Hi. Welcome to Macroeconomics. This is Kate. This tutorial is on retail sales. As always, my key terms are in red and examples are in green. So in this tutorial, we'll talk about what retail sales are and how they're used as an economic indicator. And you'll understand why retail sales are considered a leading indicator.

So you're used to seeing this. It's a business cycle. You know that economists use a lot of different kinds of data to help them predict where our economy is headed on this business cycle, explain what's just occurred, and look at what is currently happening in the economy.

Well, calculating retail sales is just one way. It's one economic indicator that helps economists actually predict where the economy is headed. So it does this as a leading economic indicator. As your key terms, here's retail sales. It says, on a year-over-year basis, it's the amount of retail sales attributed to the same stores in a chain. So we exclude the growth of new stores. And they're tabulated to see if over a period revenue has increased, decreased, or stayed the same.

So it's the Census Bureau and Department of Commerce that publishes this retail sales report every month. And it's really detailed. It includes sales for specific industries. I think I listed almost all of them. So the ones that I chose to list were motor vehicle and parts dealers, furniture and home furnishing stores, electronics and appliances, stores with food and beverage, health and personal care, gas stations, clothing and accessories, sporting goods, hobby, book, and music stores, general merchandise stores, and food services and drinking places.

So, not necessarily for macroeconomists, but for investors it's really nice that this is broken down industry by industry. Because if you are thinking about investing in a certain industry, or if you already have money invested in a certain industry, you can access this report every month and see what's going on in each industry. And here is the link, if you're interested to see the very detailed report, this link right here would take you to the most current retail sales report. I have just an overall summary right here from the January 2014 report, which obviously is reporting on the month prior to it, so December of 2013.

And so this one basically says that there were retail sales of $431.9 billion. That doesn't necessarily mean much to me, but if you look at the percentage increase, it's an increase of 0.2% from the previous month. And then they tell you from last year-- a 4.1% increase from the year prior to it. If you would access the whole report, it would break it down by each industry.

OK, so retail sales are a leading indicator in our economy. Let's think about this. Why would macroeconomists want to consider retail sales? Well, first of all, and this is kind of a little bit more detailed, but an increase in retail sales will often be a leading indicator itself to an increase in the CPI, which is yet another economic indicator. And that's because if businesses are seeing an increase in sales, meaning an increase in demand for their goods and services, more than likely that's a signal to them that they know they can raise their prices. And we sometimes do see that happening. So when retail sales increase, then we often CPI increase the next month or in the months following.

But why else are macroeconomists looking to retail sales to predict where the economy is headed? Well, if there is an increase in retail sales from one period to the next, that's an indication that consumers are out there spending money, that they're confident in the economy. It's also an indication that businesses might be looking to hire more employees. They might be looking to produce more. So those are indicators that our economy could even continue to grow into the future in the upcoming months.

Likewise, so on the opposite side of it, a decrease in retail sales from one period to the next can raise concerns to macroeconomists about a potential recession coming. Because if firms have seen a decrease or a tapering in their sales, they might start looking to ramp down, or scale back, I'm sorry, on production. And when they do that, they tend to look to laying off workers, cutting hours, and things like that. So a decrease in retail sales can signal that perhaps we're headed for a slowdown or recession.

So in this tutorial, we looked at what retail sales are and how they're used as an economic indicator, and hopefully now you understand why retail sales are considered a leading indicator. Thanks so much for listening. Have a great day.