



## Stock Market Weekly

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### ***Retail Sales – A Market Mover***

In the United States, consumer spending accounts for more than two-thirds of Gross Domestic Product (GDP). Retail sales account for almost half of total consumer spending and an estimated one-third of overall economic activity. It is no wonder then that close attention is paid to the release of the Retail Sales Report by policy makers, economists and investors alike as it provides early estimates of broad-based retail trade activity.

The Retail Sales Report is released monthly by The Census Bureau, US Department of Commerce with the purpose of providing an early indication of sales of retail and food service companies. Some 5,000 companies from within the retail industry, ranging from big names like Wal-Mart (NYSE:WMT) to small businesses, are surveyed on dollar values of end-products sold to consumers.

The release will generally highlight two figures: (1) Retail Sales (month-on-month change as a percentage) and (2) Retail Sales ex-autos (month-on-month change as a percentage). Motor vehicles are excluded because the relatively large price tag and historical seasonality (fluctuates more than overall retail sales) can markedly skew the total figure. For example, retail sales in June 2009 came in a bit stronger than expected with a revised increase of 0.8% (the expectation was 0.5%) over the previous month. However, analysis showed that this was aided by increases in gasoline and motor vehicle sales. Retail sales ex-autos coming in at 0.3% (versus an expected 0.6%) showed continued soft sales in June. Again in July 2009, the impact of motor vehicles could be seen as retail sales fell by 0.1% from June and retail sales ex-autos declined by 0.6%.

Given the considerable impact of consumer spending on the US economy, the Retail Sales Report gives a good indication of how the economy is doing. This economic indicator is considered a coincident indicator, that is, an indicator that varies directly with the business cycle and therefore reflects the current state of the economy as opposed to a leading or lagging indicator. This Report also gives an indication of overall price level activity and as such is considered a pre-inflationary indicator. In addition to giving a sense of the overall health of the economy, the release also gives a sense of how different types of retailers are doing as data on performance is provided for various component sectors such as furniture & home furnishing stores, electronics & appliance stores, clothing & clothing accessory stores, non-store retailers (e.g. vending machines) and food services & drinking places among others.

The release of economic data such as retail sales usually has some impact on the stock markets. Generally, the various pieces of economic data that are frequently released give an idea of how the US economy is doing as a whole and as noted above the Retail Sales Report, is a closely followed indicator. The implication for stocks is that strong economic growth would translate into strong corporate profits and this would lead to increased stock prices. So in general, if the indicator points to an economic upswing then there is likely to be an uptick in stock prices. Conversely, if there is an indication of a downswing then prices are likely to fall.

The stock markets react, sometimes quite dramatically, to the release of these figures. A point to note is that prior to the release of actual figures there is a consensus on what that figure might be. If the actual figure is close to the consensus this could soften the reaction because investors may have already “priced in” the expected results. However, if the actual figure varies widely from the consensus figure the reaction could be quite volatile, particularly if the difference is to the downside, as the stock market in general does not like surprises (although it has seemingly gotten used to them in recent times as reactions have not been as sharp). Another point to note is that while this is a major piece of news that the market looks toward and one which generally elicits some reaction, if there is another headline grabber there may be a diluting effect and the market may not react as strongly to the retail sales news.

The July 2009 figures for retail sales were disappointing to the market as they not only were less than estimates but were actually negative. Retail sales fell 0.1% versus an expected increase of 0.8% and retail sales ex-autos fell 0.6%, compared to expectations of a 0.1% increase. Analysts’ estimates were based on expectations that the Obama administration’s “cash-for-clunkers” automobile incentive program, which offers credits of up to US\$4,500 to trade in “gas-guzzlers” for more fuel-efficient models, would help boost retail sales. While there was indeed an increase of 2.4% in motor vehicle and parts dealers, this was not enough to outweigh the declines in other components such as building materials & garden equipment (-2.1%), gasoline stations (-2.1%, impacted by lower prices for gas) and sporting goods, hobby, book & music stores (-1.9%). As expected, in early trading on Thursday 13 August 2009, stocks retreated in response to the retail news (and bad news of higher than expected initial jobless claims) as both the Dow and S&P 500 moved lower. The response was not dramatic however, and indices proceeded to waver as investors balanced the disappointing sales data with other news such as the Federal Reserve’s “upbeat” comments on Wednesday 12 August that the economy appears to be “leveling out”.

Knowledge of how the markets move with regard to the release of this data can be quite useful for making tactical trading moves on the days of release. Furthermore, because information is available for various kinds of businesses, relatively strong or struggling areas can be identified and an investor can gain insight into which areas may offer lucrative investment opportunities.

*Data Sources: Bloomberg, U.S. Census Bureau – U.S Department of Commerce*

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**Table 1: Regional Market Performance (as at 13 August 2009)**

Index	Closing Value	Weekly Change (%)	Monthly Change (%)	YTD Change (%)	1 Year Change (%)
TTSE Composite	787.33	0.39	0.92	-6.60	-31.67
All Trinidad	1,101.90	0.25	2.02	-4.58	-28.63
JSE Index	79,919.87	0.15	-1.37	-0.29	-25.63
JSE Select	1,808.68	0.20	-1.11	-8.87	-39.07
All Jamaica	66,084.04	0.34	-1.41	-10.69	-38.98
BSE Composite	842.49	-0.06	-0.27	-8.41	-21.36

**Table 2: International Market Performance (as at 13 August 2009)**

Index	Closing Value	Weekly Change (%)	Monthly Change (%)	YTD Change (%)	1 Year Change (%)
S&P 500	1,012.73	1.57	12.39	12.12	-21.24
Nasdaq Composite	2,009.35	1.83	12.05	27.41	-17.26
Dow Jones Industrial	9,398.19	1.53	12.80	7.08	-18.51
German Dax	5,401.11	0.58	14.37	12.28	-15.90
FTSE 100	4,755.46	1.38	13.17	7.25	-12.72
Nikkei 225	10,517.19	1.24	16.21	20.24	-19.24
Hang Seng	20,861.30	-0.18	20.90	45.00	-2.03
DJ Eurostoxx	2,705.74	1.64	15.37	10.37	-19.35

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