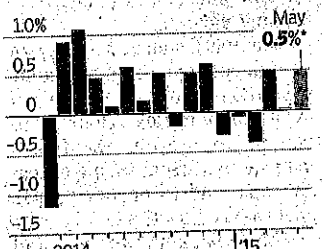
The Commerce Department will report May retail sales figures on Thursday, and economists are looking for a rebound. Forecasters polled by The Wall Street Journal estimate that overall sales grew by 1.3% on the month, after a flat reading in April.

Much of the expected strength is driven by gains in automobile and fuel sales. Light-vehicle sales last month ran at their fastest, seasonally adjusted pace since July 2005, while a 9.7% increase in gasoline prices added to money Americans laid out at the pump.

But economists estimate the "control" group—a category that excludes sales at auto dealers, service stations and building-material and garden-supply stores—rose 0.5% after coming in flat in April. The gain might be much bigger.

Registering

'Control group' retail sales, change from a month earlier



*Estimate
Source: Commerce Department

A real-time sales tracker devised by economists at Morgan Stanley suggests that control sales jumped 1.1% last month. Such strength wouldn't only indicate sales weakness over the early part of the year was purely transitory, it would suggest consumers were finally spending the dividends they have gotten from gasoline prices that, even after recent rises, are well below year-ago levels.

For investors, a stronger sales report would come with some drawbacks. For one, it would strengthen the case for the Federal Reserve starting to raise rates at its September meeting.

That prospect, though, should be more than offset by the recognition that the economy is on a stronger footing. The pluses most clearly outweigh the minuses for the shares of companies that draw most of their sales from within the U.S.—a category that includes many retailers.

Investors shouldn't get carried away, though. Those waiting for retail to again show the kind of strength it did before the recession hit likely will have to keep on waiting.

From 1990 to 2007, as Americans spent more of their paychecks, consumer spending grew by 11 percentage points more than after-tax income. Now, the economy is getting better, and hiring is on the upswing.

Scars from the financial crisis still are painful enough, though, that shoppers aren't going to reach for their wallets as readily as before.

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