Direct and indirect signals of retail sales

1. Direct and Indirect Signals/Retail Sales A key aspect of economics is the collection and analysis of the vast amounts of data generated throughout global economies. The interpretation of this data can provide important signals for the future direction of the economy. There are two forms of signals that arise from the various economic data that is collected. The first are direct signals, which measure the movement in what is being measured. These usually take the form of a given macro indicator. The second type of signal is an indirect signal.

These can be based on the perceived causation or correlation between two indicators. Indirect signals occur when one variable will tell something about another facet of the economy. The main differences are that direct signals are attributable to a specific measurement taken. Indirect signals are not directly attributable to one variable; rather they are used to draw conclusions about one from the movement of the other. Retail Sales is a macro indicator that measures the amount of goods being sold each month in the United States.

Since consumer expenditures generally make up about two-thirds of total gross domestic product, it is an extremely important indicator in that the activity can reflect the health of the economy. Given the amount of data available from the monthly retail sales figures, it offers a wealth of information for both the retail industry as well as the economy as a whole. This information provides both direct and indirect signals for the potential direction of future economic data. Retails sales data provides direct signals about the current activity levels within certain sectors of the economy as well as the industry in total.

It measures the change in the level of sales on a monthly, annual and year-to-date basis. When the information is collected and analyzed over a period of time, such as three months, it can show both positive and negative trends that might be developing within a given sector. It also shows the areas of both strengths and weaknesses that make up the total sales figure. By focusing on the different segments economists can determine if underlying trends support the headline numbers in total or have possibly skewed the overall numbers.

In addition to the direct signals provided by the information, retail sales data also provides an even greater amount of indirect signals when combined with additional indicators. As soon as the information is released, investors around the world use it combined with other economic data released that day to predict the short-term direction of a variety of financial markets, most notably the equity, fixed income and currency markets. It is also combined with information on individual companies to estimate future potential revenues and earnings as well as possible subsequent moves in their stock prices.

Economists use the retail sales data in their models to make predictions on a wide variety of economic issues. Again, because retails sales accounts for such a large proportion of GDP, it is used along with other factors as a way to estimate the direction of the quarterly and annual GDP numbers. Used in conjunction with data such as the consumer price index, it is also very relevant for inflation forecasts as the data can offer glimpses into the affects of rising or falling prices. This in turn is closely tied to predictions for the direction of future interest rates as potential additional government action.

Finally the retail sales data can be used to estimate employment trends and the unemployment rate as its results can signify the expansion or contraction of the retail industry and its workforce. Given that these issues are all interrelated, retail sales becomes an extremely important part of any economic model. By studying the correlations and causations between these variables, economists develop theories on the affects each of these variables will have on a given outcome. It is these from this data that they are able to make predictions of the future. 2. Henry Hazlitt and Inflation Pressures in the Kingdom of Bahrain

Henry Hazlitt's economic lesson centers on the idea that decisions need to be taken into consideration not only for the short-term effects of any action but also the long-term consequences. Hazlitt also focused on the thought that decisions need to be made in regards to the consequences that all groups face as a result of the policy as opposed to a certain segment of the overall group. The Kingdom of Bahrain was faced with a difficult decision in that economic events outside of its control caused a rise in inflation. This rise had a large impact on the low-income citizens in their country.

Although they were attempting to fulfill the responsibilities of any government in trying to ease the burden faced by their citizens, at what cost would these actions have on the rest of the country as well as their ability to correct the underlying problem. The central issue faced by the citizens of Bahrain was the affect of rising prices due to the inflation caused by the decline in the U. S. dollar. As an attempt to limit the hardships caused by these increased prices, the government instituted a policy of supplying their citizens with additional money for purchasing goods and services.

Although the intentions of these additional funds are to assist their own citizens, it is only a short-term solution that actually carries greater consequences. The injection of additional funds only exacerbates the inflation problem. By artificially increasing the money supply the government is essentially making the inflation problem worse. This attempted short-term solution actually creates an even larger problem in that it will negatively affect the purchasing power of non-Bahraini citizens. Essentially, they have not only compounded the problem but also have widened the group affected by this issue.

It seems as if the government has not taken into consideration that the large majority of the population is not eligible for this assistance and the larger impact it will have on the central issue. The long-term result might not only be an increase to inflation but also discourage employment by continuing to subsidize its citizens. As a result the marginal benefit associated with this action does not outweigh the costs, as the country will still be faced with the same issue but possibly now on a larger scale.

The government of Bahrain should be focused on longer-term solutions that will not only combat the inflation problem but also focus on actions that will help its citizens. By reducing the money supply the government will be able to fight the inflation problem. It could attempt to offer assistance to its lower income citizens through programs aimed at increasing employment and creating jobs. A focus on limiting spending while lowering the tax rates for low-income individuals could also help to curb the inflation problem while trying to ease the burden on its citizens.