MONTHLY ECONOMIC REVIEW

Economic Data & Trends for the Retail Industry

July 2019

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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

So far so good as U.S. economic expansion sets a new record

The U.S. economy is entering its 11th consecutive year of growth that began in July 2009, setting a new record for the length of an economic recovery and expansion. Since World War II, the average expansion has lasted about five years, and the previous record was the 10-year period that began in March 1991. Growth has been accelerating over the past year-and-a-half, but as the economy heads into record territory this month, the data is reflecting a number of crosscurrents and providing mixed messages.

The third and final revised report on first-quarter U.S. gross domestic product recently released by the Bureau of Economic Analysis indicated that the economy grew by 3.1 percent on an annualized basis, unchanged from the second estimate released earlier and down slightly from the 3.2 percent initially reported. Year-over-year, the economy grew a solid 3.2 percent. The strong growth in the first quarter was a noticeable exception compared with recent years where the first quarter tended to be the weakest for the year. Last year, for example, the first quarter grew 2.2 percent, following by 4.2 percent in the second quarter, 3.4 percent in the third and 2.2 percent in the fourth.

Why is it necessary to revise national statistics such as GDP? Simply put, capturing timely and reliable data is tricky business. While GDP measures all economic activity, not all monitored activity is available at the same time. So the BEA has to work with proxies and estimates based on various indicators and surveys and those take time. Consequently, GDP estimates must be corrected after they are first released. The conventional wisdom of most economists is that the initial GDP measure is imprecise, and revisions can be dramatic. Nonetheless, the initial number receives most of the media's coverage. Subsequent revisions receive little attention but can matter quite a bit.

There were shifts in the configuration of the final first-quarter report compared with previous estimates that should not be ignored. Personal consumption spending was revised downward 1.3 percent to 0.9 percent, likely due to the Census Department's annual retail sales revisions. That was the weakest reading since the 0.5 percent recorded a year earlier in the first quarter of 2018. Consumer spending typically accounts for more than two-thirds of GDP and has an outsized effect on current and future growth. On a positive note offsetting the downward revisions, there were upward revisions to investment spending, exports and state and local government spending. The revisions to the first- quarter GDP components have not altered estimates of second-quarter GDP growth, which has yet to be announced but appears to have remained in the range of 2.5 percent.

Like other economic data, consumer attitudes have been on an erratic journey of ups and downs since the expansion began. Consumer confidence generally moves in line with economic variables such as interest rates, inflation and unemployment but sometimes it diverges from them. But most often consumers tend to be confident about the future when they are confident about the present. The Conference Board's Consumer Confidence Index is a good example. After two consecutive months of improvement, the index fell nearly 10 points in June to 121.5 from a revised 131.3 in May.

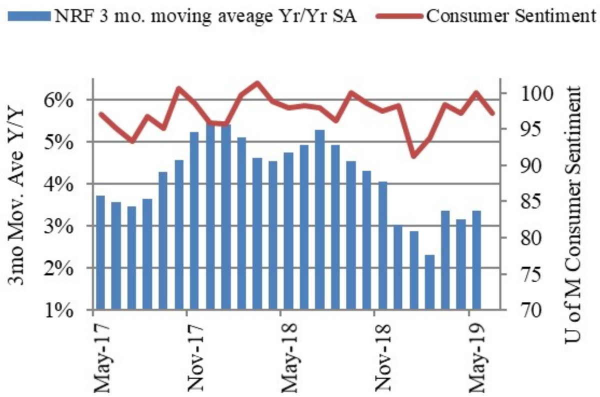
SYNOPSIS

That was a sizeable move, hitting the lowest level since September 2017, and was in contract with the October 2018 reading of 137.9, which was the highest reading since September 2000. What we have seen in the last few months is that consumer attitude measures have been at high levels but gyrating, and that is expected to continue for the near future given the current monetary and trade uncertainties. According the Conference Board, "The escalation in trade and tariff tensions earlier this month appears to have shaken consumers' confidence. Although the index remains at a high level, continued uncertainty could result in further volatility in the index and, at some point, could even begin to diminish consumers' confidence in the expansion."

Our base case is that growth will remain positive over the remainder of 2019 and into 2020 but with a guarded outlook. With labor markets robust and household balance sheets strong, the risk of a significant downturn is relatively small. The consumer remains resilient. Looking forward, we will be especially focused on the thread of economic data as it is reported along with the direction of business and consumer confidence. Understanding the noise from the trade dispute, which is creating the greatest risk and threat to the outlook, will be critical. The current strength of the economy will be balanced against trade tensions that pose a clear threat to the future expansion of the economy.

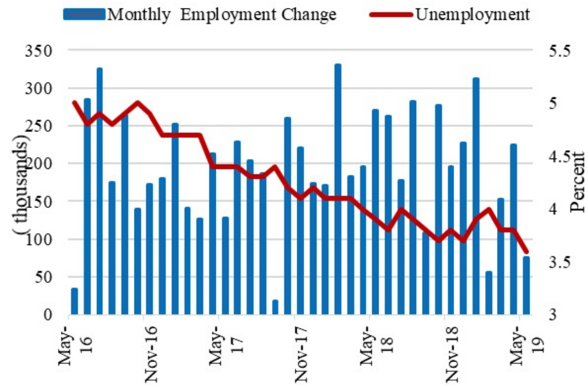
CONSUMER SENTIMENT

Retail sales in May were solid and broad-based. Consumer sentiment fell in June, according to the University of Michigan's preliminary report, slipping from the eight-month high it achieved in May.



