Retail Sales

by Sophia Tutorial

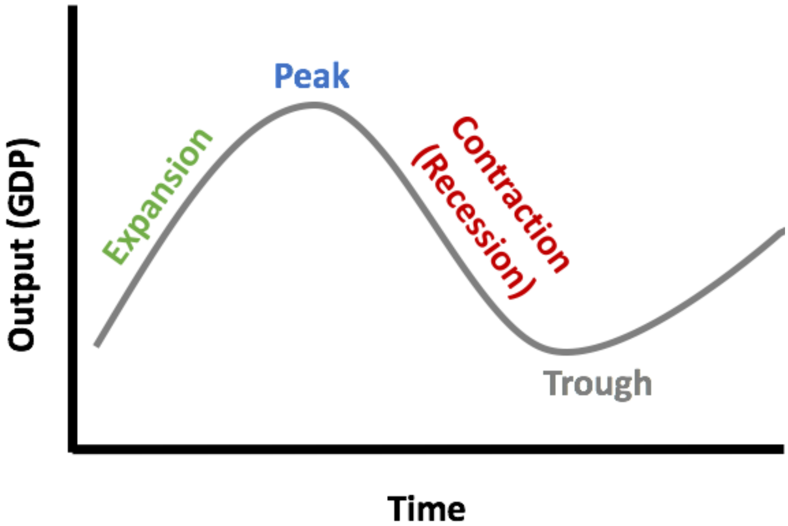
WHAT'S COVERED

This tutorial will cover retail sales, including what they are and how they are used as an economic indicator.

Our discussion breaks down as follows:

1. Retail Sales

You've seen a business cycle before and understand that it is normal for the economy to go through periods of growth and contraction.



Economists use many different kinds of data and indicators to help them determine three things:

- Predict where the economy is headed
- Explain what has just occurred in the economy
- Look at what is currently happening in the economy

Calculating **retail sales** is one leading economic indicator that helps economists predict where the economy is headed.

On a year-over-year basis, the amount of retail sales attributed to the same stores in a chain--thereby excluding the growth of new stores--are tabulated to determine if, over the comparative period, revenue has increased, decreased, or stayed the same.

TERM TO KNOW

Retail Sales
On a year-over-year basis the amount of retail sales attributed to the same stores in a chain (thereby excluding growth of new stores) are tabulated to determine if over the comparative period, revenue increased/decreased/stayed the same

1a. Retail Sales Report

The Census Bureau and the Department of Commerce publishes this retail sales report every month. It is very detailed and includes sales for specific industries:

- Motor vehicle and parts dealers
- Furniture and home furnishing stores
- Electronics and appliance stores
- Food and beverage stores
- Health and personal care stores
- Gasoline stations
- Clothing and accessories stores
- Sporting goods, hobby, book, and music stores
- General merchandise stores
- Food services and drinking places

So, not necessarily for macroeconomists, but for investors, it is quite helpful that this is broken down industry by industry.

If an investor is thinking about investing in a certain industry, or if they already have money invested in a certain industry, they can access this report every month and see what is going on in each industry.

TRY IT

Here is the link to the most current retail sales report:
http://www.census.gov/retail/marts/www/marts_current.pdf

The report itself is very detailed, so here is an example of an overall summary from the January 2014 report, reporting on the month prior, or December 2013.

> The U.S. Census Bureau announced today that advance estimates of U.S. retail and food services sales for December, adjusted for seasonal variation and holiday and trading-day differences, but not for price changes, were $431.9 billion, an increase of 0.2 percent (+/-0.5%)* from the previous month, and 4.1 percent (+/-0.7%) above December 2012. Total sales for the 12 months of 2013 were up 4.2

percent (+/-1.7%) from 2012. Total sales for the October through December 2013 period were up 1.0 percent (+/-0.5%) from the same period a year ago.

If you would access the whole report, it would break this information down by each industry.

2. Retail Sales as a Leading Indicator

Macroeconomists consider retail sales as a leading indicator in our economy. An increase in retail sales will often be a leading indicator itself to an increase in the CPI, which is yet another economic indicator.

This is because businesses are seeing an increase in sales, meaning an increase in demand for their goods and services, which is a signal to them that they can raise their prices. Therefore, when retail sales increase, we often see a CPI increase in the months following.

In addition, if there is an increase in retail sales from one period to the next, it is an indication that consumers are out there spending money, that they are confident in the economy.

It's also an indication that businesses might hire more employees and produce more, which are indicators that the economy could continue to grow into the future.

Conversely, a decrease in retail sales from one period to the next can raise concerns to macroeconomists about a potential recession coming.

As firms see a decrease or a tapering in their sales, they may begin to scale back on production, and subsequently lay off workers, cut hours, etc. In this manner, then, a decrease in retail sales can signal that we are potentially headed for a slowdown or recession.

SUMMARY

Today we learned about **retail sales**, including what they are and the information included in the monthly **retail sales report**. We learned how retail sales are used as an economic indicator. Lastly, we explained why retail sales are considered as a **leading indicator**.

Source: Adapted from Sophia instructor Kate Eskra.

TERMS TO KNOW

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