NRF National Retail Federation

MONTHLY Economic Review

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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 | Inside NRF's Annual Retail Sales Forecast – And the Economy

Here at the National Retail Federation, we are forecasting that retail sales will grow between 2.5% and 3.5% in 2024. While that marks a slowdown from the unusually rapid growth seen since the pandemic, the projection is in line with the 10-year pre-pandemic average of 3.6%.

Clearly, no one can accurately forecast what surprises the next year might hold, but the foundation of the economy is relatively sturdy and still on a sustainable path. This economy remains highly reliant on consumer spending, which is extending the recovery. No one could have imagined when the COVID-19 recession ended in April 2020 that we would have experienced such a resilient expansion that is now headed toward its fifth year.

It would be much easier to plan and invest for the future if the economy were easy to predict. But the economy has many moving parts and forecasting is a difficult process. While it is simple to focus on the growth estimate and measure the accuracy of the prediction, the underlying value of an economic forecast should be to guide discussion on the issues, assumptions and the beliefs that are critical to making business decisions.

In terms of the overall economy, it was consumer spending fueled by fiscal stimulus and other federal programs that buttressed the expansion through 2023. While overall consumer spending is expected to continue to make headway in 2024, nonresidential investment, inventory investment and a widening trade balance will contribute to slower economic activity. Adjusted for inflation, we expect gross domestic product to grow about 2.3%, a slower speed than the 2.5% seen in 2023. While economic activity is projected to slow, it continues to stay aloft and will be strong enough to sustain job growth.

Consumers' behavior and spending power are tied to their financial health, and the consumer sector looks good at the moment. Consumer spending on goods and services has eased recently but continued to have positive momentum at the beginning of the year. We expect inflation-adjusted consumer spending will likely grow around 2%, compared with 2.3% in 2023.

We are following payrolls and income data very closely. Resiliency on the job front has solidified the health of consumer finances, with last year's tight labor market generating robust job growth and wage gains that fueled consumer spending. That labor market, however, is expected to cool in 2024.

Typically, when inflation and interest rates rise, joblessness does also. But that has not played out. Instead, job gains have been solid and annual wage increases have been above inflation recently, helping drive consumer spending and economic growth. While there have been some solid gains in employment this year, we expect about 100,000 fewer new jobs on average each month compared with 2023, which accounts for part of the expected stepdown in consumer spending and retail sales.

Income and spending have started the year on a positive note, with disposable personal income rising 4.1% in February compared with the same month a year earlier. However, slower growth is anticipated as the labor market cools and wage growth – a component of disposable income – eases toward 3.5% by the end of the year.

Consumer balance sheets and debt servicing levels remain in good condition. Rising home and stock prices, which far outpaced inflation in 2023, likely stimulated greater consumer spending via the so-called wealth effect, and the impact will carry into 2024. Year-over-year growth in wealth accelerated to 8% in the fourth quarter.

Consumers appear to have a favorable outlook, which should support their willingness to spend. Several surveys show overall household perceptions of their personal financial situations have improved along with the likelihood of increased spending. The Federal Reserve Bank of New York's Center for Microeconomic Data, for example, reported in February that consumers are feeling optimistic about credit, with more saying it is now easier to access credit than it was a year ago. According to the University of Michigan, consumer confidence unexpectedly increased to its highest level since July 2021. Nonetheless, many consumers are feeling a pinch from tighter credit and inflation.

With tighter credit conditions and higher interest rates, slower spending is expected on big-ticket items like autos and furniture that often require financing.

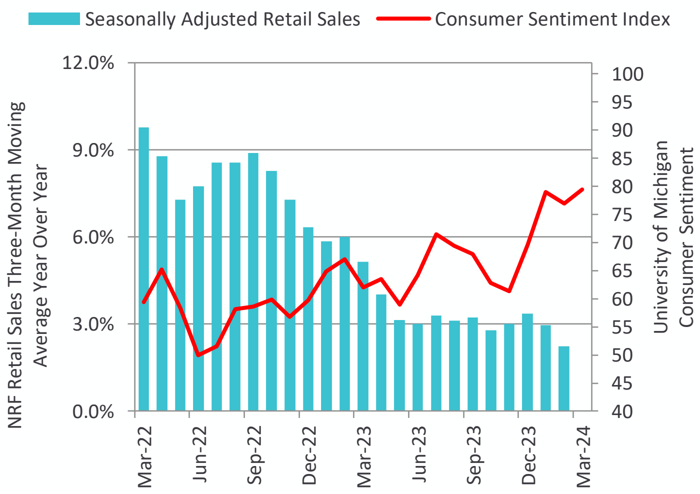
Turning to inflation, a combination of moderating wage growth, supply chain healing, slightly weaker demand and higher interest rates have helped bring down inflation meaningfully. While we saw a slight reacceleration in prices at the start of 2024, I don't believe this is an inflection point and expect inflation to steadily move down this year. The cooling economy, the labor market and product market both coming into better balance, and retreating housing costs should all come together to moderate inflation. By the end of the year, inflation should be at 2.2% on a year-over-year basis.

