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

U.S. economic growth remains respectable but for the trade war

This summer's economy has certainly been more modest than last year's. The U.S. economy remains on a positive trend thanks to solid growth in consumption and broke the record for the longest expansion on record in July. But there are concerns about its health and especially the consumer given the turbulent financial markets and increased trade tensions.

At this point a year ago, all signs were clear that the economy had considerable momentum, from the boost provided by tax reform to the full range of the usual indicators on employment, consumer confidence, inflation and other factors. The economy had picked up and strength was evident in household spending, retail sales and hiring. Real gross domestic product grew a strong 3.5 percent in the second quarter, employment increased by an average 227,000 jobs a month for the first seven months, and retail sales on a three-month moving average posted a year-over-year gain of 5.2 percent.

As pointed out in January's Monthly Economic Review, a slower pace for the economy in 2019 was expected, and that outlook now appears to have been on the mark. This year, the economy grew at a more modest pace in the second quarter, according to the Bureau of Economic Analysis. Real GDP was up only 2.1 percent after growing 3.1 percent in the first quarter of 2019. Within that number, consumption of goods and services was rock solid with a strong 4.3 percent increase, the second-strongest quarterly growth rate in the last four years. But job growth and retail sales have both moderated significantly from this time last year. The labor market averaged 165,000 new jobs per month and retail sales grew 3.5 percent through July of this year. The slowdown comes as the trade war has weighed on American business and has created significant uncertainties, curtailing investments and erasing profits.

On balance, economic growth this year continues to be ample and has been led by the consumer and government spending despite its listless investment spending. While the economy has posted a slower pace, there is nothing wrong with 2.1 percent real GDP considering that the average through this expansion has been 2.3 percent. Substantial momentum remains and, despite anxiety, the consumer is the strongest part of the economy. Significant job growth continues, jobs are more secure, and wages have picked up. The unemployment rate has dropped precipitously over the last several quarters, and July's rate was at 3.7 percent, close to the 50-year low of 3.6 percent seen in April and May. July's increase in labor force participation to 63 percent was most welcome and suggests that there is still an untapped labor supply that can keep the expansion going.

The household sector remains solid from both income and spending perspectives and will continue to be so long as the labor market remains robust and confidence remains high. Recently there has been some softening of consumer sentiment, but it remains high by historical standards.

Nonetheless, the risk of more trade tensions seems to be rising, consumers are in the crosshairs and there does not seem to be an end in sight for the trade war. No one knows precisely how much the tariffs have or will cost American households, but there have been several studies. The National Bureau of Economic Research said earlier this year that U.S. consumers have borne the brunt of the trade war. Tariffs have been largely passed through as increases in prices and have not been paid by foreign exporters, according to the study. U.S. tariffs on China are estimated to cost the average American household $600 and will rise to $1,000 per year, according to a report by JPMorgan Chase.

The University of Michigan Consumer Sentiment Index dipped to 92.1 in August, down from July's reading of 98.4. According to the report, consumers reacted strongly to the proposed September round of new tariffs on an array of consumer goods from China, which were cited by 33 percent of those surveyed. Although part of the new tariff package has been delayed until December, the tariff increase "still raises concerns about future price increases," the report said.

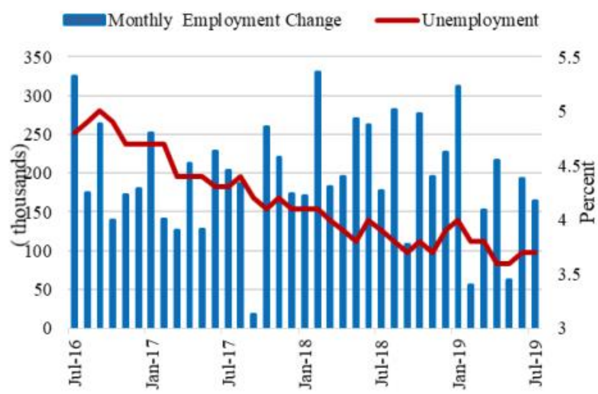
Looking forward, clearly the tariffs set to take effect in September and others to follow in December will not go unnoticed by consumers. While households will spend more because of the higher prices the tariffs will bring, they will spend less for services and/or tap into savings. Higher prices will eventually bleed consumer confidence and ultimately spending. The continuation of this tariff policy will be costly to households and a major threat to the ongoing economic expansion.

CONSUMER SENTIMENT

In the wake of strong July retail sales, the University of Michigan consumer sentiment mid-August reading dropped due to the trade war and the volatile financial markets.

