EconomicsCenter

Ohio Retail Sales Holiday Forecast

Prepared for

Focus on Ohio's Future

by the

Economics Center

November 2015

UNIVERSITY OF
Cincinnati

EconomicsCenter

REPORT HIGHLIGHTS

- The Economics Center projects a **4.2 percent increase** in Ohio retail spending for November and December of this year, relative to last year.

- The Economics Center's forecast for the State of Ohio is slightly higher than the National Retail Federation's national forecast of 3.7 percent.

- Cincinnati and Columbus will see the strongest growth in holiday sales among the major metropolitan regions.

UNIVERSITY OF
Cincinnati

EconomicsCenter

INTRODUCTION TO HOLIDAY SPENDING

During the majority of the year, a household's purchasing decisions center primarily on fulfilling basic needs (e.g. housing, clothing, food, general transportation, etc.). The extent to which households purchase more discretionary goods, including gifts, is smaller compared to their spending on necessities. In the holiday season, however, the level of spending on these discretionary goods increases and this spending plays a significant role in the overall health of the U.S. economy. Not only can a healthy holiday season create a boost in short-term seasonal employment, but it also serves as a strong indicator of the health of the economy going forward.

HOLIDAY SPENDING FORECAST

Data

Retail sales data was compiled from the Ohio Department of Taxation's website and also by direct communication between the Economics Center and the Ohio Department of Taxation.[1] The Ohio Department of Taxation administers permissive sales and use taxes for 88 counties and eight transit authorities. The revenue from the monthly collections is distributed to the counties and regional transit authorities. Because monthly tax revenue data is only provided in the aggregate at the county level, the Economics Center asked the Department to break out the monthly sales data by individual sector. The Economics Center then applied this retail sector ratio to the county-level data.

The Economics Center defined retail spending as including all retail sales except those by motor vehicle and parts dealers as well as gas stations. This definition, which is consistent with the approach used by the National Retail Federation, also excludes spending on accommodations and food services, as well as entertainment and recreation.

Forecast

Cumulative retail sales from January to July in Ohio were up by 3%. However, in the most recent month, the year over year sales increase was 4.2%. Under the Economics Center's forecasting model, the total holiday retail spending is expected to increase by **4.2%.** This estimate takes into account not only recent sales data, but it also includes measures of employment, wages, consumer confidence, consumer debt, gas prices, and US retail sales.

More than half of the State's retail spending will take place in Ohio's three largest Metropolitan Statistical Areas (MSAs) – the Columbus MSA, the Cleveland MSA and the Ohio portion of the Cincinnati MSA. The Economics Center forecasts that spending in Cincinnati will be the highest among all MSAs. In

---

[1] http://tax.ohio.gov/divisions/tax_analysis/tax_data_series/sales_and_use/publications_tds_sales.stm

UNIVERSITY OF
Cincinnati

EconomicsCenter

Cincinnati, holiday retail sales are projected to be 5.6 percent higher than in 2014. Columbus will also have a strong increase in sales at 4.6 percent. Cleveland is expected to lag the major metropolitan regions at an increase of only 2.3 percent.

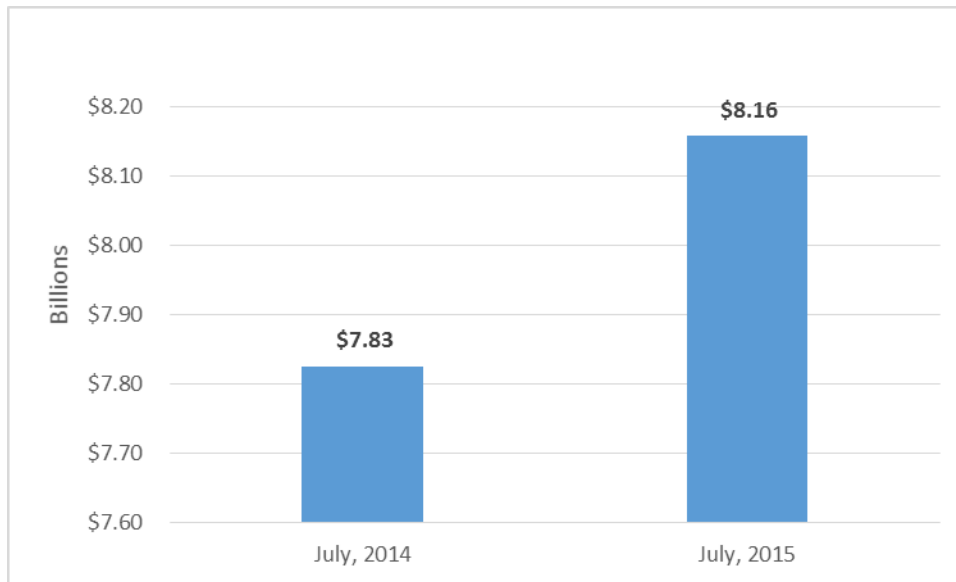Figure 1: Most Recent Year over Year Retail Sales