At its March meeting, the Federal Reserve's Federal Open Market Committee voted unanimously to hold the federal funds rate at 5.25%–5.5%. Fed Chairman Jerome Powell said the economy has made "considerable progress," that inflation "has eased substantially" even if still above the Fed's 2% target and that the labor market has remained strong, all adding up to "very good news." While Fed officials have indicated they will begin cutting interest rates this year, the timing of the initial cut remains in question. I respect their approach, which is to carefully respond as data becomes available. My assumption is that the FOMC will likely hold rates steady until its June meeting, when it will cut rates a quarter of a percentage point. Subsequent cuts in September and December could bring the total reduction to three-quarters of a percentage point.

The U.S. economy is in pretty good shape based on economic fundamentals. Barring unexpected shocks, it should continue growing in 2024, although not spectacularly. Growth will be modest, consumer spending will hold up, inflation will slow gradually, and labor market conditions should slacken but job growth will remain positive even as unemployment rises.

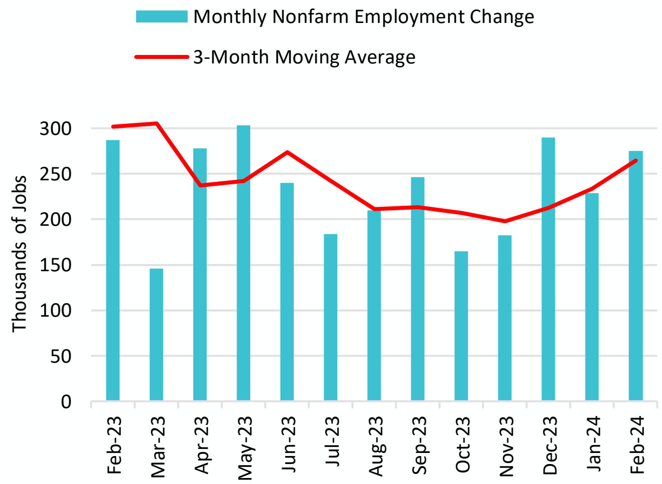
SALES & SENTIMENT

Retail sales moderated at the start of the year but are expected to remain intact, supported by jobs and wages. Consumer sentiment rose in March but was inconsistent with the pace of economic growth.



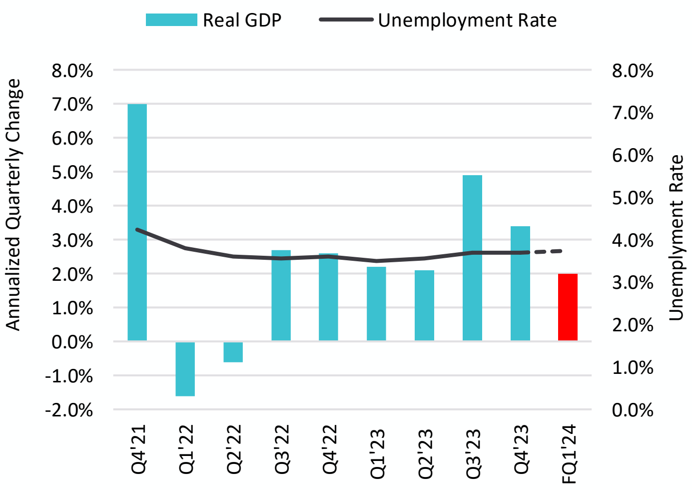
JOB GROWTH

While payroll growth exceeded expectations in February, revisions to prior months were sizeable and negative. The average three-month gain was 265,000 compared to the prior 289,000.



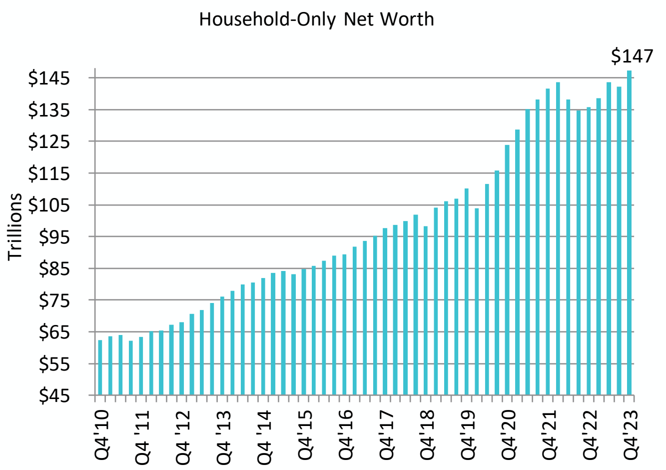
GDP & UNEMPLOYMENT

NRF expects GDP growth to be near 2.3% in 2024. We are tracking quarterly GDP at 2% for the first quarter and the unemployment rate should average 3.8%.



