

# Potential impact of retail sales and personal income forecasts on tobacco industr...



## Potential Impact of Retail Sales and Personal Income Forecasts on Tobacco Industry Teacher Potential Impact of Personal Income and Retail Sales Forecasts on Tobacco Industry

Cigarettes, like alcohol products, have long been targets of unusually high government consumption taxes - both state and local - because the demand was fairly inelastic compared to price relative to other commodities and the tax revenues on these products were considered stable. However, the targeting of specific commodities for different taxation treatment violates the neutrality principal of taxation by targeting certain products, and since cigarettes, like lottery tickets which are also heavily taxed, are disproportionately purchased by lower- and middle-income consumers (Talking taxes: Policy brief #9, 2005), these taxes are considered regressive. But regardless of the source, increases in the retail price of cigarettes causes a decrease in the quantity of cigarettes demanded, though the ratio is less than 1 to 1 when comparing the percentage price increase to the percentage of consumption decrease. This shows that there is resistance to forgoing consumption altogether, and that few if any substitute goods are available to the consumer. The correlation between income and spending can be summed up as follows:

" In general, growth of retail sales follows the same path as the growth of personal income. However, this may not be the case during economic slowdown and expansion. In general, in the time of recession, retail sales tend to grow slower than personal income, while in the time of economic boom, retail sales tend to grow faster than personal income" (Kovalyova & Zakharova, 2003).

This implies that consumer spending anticipates future economic conditions, <https://assignbuster.com/potential-impact-of-retail-sales-and-personal-income-forecasts-on-tobacco-industry/>

and that so-called consumer confidence plays a bigger - or at least a leading - role in purchasing patterns than do actual changes in macroeconomic conditions. With personal income increases as well as consumption decreases lagging behind price increases, the consumer at the lower end of the income continuum must choose between consumption alternatives in order to continue consuming a more expensive product. The tobacco industry is a multinational one, and on a global basis, including the U. S. but especially in poorer countries where cigarette consumption is increasing, there is evidence that increases in the price of cigarettes is correlated to decreases in the demand for health insurance and health services among middle- and low-income consumers, as are downward shifts in the quantity demanded of food purchased for the family (Poverty and Tobacco, 2003). Since personal income includes income from sources other than wages, an expected increase in personal income may not be as indicative of an increase - or lack of decrease - in consumer spending on items such as cigarettes, unless we believe that a typical smoker would draw on their home equity line of credit to buy cigarettes, which seems unlikely given the transaction costs. However, one of the sources of downward pressures on retail sales in 2006 cited was a decrease in " sources of purchasing power," including home equity, as the housing market slows. Consumers can be expected in the face of both diminishing sources of purchasing power and increases in the cost of borrowing to reduce their consumption overall (NRF Forecasts 4. 7% Growth for 2006 Retail Sales, 2006).

So while it is true that changes in retail sales levels are generally preceded by expected changes in personal income levels, consumers of cigarettes may respond to other factors in the near term future that will temper the "

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anticipatory" spending pattern seen in the past, or perhaps intensify it on the recession side. In other words, despite expectations for increases in wage income due in part to a tightening labor market, U. S. consumers may respond to other economic factors expected to affect them by being more conservative in their purchasing decisions regarding all discretionary commodities, including cigarettes.

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