Table 1: 2015 Holiday Sales by Ohio Region

Major Metros	Percent Increase (2015 vs. 2014)
Akron MSA	3.1%
Cincinnati MSA (Ohio region)	5.6%
Cleveland MSA	2.3%
Columbus MSA	4.6%
Dayton MSA	3.3%
Toledo MSA	3.8%
Youngstown MSA	3.6%

UNIVERSITY OF
Cincinnati

The map below shows the counties included in these regional sales forecasts.

Figure 2: Map of Ohio MSA definitions

Ohio Metropolitan Statistical Areas
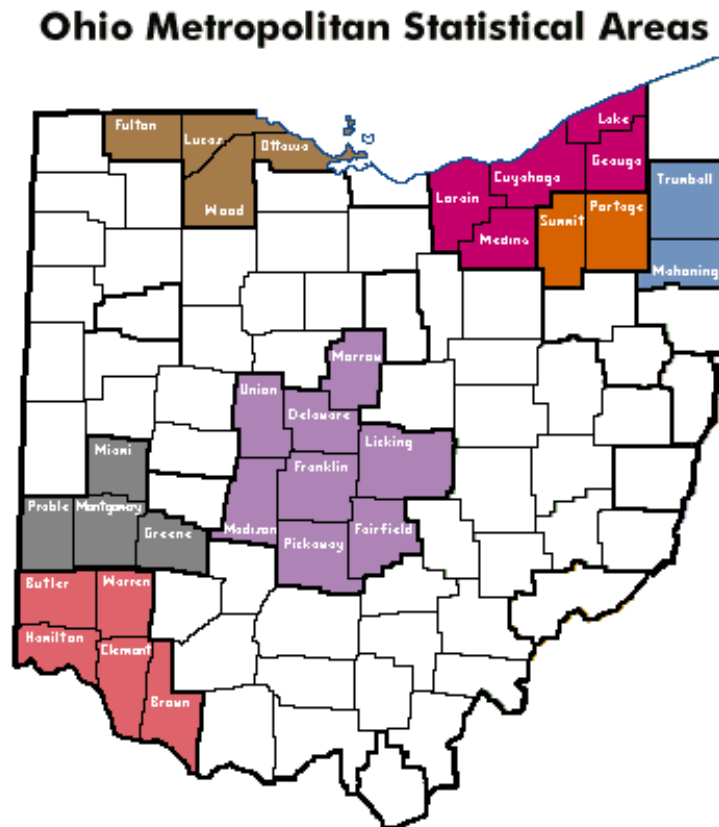
Inflation

Three important economic indicators that affect retail sales include: inflation, employment and wages. This year, inflation is relatively constant compared to last year at around 2 percent. If the overall price level of goods is rising by this amount, then retail sales would also be expected to rise by at least 2 percent, assuming that all other economic conditions remain the same.

