UNIVERSITY OF ARKANSAS
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Center for Business and Economic Research
Center for Retailing Excellence

Update: U.S. Retail Economic Indicators Highlights

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KEY POINTS

- The U.S. Retail Coincident Index reached its highest post-recession level in July 2012, after declining in June and increasing from March to May.

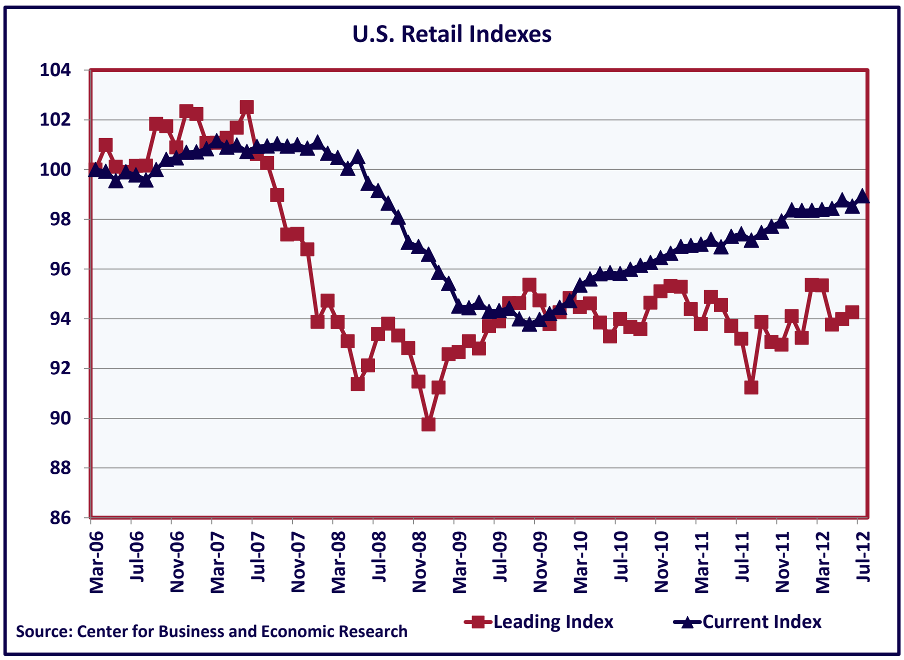
- The U.S. Retail Leading Index posted positive monthly changes for five out of the last six months, indicating that retail activity is likely to improve modestly, but also that it would be volatile at the end of the third quarter and the beginning of the fourth quarter of 2012.

- The retail trade industry experienced increases in business activity, new orders, employment, and imports, while supplier deliveries stayed unchanged from July to August 2012.

- Meanwhile, during August 2012, retail executives reported that inventories were too high, prices for purchased materials and services and backlogs of orders increased, and new export orders declined. Also, the for-hire truck tonnage seasonally adjusted index declined in August. On the other hand, the not seasonally adjusted for-hire truck tonnage index, which represents the change in tonnage actually hauled by the fleets, increased that month.

- In the third quarter of 2012, retail vacancy rates for neighborhood and community shopping centers stayed at 10.8 percent and vacancy rates for large regional malls declined to 8.7 percent. Asking rents in both shopping centers and regional malls increased by 0.1 and 0.3 percent, respectively. Meanwhile, construction levels remained low.

The **U.S. Retail Leading Index**[1] increased at a 3.6 percent seasonally adjusted annual rate (SAAR) to 94.3[2] in June 2012 (the latest month for which all the data are available). The following variables positively impacted the Leading Index, from the largest impacts to the smallest: a decline in the number of initial claims of mass layoffs in the retail industry, an increase in the Consumer Expectations Index, and an increase in the retail inventories to sales ratio. Meanwhile, the Leading Index was impacted negatively by increased crude oil futures prices and declines in the 10-Year Treasury bonds price, in the Non-Manufacturing Index – New Orders, in the personal savings rate, and in the S&P 500 Retail Index. Retail industry average weekly hours stayed the same in June. Continued volatility of the Retail Leading Index indicates the likelihood of instability and a modest improvement in retail activity in the fall of 2012 and winter of 2013.



The **U.S. Retail Coincident Index** increased in July 2012 after declining in June and increasing during the spring time, up to 98.9, its highest level since 2008. The increase was at a 5.2 percent SAAR, compared with the 1.2 percent increase in July 2011. The Consumer Current Conditions Index, retail sales, real disposable personal income, and

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1 The U.S. Retail Leading and Coincident Indexes were constructed by the Center for Business and Economic Research following Conference Board methodology. The Leading Index consists of 9 data elements that help to forecast future retail activity. The Coincident Index consists of 6 data elements that help to evaluate the current state of the retail industry.

2 The base month for both the Retail Leading and Coincident Indexes is March 2006, when the indexes were set to be 100.

Freight Transportation Services Index increased and gasoline prices declined, affecting the Retail Coincident Index positively. On the other hand, retail employment declined slightly in July, negatively contributing to the index.

