Fed Challenge Brief:

Sales

Overview

Personal consumption expenditures (PCE) are roughly two-thirds of gross domestic product, therefore it is important to understand the major components of consumption, especially those that have been shown to be good indicators of present and future economic activity and those that are particularly responsive to interest rate changes.

Retail Sales

Retail Sales – an estimate of the total sale of goods by all retail establishments in the United States. Data are reported as nominal (not adjusted for inflation), but are generally seasonally adjusted. Retail sales give some insight into likely growth of personal consumption expenditures. However, over ½ of PCE's are services and retails sales data do not capture changes in this important and growing component of household demand

Housing

Housing is perhaps the most interest-rate sensitive sector of the economy. Changes in the level of long-term interest rates will affect the housing industry much like it affects mortgages. Because residential investment is very volatile, it has an important effect on changes in GDP over time. The housing sector give an indication about near term performance of the economy.

Housing Starts – an estimate of the number of housing units on which construction was started. Housing starts give an indication of economic activity expected in the near future (as construction is completed).

Durable Goods

Durable goods are material goods or products that are designed to last a relatively long period of time.

Because durable goods tend to be relatively expensive and last a long time (e.g. appliances), they are somewhat sensitive to interest rates. Also, people can time their purchase of durable goods, depending on their financial situation and state of the economy. Therefore, data on durable goods provide information about the strength of demand. Rising orders for durable goods likely will result in increasing production and employment as the orders are filled. Falling orders suggest a likely reduction in production and employment.

Inventories

Inventories are stocks of goods held by firms. The rate of inventory accumulation can help to determine the current pace of economic growth and gives clues about the future pace of growth.

The inventory-to-sales ratio is useful in forecasting economic growth since increasing inventory-to-sales ratios indicates a cutback in production to bring inventories back in to line with sales, while a decreasing inventory-to-sales ratio indicates a future increase in production..

Vehicle Sales

Light-Weight Vehicle Sales – total unit sales and leases (to both consumers and businesses) of domestic and imported new automobiles and light-weight trucks.

While automobiles are a relatively small component of the overall economy, changes in this indicator often account for a large part of quarter-to-quarter changes in the growth of gross domestic product.

Since automobiles are often financed, vehicles sales tend to be interest rate sensitive and are therefore sales increase or decrease as the interest rate falls or rises.

Additional Resources

The United States Department of Commerce; Bureau of the Census – data on housing starts, retail sales, business sales and inventories, durable goods. http://www.commerce.gov/
The United States Department of Commerce; Bureau of Economic Analysis – data on vehicle sales. http://www.commerce.gov/
Wards Automotive Reports and The American Automobile Manufacturers Association – data on vehicle sales.