Figure 3: Inflation

Source: US. Bureau of Labor Statistics
research.stlouisfed.org
myf.red/g/2rj0
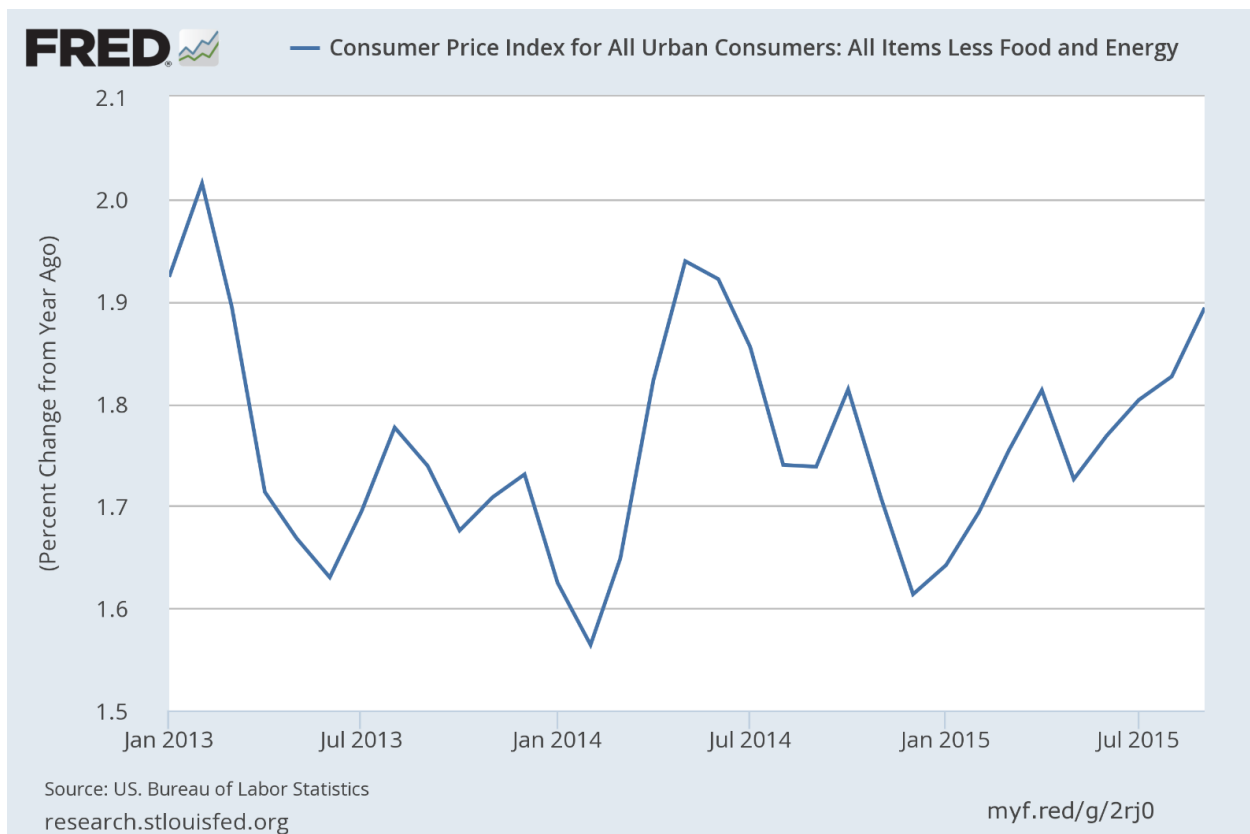
Employment