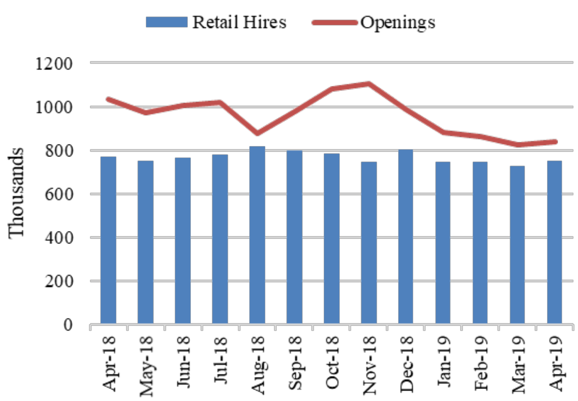
EMPLOYMENT

Payroll growth was muted in May, increasing by only 75,000 jobs. The average non-farm payroll gains in 2019 at 164,000 have been below the average of 223,000 in 2018.



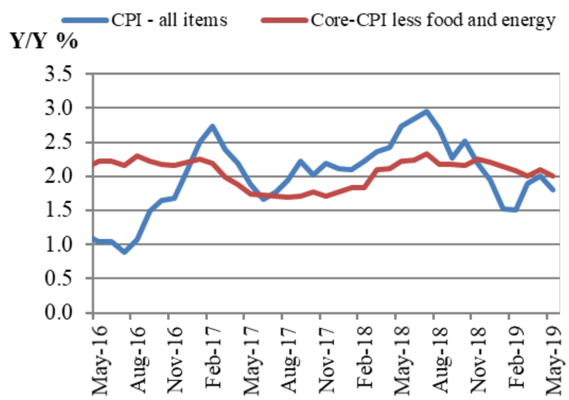
RETAIL JOB OPENINGS AND HIRES

April's 837,000 retail job openings were the second-highest on record for that month. Retailers have hired on average 740,000 monthly workers in 2019 but would hire more.



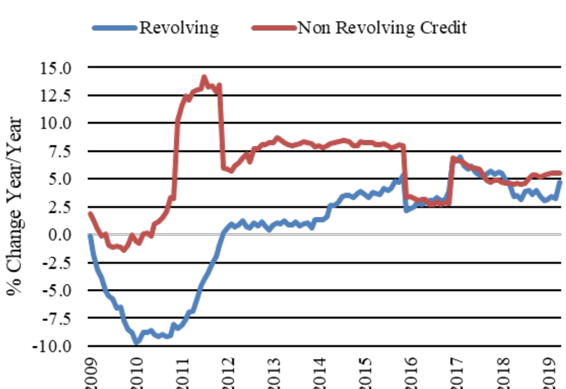
CONSUMER PRICE INDEX (CPI)

Inflation remains soft. Since July 2018, the CPI has decelerated from an increase of 2.9% year over year to 1.8 percent in May. Core inflation was similarly weak, increasing 2 percent.



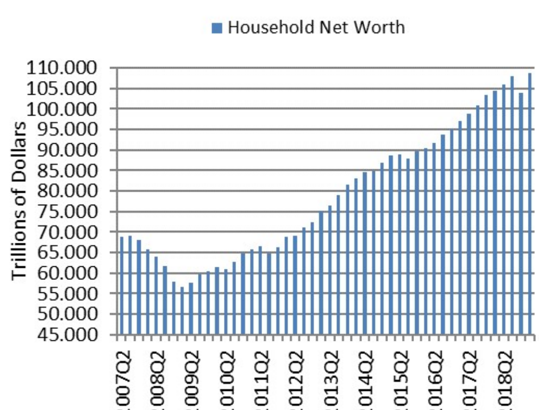
CONSUMER CREDIT

Consumer credit growth rebounded in April, expanding an impressive $17.5 billion, and was a key factor influencing consumer's ability to spend and to keep the expansion moving forward.



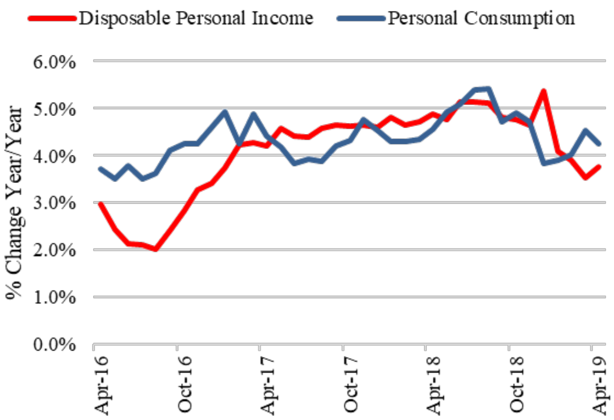
HOUSEHOLD WEALTH

Household wealth reached $108.6 trillion in the first quarter, boosted by rising stock prices and home values. It indicates more consumer purchasing power to help sustain spending.



INCOME AND CONSUMPTION

Although somewhat erratic, aggregate consumption growth for the first four months on a year-over-year basis and unadjusted for inflation averaged 4.1 percent. That sets a strong base for spending going forward.



LEADING ECONOMIC INDEX

The outlook for the U.S. economy has softened. The Conference Board's Leading Indicators Index was unchanged in May. The financial and labor markets were negative for the index in May.