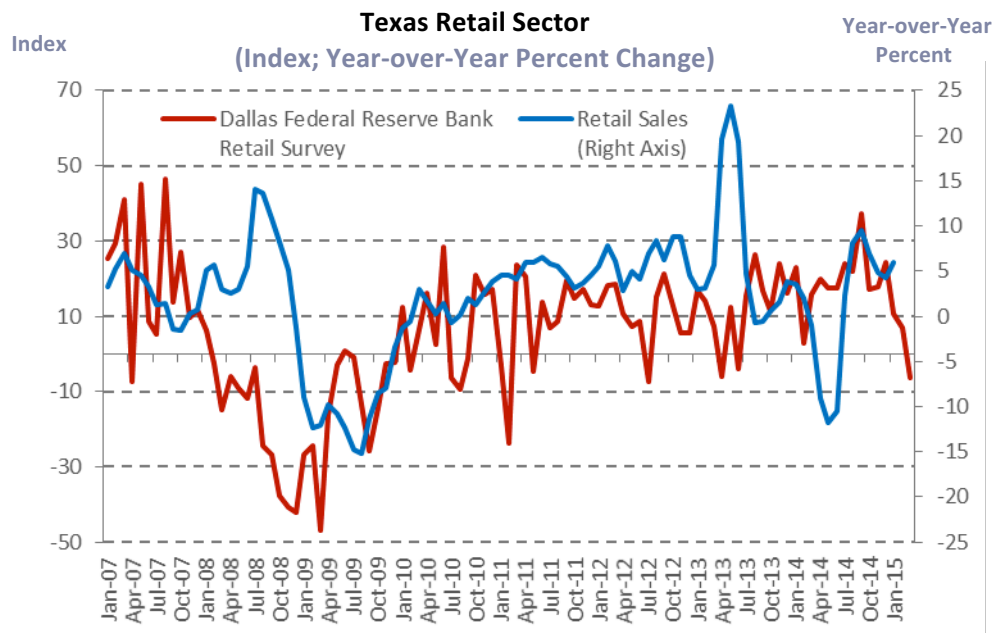


## About this Reference Document

This document helps you understand and interpret a particular economic indicator that is part of the larger *Outlook for the Texas Economy*. Note that all data, charts, and explanations presented are from prior reports and thus are not current. Your feedback is always appreciated. Send comments and suggestions to [info@recenter.tamu.edu](mailto:info@recenter.tamu.edu).

Dr. Luis Torres and Wayne Day



Note: Seasonally adjusted and inflation adjusted.

Sources: Retail Sector Outlook Survey from the Federal Reserve Bank of Dallas, Retail Sales from Texas Comptroller of Public Accounts

The Texas Comptroller of Public Accounts calculates retail sales estimates based on tax forms required for both taxable and nontaxable sales. The comptroller's data are published quarterly, limiting their usefulness as an indicator of current economic conditions. Utilizing city tax rebates and other data, the Dallas Federal Reserve attempts to improve the timeliness of the series by transforming it into monthly data.

The Dallas Fed distributes quarterly retail sales among the months in each quarter using monthly measures as a guide. The best and most direct measure is sales tax rebates from the state to cities. Businesses send sales tax collections to the comptroller's office, which separates cities' sales taxes from the state's receipts and returns them to the cities. The rebates are a product of retail sales and tax rates. The Dallas Fed takes into account tax changes to make sure their measure reflects variations in taxable sales, not rates. Rebates generally reflect sales with a two-month lag, so data are adjusted accordingly.

The rebates have a strong but imperfect relationship with retail sales. One weakness is that food and prescription drugs aren't taxed, so city sales tax rebates don't reflect this spending. The Dallas Fed uses two other monthly measures to estimate monthly retail sales that are employment in retail trade and the combined consumer price indexes for Houston and Dallas-Fort Worth. These series are seasonally adjusted to account for the trend and business cycle relationships.

To build a long-term, consistent historical series, the Dallas Fed adjusted for the change in 1997 from the U.S. Standard Industrial Classification (SIC) to the North American Industry Classification System (NAICS). Most importantly, they restored the subcategory of eating and drinking places to retail sales for each quarter, providing a continuous series since 1978.

Retail sales are a good barometer of current economic activity because consumer spending represents more than two-thirds of gross domestic product. This is especially true at the regional level given the lack of data availability of broad economic measures. The only problem is that some of the information in the past has shown some large variability. While not looking at other indicators, taken on its own it gives the perception of strong expansions and deep downturns.

Retail sales continue to increase at a slower rate as low energy prices have had a negative effect on the Texas economy. The state's consumers are expecting the economy to slow, making them less confident about spending. Also, some parts of the state, such as the Dallas-Fort Worth metropolitan area, faced a particularly harsh winter, which kept consumers off the roads more than usual.

Source: Dallas Federal Reserve Bank

<http://www.dallasfed.org/research/econdata/tx-retail.cfm>