At 4.5 percent, the unemployment rate currently rests at its lowest point since 2006. The unemployment rate does not tell the whole story however. Even more important is the number of individuals that are employed in the State – a figure which reached 5,441,000 people by September, 2015. The year over year increase in employment has declined over the course of the year to just under 1 percent by the most recent monthly data available.
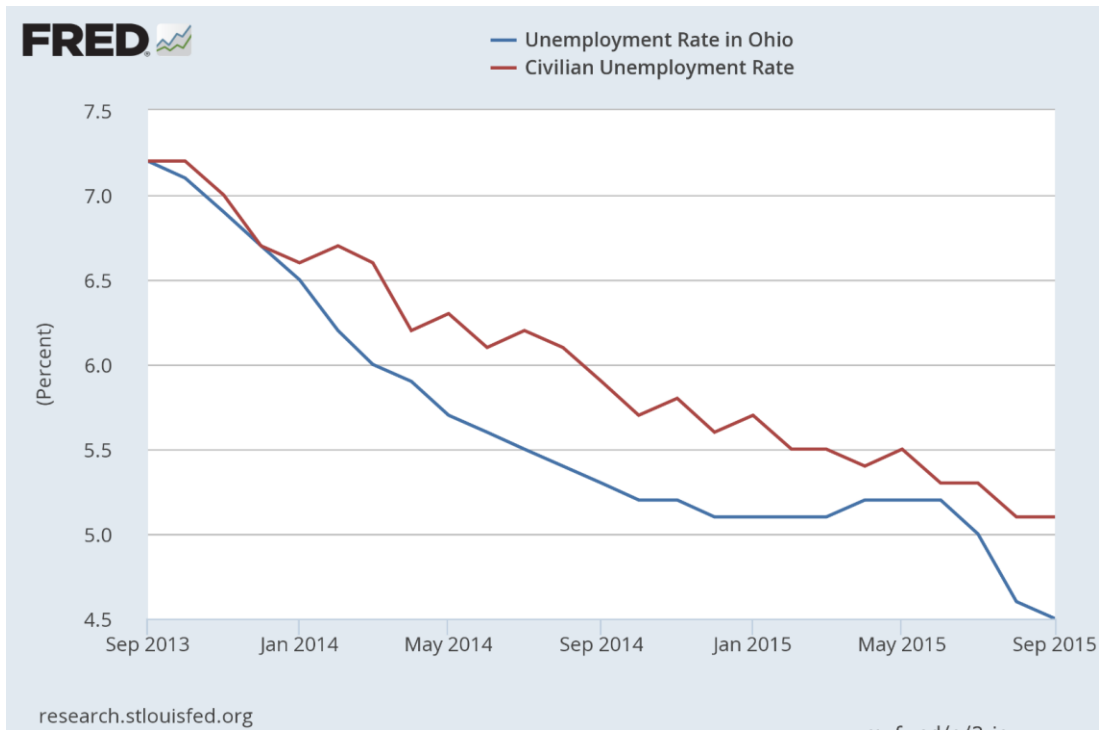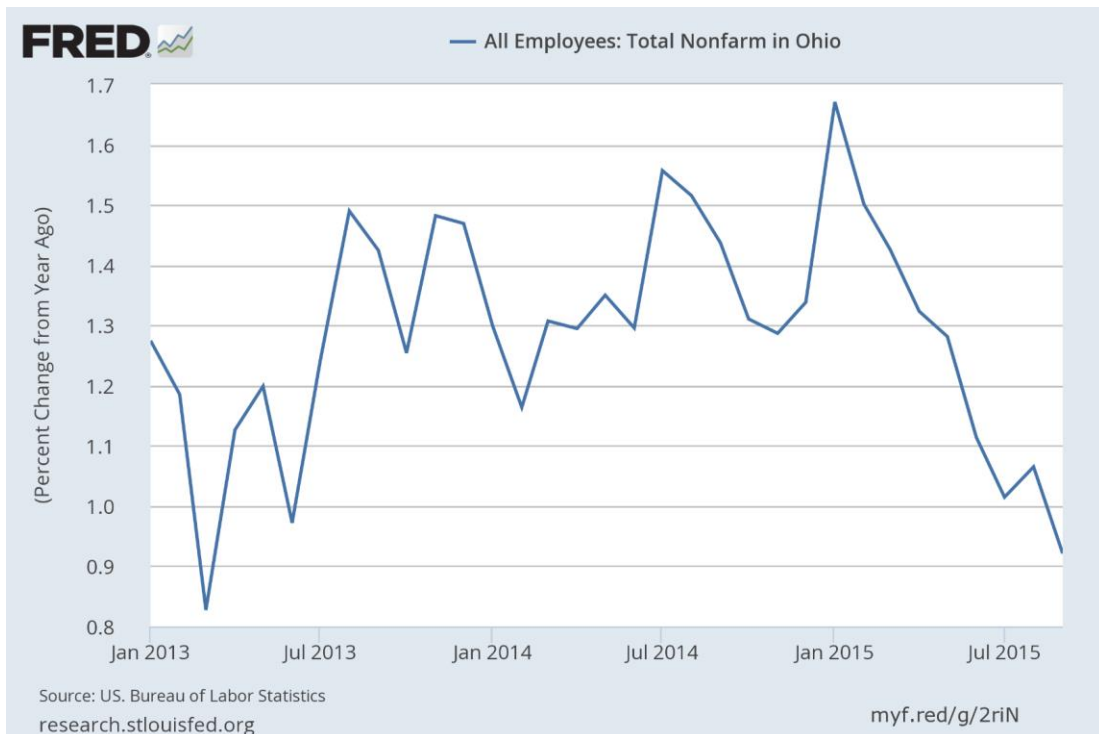
Figure 4: Unemployment Rates

