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Tuesday Preview

In addition to developments in Washington, so far expected to culminate in a debt ceiling hike, on tap today are the store sales reports from ICSC/Goldman Sachs and Redbook Research, at 7:45 EDT/11:45 GMT and 8:55 EDT/12:55 GMT respectively, June personal income and consumption, at 8:30 EDT/12:30 GMT, and July light vehicle sales reports throughout the day.

The weekly store sales reports will round out the July weekly numbers, with full-month data to come later this week. The clearance-driven July sales have roughly remained on track with hot weather helping to drive summer-related sales, though higher gas prices are crimping discretionary spending. Greater focus will be paid to the August back-to-school period, with attention on retailers' perceptions about the need to embark on heavier discounting. Also watched will be any further fleshing-out about the ongoing divergence between relatively stronger high-end store sales, and weaker lower-to-middle income store performance.

The personal income and consumption results will fill in the quarter-end detail from last week's GDP report, weakness quite evident there on the spending side. The observed slowdown in employment growth, meanwhile, is not helping the income side of the ledger.

Expectations call for relatively stronger income growth (Consensus:+0.2%; Decision Economics: +0.3%) compared to consumption (Consensus:+0.2%; Decision Economics: +0.1%), each, however, representing very subdued prints. The key will be what the June numbers, and revisions, say about the end-of-quarter jumping off point for Q3 data.

Auto sales weakness has contributed to the recent softness in household spending, so the light-vehicle sales reports for July will help to hint at the strength of the looked-for rebound in the second half of the year. Normally helpful in determining consumer willingness to make bigger-ticket purchases, shortages on account of Japan supply-chain disruptions are leading to a higher noise-to-news ratio than analysts would like. Those shortages have also impacted pricing behavior by leading some to reduce incentive programs, also complicating direct interpretations between unit sales and the value of sales.

Forecasts today see only a very moderate rebound from a clear downside surprise in June (Consensus and Decision Economics: 11.8 million), which came in at 11.4M. An in-line result today would nevertheless help to reassure markets that underlying demand remains in reasonably good shape, albeit well down from the 16-18M sales pace that characterized pre-recession consumer exuberance. Another weak print, of course, would raise more doubts.

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