

# [Analysis of economic indicators: retail sales and personal income](https://assignbuster.com/analysis-of-economic-indicators-retail-sales-and-personal-income/)

Analysis of Economic Indicators: Retail Sales and Personal Income Teacher Analysis of Economic Indicators: Retail Sales and Personal Income
According to Consumer Flow at Economy. com, the " fundamental drivers of consumer spending," - which generates retail sales - in the near future in the U. S. will include rising interest rates, durable goods spending, and tightening labor markets. Rising interest rates typically depress sales of so-called " big ticket items," those items usually purchased on credit, because the higher the interest rate, the higher the required payments. Personal income does not usually rise fast enough to absorb increases in interest rates. This is more likely to be an issue for people whose budgets are already stretched, since people with lower credit scores or worse ratios of income to expense are more likely to have to resort to variable rate loans in order to qualify for the credit they want, and these are the very loan payments which will rise with interest rates, forcing these consumers to make compensatory budget adjustments.
The U. S. retail sales forecast from the National Retail Federation for calendar 2006 is 4. 7% (NRF Forecasts 4. 7% Growth for 2006 Retail Sales, 2006), more bullish than the Bloomsberg survey forecast of 3. 4% for the same period (Leading U. S. Indicators Index Points to Slower Growth, 2006). Both forecasts exclude automobile sales, which has contributed to much of the recent volatility of the consumer spending and retail sales figures on a quarterly basis. The NRF press release acknowledges that pressures facing consumers include rising interest rates and diminishing sources of " spending power," by which they mean that as the housing market cools, home equity will not be able to sustain as much spending as it did in the past.
For 2005, the NRF forecast for retail sales was 5. 6%, while the actual retail sales growth for 2005 was 6. 1% (NRF Forecasts 4. 7% Growth for 2006 Retail Sales, 2006). Bloomberg's consensus forecast for the second half of 2005 was 6. 9% (U. S. Economy Expanded at a 4. 1% Annual Pace in Third Quarter, 2005; NRF Forecasts 4. 7% Growth for 2006 Retail Sales, 2006), compared to actual retail sales growth of 7. 4% (U. S. Census Bureau). So while both under-estimated actual retail sales growth, there is no consistent pattern between the two forecasting entities as to one or the other tending to over- or under-forecast sales growth. The difference in the forecasts would appear to have more to do with the sample size, number, and professional focus of the people surveyed for the forecast (economists in the case of Bloomberg, retailer management in the case of the NRF).
Bloomberg forecast a growth rate of 3. 7% in personal income for 2006. The website Financial Forecast Center, which claims to use forecasting methods " rooted in engineering, not economics" by analyzing macroeconomic factors as " complex systems" using " artificial intelligence" produced an annualized forecast of 3. 66%. The discussion of analysts in general regarding personal income is that it will strengthen in 2006. Consumer Flow points out that in 2005, for the first time since 2000, wage income led growth in personal income, and expects 2006 to be the same (Outlook: Income, 2006). While personal income may increase in 2006 (which includes wage as well as non-wage income), wage income will increase at a greater rate due to a strengthening employment picture. " Going forward, Moody's Economy. com is continuing to forecast job gains, which exceed labor force growth, and a gradual tightening of labor markets" (Outlook: Income). But they add that rising interest rates along with the expiration of government-sponsored stimulus packages will increase tax payments, and both factors will reduce disposable income overall. This is expected to hit middle- and lower-income consumers the hardest.

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