Figure 5: Percent Change in Employment

UNIVERSITY OF
Cincinnati

Wages and Salaries

Wages have continued to increase in 2015. There is a 3% increase in wages from the first quarter of 2014 to the first quarter of 2015. Increased inflation and productivity among existing workers has resulted in year over year positive wage growth. Relative to the previous year, *total personal income* of Ohioians has also increased by 3%. With the increased capacity to purchase more goods and services, holiday sales should be higher in 2015 relative to 2014.

Figure 6: Total Wages and Salaries in Ohio

Source: US. Bureau of Economic Analysis

research.stlouisfed.org
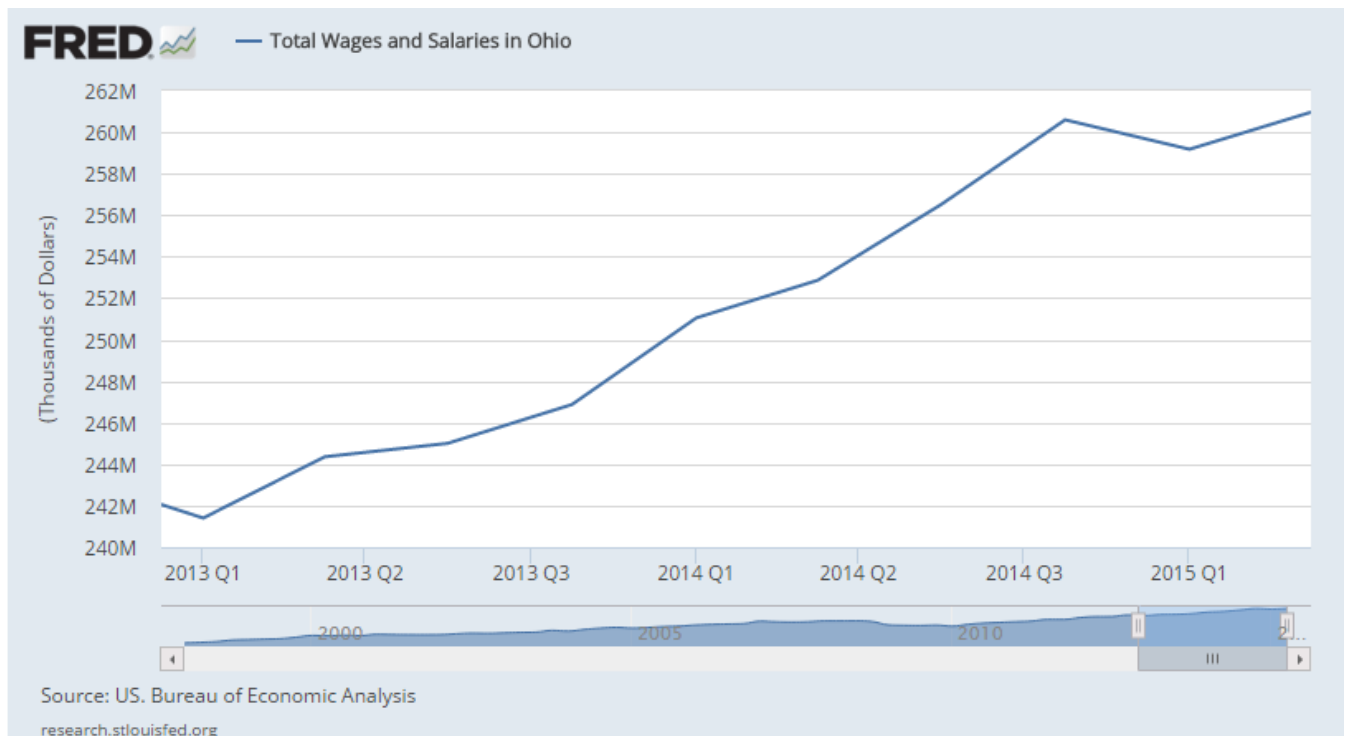
US Retail Sales

While inflation and employment are some of the more important economic indicators of retail spending, national retail spending also has an effect on Ohio retail spending. According to a recent WSJ article, retail sales were up "a healthy 3.5% from a year earlier", excluding motor vehicle sales and gasoline.[2] In its forecasting model, the Economics Center included US retail sales to reflect the overall economic strength of consumer retail spending.