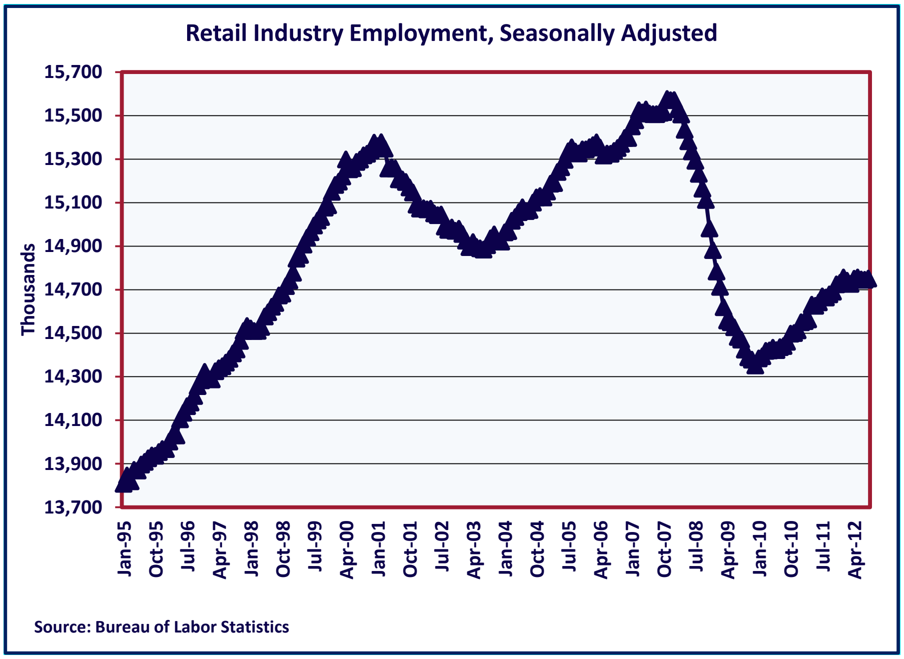
According to the **survey of retail industry executives by the Institute for Supply Management**, the retail trade industry experienced growth in August 2012. The retail companies experienced increases in business activity, new orders, employment, and imports, while supplier deliveries stayed the same compared to July. However, executives reported that inventories were too high, that prices for purchased materials and services and backlogs of orders increased, and that new export orders declined in August. Survey respondents said that “overall conditions continue to be unpredictable. Sales are inconsistent as customers reel to the news of the day, which creates havoc on the supply chain to respond."

Retail Trade Industry Survey	
Business Activity	
New Orders	
Employment	
Supplier Deliveries	
Inventories	
Prices	
Backlog of Orders	
New Export Orders	
Imports	
Inventory Sentiment	

Source: August 2012 Non-Manufacturing ISM *Report on Business*® from the Institute for Supply Management

The retail trade industry subsector accounted for 11.1 percent of total U.S. **employment** in August 2012, according to the Bureau of Labor Statistics (BLS). It remained the fourth largest employment sector after government (15.6 percent), educational and health services (15.0 percent), and the professional and business services sector (13.6 percent).

Employment in the U.S. retail trade industry increased by 0.6 percent from August 2011 to August 2012, according to preliminary BLS data. On average, total non-farm employment grew 1.4 percent during that time period. Most of the other domestic industry sectors experienced larger employment growth. Only construction industry employment increased at a smaller rate, while the government industry sector experienced a decline in employment. Retail industry employment experienced stable growth from late 2009 to late 2011, but remained almost unchanged during this year with its current level being similar to the employment situation in late 1998. In comparison, non-farm employment keeps increasing steadily and has regained early 2005 levels.



The vacancy rate at U.S. neighborhood and community shopping centers stayed at 10.8 percent in the third quarter of 2012, according to a report released by Reis, Inc. The vacancy rate declined for the first time in almost seven years in the first quarter of this year. **The average vacancy rate at U.S. regional malls** declined from 8.9 percent to 8.7 percent from the second quarter to the third quarter of 2012. Meanwhile, **asking rents for strip malls and regional malls** increased by 0.1 percent and 0.3 percent, respectively, during the third quarter of this year. According to Reis, Inc., Class A malls or malls with luxury retailers and targeting affluent consumers accounted for the majority of improvement. The typical lesser-quality malls were not performing as well. Vacancy rates are expected to slowly decline through the rest of the year, as demand remains and construction stays at low levels. Respondents of the Institutional investment survey conducted by the Real Estate Research Corporation in the second quarter of 2012 were generally pessimistic about investment opportunities for the retail sector, except for retail properties in prime locations. Respondents reported that they do not expect the retail sector to stabilize until the end of 2013.

The advanced seasonally-adjusted **For-Hire Truck Tonnage Index** from the American Trucking Association declined by 0.9 percent in August 2012, after rising 0.4 percent in July. However, the index rose 3.2 percent from August 2011. The not seasonally adjusted index, which represents the change in tonnage actually hauled by the fleets before any seasonal adjustment, increased 5.7 percent from the previous month.