

NRF[®] MONTHLY ECONOMIC REVIEW

Economic Data & Trends for the Retail Industry

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**The data for this report is released on a rolling schedule. The presented numbers are current as of publication and are subject to revision.*

SYNOPSIS

How much longer can the good time last?

While the economy is slowing, the record-long U.S. economic expansion looks unlikely to run out of steam anytime soon, with a good chance it will continue into 2020. However, it is not clear how long the expansion can last given the current risks coming from the trade war and tariffs. Economic fundamentals that underpin the expansion remain positive but there are red flags surrounding future growth. Most of them are coming from overseas and are trade-related. The current slowdown is particularly evident in the trade-dependent manufacturing sector, affecting business confidence and investment. Capital spending plans among manufacturers reached a two-and-a-half-year low in June. On the surface, the temporary truce in the trade war and trade talks between the United States and China that resumed at the end of June are positive developments and dissipate some uncertainty. But in the meantime, there is a range of issues the two countries disagree on and are a cause for caution regarding the outlook.

The Federal Reserve appears to be ready to consider countering the spillover effect of the slower growth. Chairman Jerome Powell has recently pledged to “act as appropriate” to keep the expansion intact. It is widely expected that the Fed will lower interest rates in the near term, and counterparts including the European Central Bank are poised to join in. Together, the shift by central banks toward monetary easing to cushion the global and U.S. slowdowns should extend the expansion.

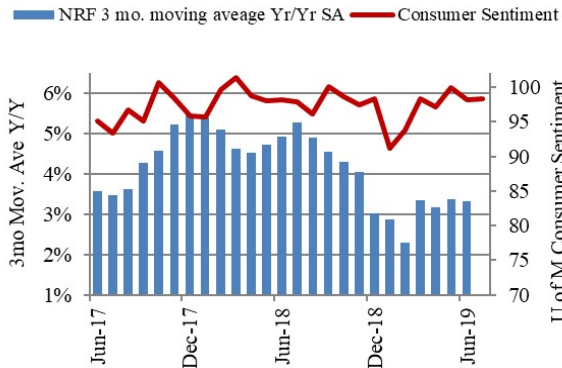
Though there are indications of weakness in the manufacturing sector, the need for lower interest rates is certainly not coming from U.S. consumers. The strength of the consumer continues to be notably strong and is carrying the economy forward with the help of a labor market that remains on solid footing. Overall consumer spending was strong in the second quarter, helped by June retail sales. Unadjusted retail sales during the second quarter increased an average 3.7 percent over the same period a year ago. Labor market conditions appear to remain fine and are recovering from a tariff-induced slump early this year. After a truly weak gain of only 72,000 jobs in May that raised concerns about the strength of the economy, June employment rebounded by 224,000 jobs and was not only strong but broad-based, offsetting fears of a weakening labor market. Jobless claims through July 13 were still signaling that all is well with the labor market, increasing by only 8,000 to 216,000.

Despite positive readings from the consumer sector, several indicators point to a slower pace for the U.S. economy in the months ahead. The most recent Conference Board Leading Economic Index declined 0.3 percent in June, the first decrease since last December. According to the Conference Board, the decline was driven by weaknesses in new orders for manufacturing, housing permits and unemployment insurance claims and “suggests growth is likely to remain slow in the second half of the year.” The Chicago Federal Reserve Bank’s National Activity Index ticked up to -0.02 in June from -0.03 in May and points to economic growth near the historical trend. (A zero value indicates that the national economy is expanding at its trend rate while negative values indicate below-average growth and positive values indicate above-average growth.) The economy has grown an average of 2.3 percent annually since the expansion began in July 2009 and is expected to grow close to this trend in 2019.

The retail industry is playing its part in moving the expansion forward. The Bureau of Economic Analysis' Gross Domestic Product by Industry report for the first quarter cited retail along with the finance, insurance and health care sectors as leading contributors to the increase in U.S. economic growth. The report focuses on real value added – the difference between an industry's gross output and the cost of its intermediate inputs – and noted that retail increased 11.9 percent in the first quarter (12.3 percent if motor vehicles are excluded) after decreasing 2.5 percent in the fourth quarter of 2018. Retail's real value added excluding motor vehicles increased 3.5 percent in 2018 and 3.3 percent in 2017.