---

[2] http://www.wsj.com/articles/u-s-retail-sales-tick-up-0-1-in-october-1447421515

Consumer Confidence

The University of Michigan's index of consumer sentiment peaked at 98.1 in January, 2015, a level of consumer sentiment not seen since 2007. Throughout the year, the index has remained above levels in 2014. The relatively strong levels of consumer confidence will positively affect consumer spending this holiday season.
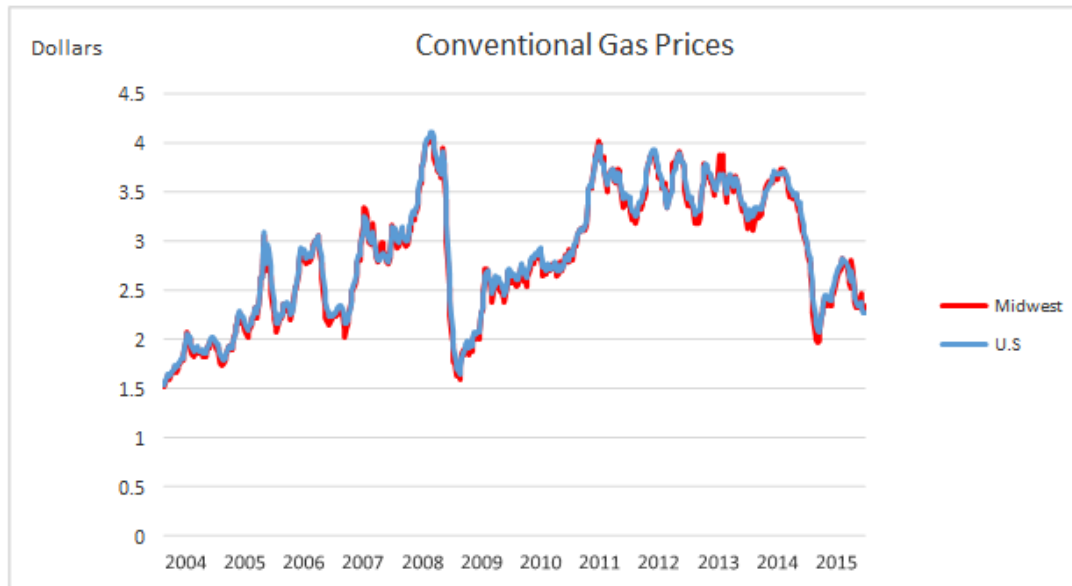
Figure 7: Consumer Confidence
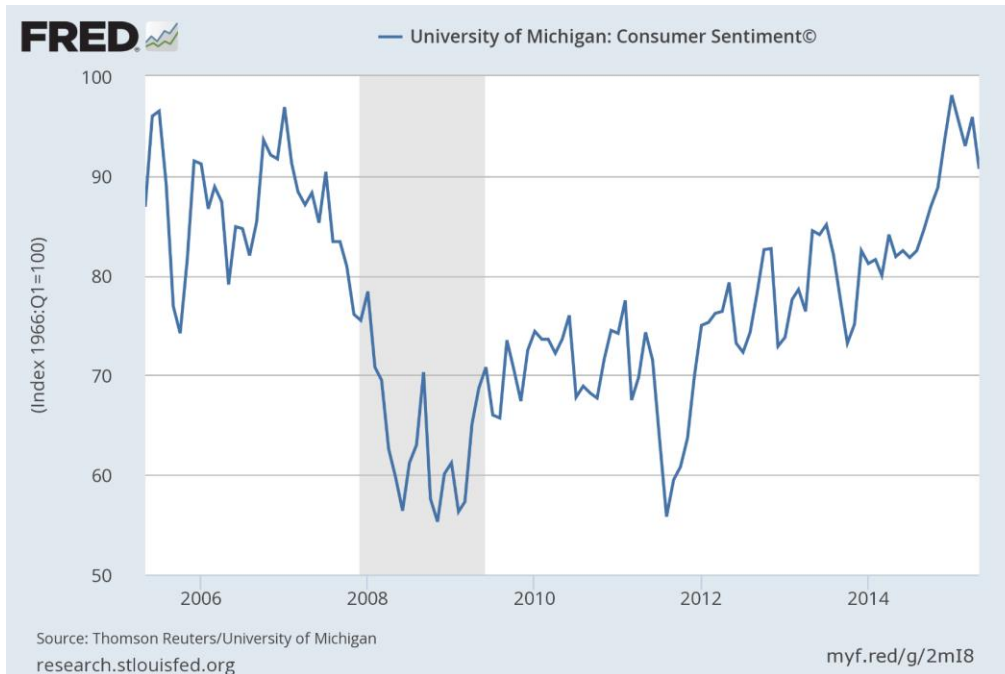
Gasoline Prices