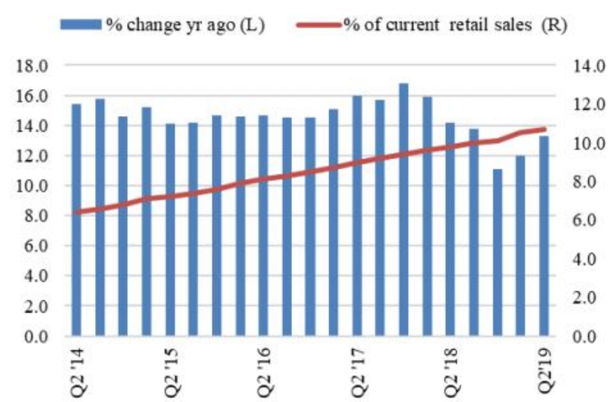
EMPLOYMENT

July's labor market showed less strength as payroll gains rose by 166,000 jobs. The unemployment rate was unchanged at 3.7 percent, slightly above the cyclical low of 3.6 percent.



E-COMMERCE SALES

E-commerce sales in the second quarter continued to expand at a healthy clip. Retailers continue to invest in technology to offer more products on smartphones and tablets for consumer ordering and purchases.

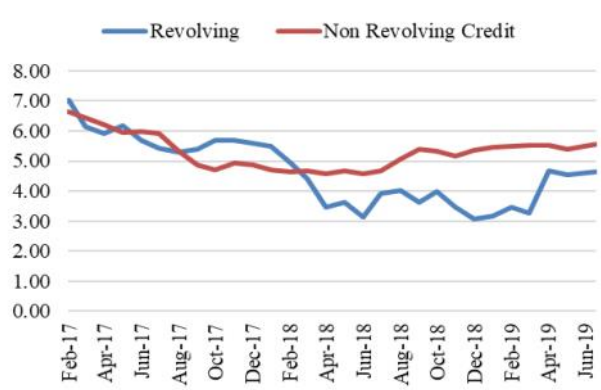


INCOME AND CONSUMPTION

Nominal aggregate personal consumption and disposable income suggest the consumer is on solid ground. Yet, uncertainty from tariffs and erratic financial markets may reduce the pace of spending.

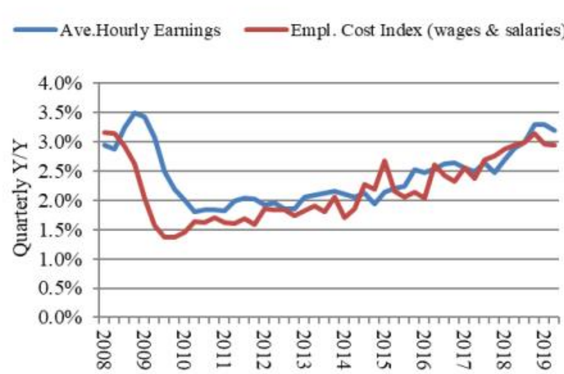
CONSUMER CREDIT

Consumer credit growth shows a stable trajectory. The headwinds from increased rising interest rates are no longer a concern now that the Federal Reserved has lowered rates and is likely to do so again later this year.



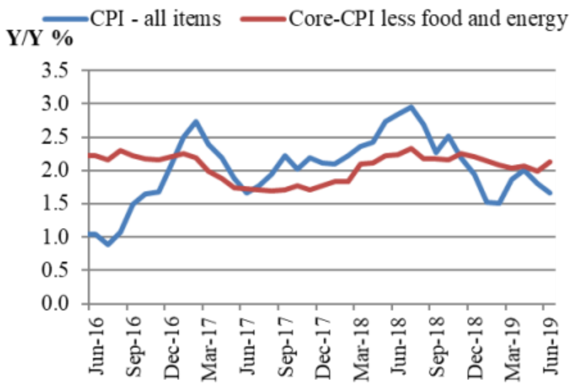
WAGES AND EMPLOYMENT COST INDEX

Wages are hovering near the 3 percent year-over-year growth range. July's average hourly earnings and the second-quarter Employment Cost Index for wages continued to show no signs of the labor market overheating.



CONSUMER PRICE INDEX

On a year-ago basis, the headline Consumer Price Index remains slightly below 2 percent while the core index was up 2.2 percent. The lagged effect from higher tariffs on prices will possibly materialize in the coming months.



LEADING ECONOMIC INDEX

July's Conference Board Leading Economic Index suggests the U.S. economy has strengthened a bit and will continue to expand but at a slower pace.