HOUSEHOLD NET WORTH

Household net worth grew in the final three months of 2023 as stocks and home prices rose higher. The rise in wealth likely stimulated consumer spending in the fourth quarter.



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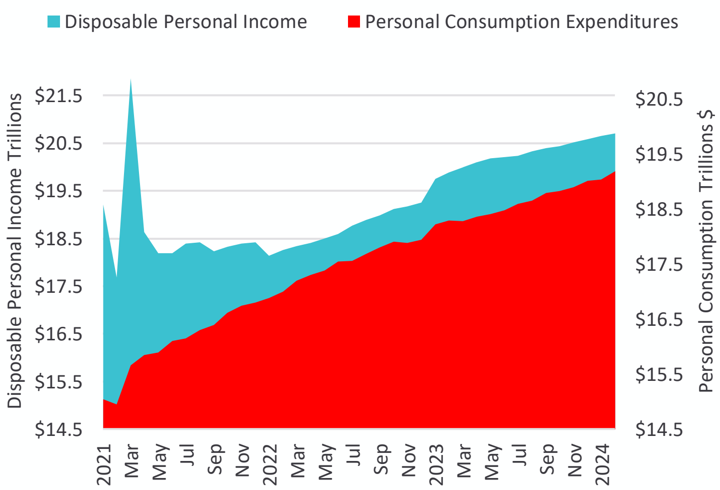
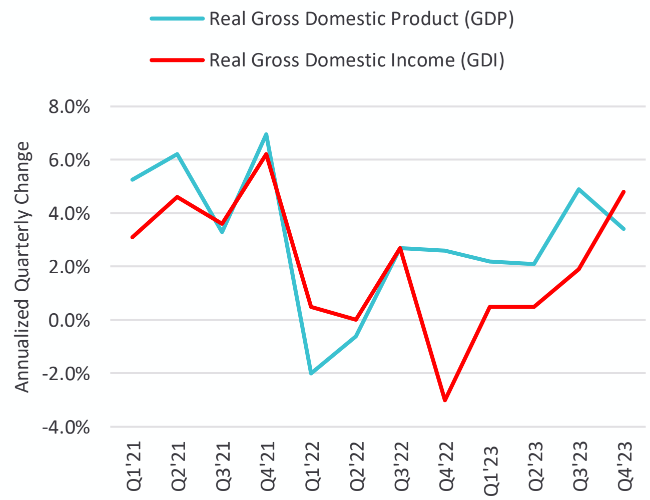
INCOME & EXPENDITURES

Nominal disposable income continues to be sustained by a sturdy labor market, in turn supporting consumer spending. The savings rate fell to 3.6% in February, well below the 2010-2019 average of 6.2%.



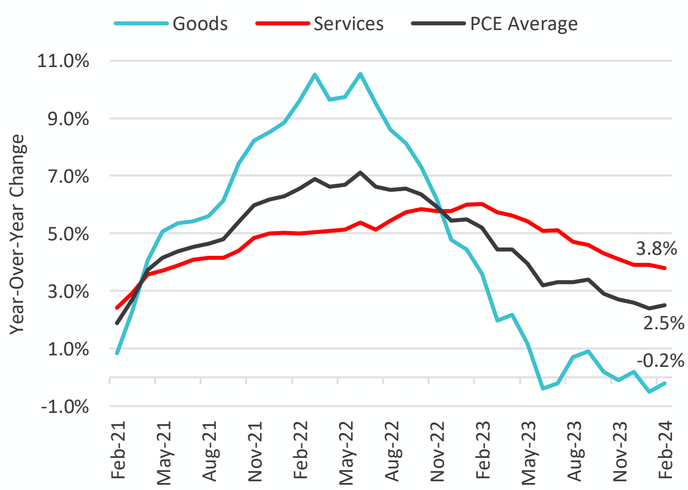
GROSS DOMESTIC PRODUCT & GROSS DOMESTIC INCOME

Real Gross Domestic Income rose 4.8% year over year in the fourth quarter. Wages and salaries, the largest component, were up 4.5%, fueling consumer spending.



PERSONAL CONSUMPTION EXPENDITURES INDEX

The latest Personal Consumption Expenditures Price Index showed year-over-year PCE inflation at 2.5%, up from 2.5%. High service sector prices drove the increase.



GOODS & SERVICES SPENDING

Consumers cut back on the pace of goods spending and remained focused on the service sector at the start of 2024.

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