Gas prices in Ohio have been trending in the same direction as US gas prices. Gas prices are down nearly 25 percent compared to last year, and this decline in prices should boost an indiviual's disposable income for the holiday season.

Figure 8: Conventional Gasoline Prices

Housing Prices

The recent growth in housing prices has plateaued, but the first quarter of this year showed a healthy 4.8 percent increase in home prices from a year ago compared to 0.94 percent in 2014. Higher home prices boost household wealth which in turn encourages higher levels of consumer confidence, spending propensity and not surprisingly, retail spending. In addition, *household financial obligations as a percent of disposable income* have remained steady at just over 10 percent.

Figure 9: Housing Prices

UNIVERSITY OF
Cincinnati
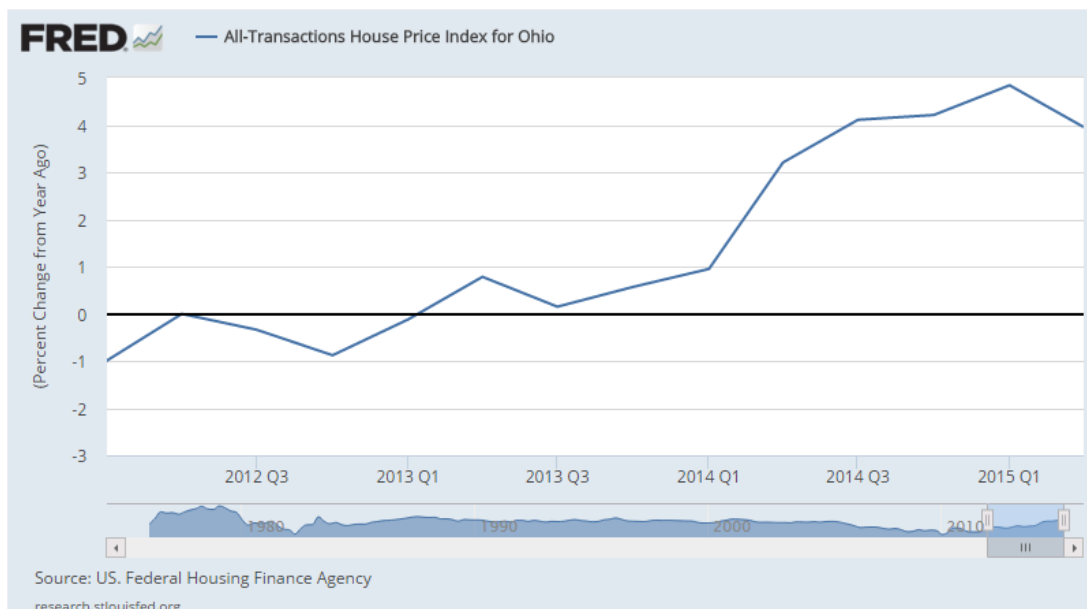
A note about Amazon.com

Internet retailers continue to account for a larger portion of total retail sales. Currently, online shopping captures a greater percentage of consumer purchases than at any point in the past. The Department of Commerce announced that in the third quarter of 2015, US retail e-commerce sales accounted for 7.4 percent of total sales.

