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Retail sales increased 1.1 pct. in September, largest gain in 7 months led by auto sales

By MARTIN CRUTSINGER

AP Economics Writer

WASHINGTON (AP) -- U.S. consumers stepped up their spending on retail goods in September, a hopeful sign for the sluggish economy.

They spent more on autos, clothing and furniture last month to boost retail sales 1.1 percent, the Commerce Department said Friday. It was the largest gain in seven months.

Auto sales rose 3.6 percent to drive the overall increase. Still, excluding that category, sales gained a solid 0.6 percent.

The government also revised the August figures to show a 0.3 percent increase, up from its initial report of no gain.

Stocks rose after the release of the report, which is the government's first look at consumer spending each month. The Dow Jones industrial average climbed 87 points in afternoon trading. Broader indexes also rose.

A separate Commerce report showed that businesses added to their stockpiles for a 20th consecutive month in August while sales rose for a third straight month. The increase suggests businesses were confident enough in the economy to keep stocking their shelves.

Stronger consumer spending could help tamp down concerns that the economy is at risk of a recession. Consumer spending is closely



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watched because it accounts for 70 percent of economic activity.

The increase "shows that households are not completely down and out," said Paul Dales, senior U.S. economist for Capital Economics. Dales said the data correspond with an annual growth rate of 2 percent for consumer spending growth in the July-September quarter.

Dales cautioned that weak hiring will likely prevent consumers from spending at this rate on a month-to-month basis.

"Sales growth is unlikely to remain this strong," he said. "So although a recession has become less likely, households still can't be relied on to drag the US economy out of its continued malaise."

The jump in retail sales prompted some economists to boost their growth forecast for the July-September quarter. Dean Maki at Barclays Capital Research said his group raised its forecast to 2.5 percent, up from 2 percent.

Chris G. Christopher Jr., senior economist at IHS Global Insight, said the increase in spending was an improvement from the first half of the year. Still, he said overall growth was not enough to generate significant hiring gains.

"Do not break out the champagne. Things seem better on the consumer and retail fronts, but consumers still have many problems," he said.

The September gains were broad-based:

- Department stores sales increased 1.1 percent, a big turnaround from August when sales had fallen 0.5 percent. The drop was blamed in part on Hurricane Irene disrupting shopping along the East Coast.
- A larger category of general merchandise stores, which includes big-chain retailers including Wal-Mart and Target, showed a 0.7 percent rise last month after no gain in August.
- Specialty clothing stores sales rose 1.3 percent, after a 0.4 percent August drop.
- Sales were up 1.1 percent at furniture stores but edged down a slight 0.1 percent at hardware stores. That surprised economists, who expected more traffic from people seeking to repair damage from the hurricane.
- Gas station sales rose 1.2 percent.

The overall economy grew at an annual rate of 0.9 percent in the first six months of the year. That was the weakest growth since the recession ended in June 2009.

High unemployment and steep gasoline prices forced many consumers to cut back on spending this spring. Without more jobs or higher pay increases, they are likely to keep spending cautiously.

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In September, the economy generated 103,000 net jobs. That's enough to calm recession fears, but it is far from what is needed to lower the unemployment rate, which stayed at 9.1 percent for the third straight month.

Employers have added an average of only 72,000 jobs in the past five months. That's far below the 125,000 per month needed to keep up with population growth. And it's down from an average of 180,000 in the first four months of this year.

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