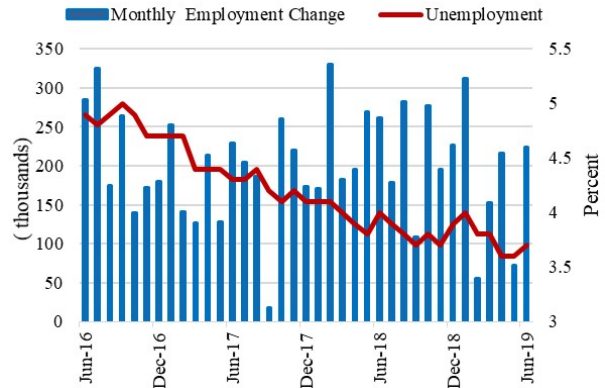
CONSUMER SENTIMENT

According to the University of Michigan's preliminary report, consumer sentiment changed little in July. That came on the heels of solid June retail sales indicating steady second-quarter consumer spending.



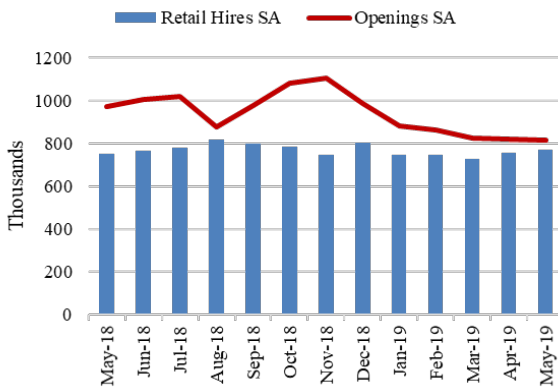
EMPLOYMENT

Payroll gains rebounded in June as employers added 224,000 jobs following a gain of only 72,000 in May. The unemployment rate edged higher to 3.7 percent.



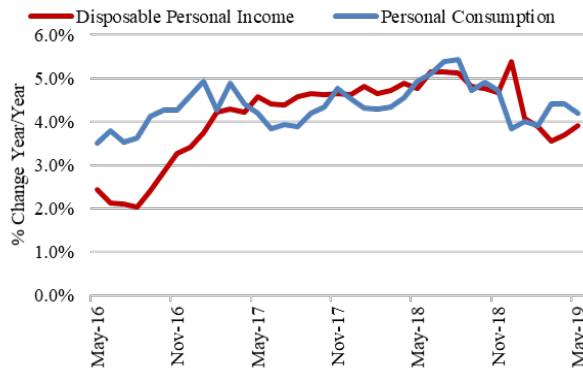
RETAIL JOB OPENINGS AND HIRES

May's 816,000 retail openings were the second-highest for that month following the 973,000 seen in May 2018. Retailers hired 770,000 workers, the largest monthly gain in 2019 so far.



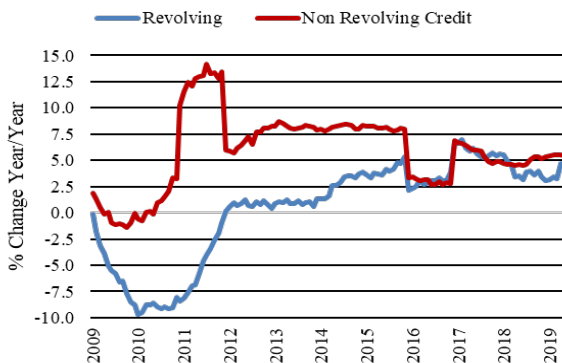
INCOME AND CONSUMPTION

Nominal aggregate personal consumption shows solid growth. However, the growth differential between disposable income and spending kept the savings rate broadly flat at 6.1 percent.



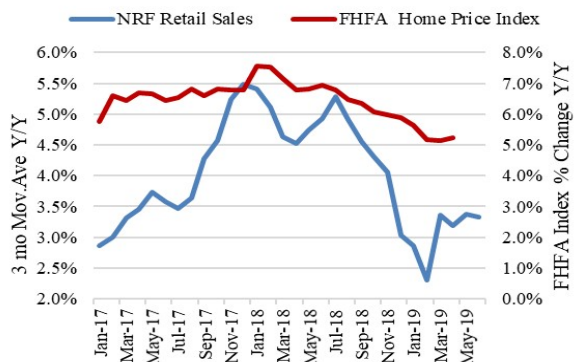
CONSUMER CREDIT

Consumer credit growth advanced for the second straight month in May, gaining \$17.1 billion. The continued growth in credit is seen as a positive sign for coming months.



RETAIL SALES AND HOME PRICES

Increases in retail sales tend to mirror increases in housing prices. Recent higher home prices boost home equity and household wealth, which support and encourage higher levels of retail spending.



The headline Consumer Price Index and core CPI are stronger than expected, rising 1.7 percent and 2.1 percent respectively year-over-year in May. Inflation is nearing the Fed’s target, but not quite fast enough.

While there have been positive readings on major U.S. economic indicators, the Conference Board’s Leading Economic Index pointed to slower growth in the second half of the year.