The loss of tax revenue from online purchases continues to be a source of concern for the State of Ohio. However, as of June 2015, Amazon began collecting sales tax from all customers in the state of Ohio. The online retailer is collecting the same sales tax that Ohioans would have to pay to any other brick and mortar retailer. This event evens the playing field for many local store owners as their prices are now able to better compete against Amazon. As a result, many Ohioans who may have purchased a gift online to save money last year, will decide to purchase the same good at a physical store this holiday season. This should have a positive effect on holiday sales.

Figure 10: Online Retail Sales

Source: US. Bureau of the Census
research.stlouisfed.org
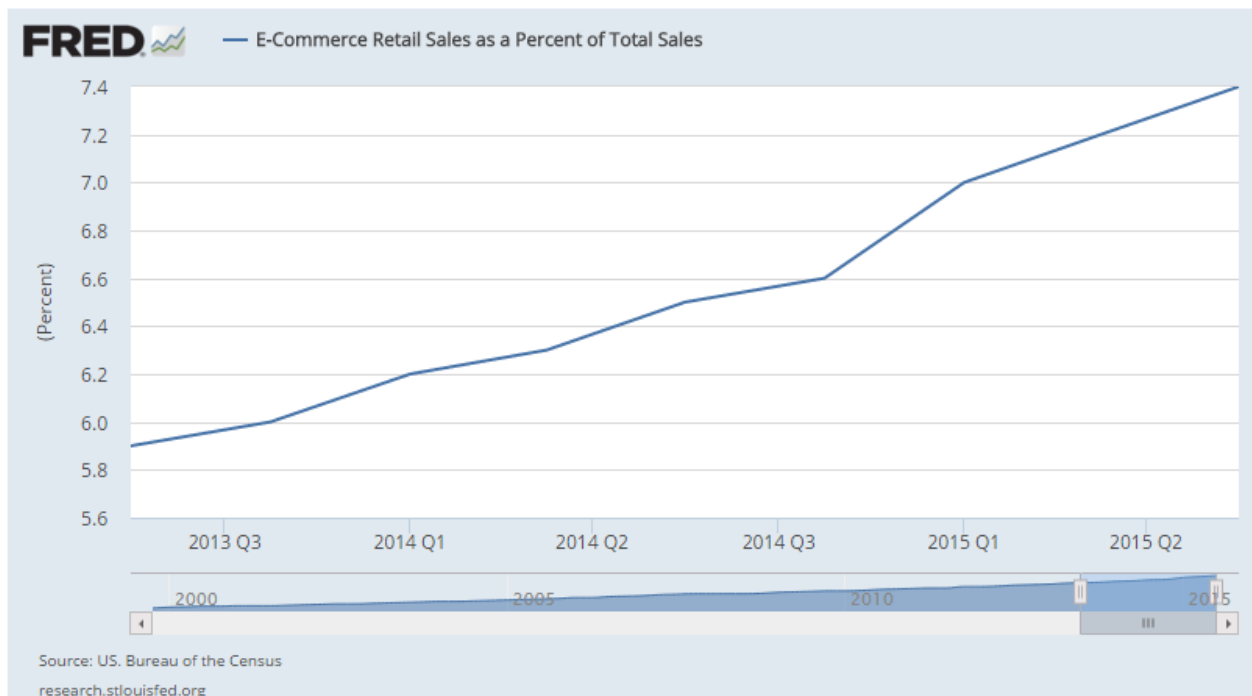
EconomicsCenter

Approach to the Development of the Forecast

The Economics Center used a Vector Autoregression (VAR) model to generate its forecast for Ohio holiday retail spending. A VAR model is used to analyze the interdependence among multiple time series variables. For example, retail sales spending is a function of consumer confidence, which in turn depends on the amount of retail sales spending.   Details of the specification can be provided upon request.

About the Economics Center

The Research and Consulting division of the Economics Center provides the knowledge building blocks that help clients make better policy and economic development decisions. Our dynamic approach and critical data analysis empower leaders to respond to changing economic conditions, strengthen local economies and improve the quality of life for their communities.

UNIVERSITY OF
Cincinnati