

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

U.S. Consumer Spending: Looking back, looking Ahead

In the third-quarter GDP rose at a pace of 3.5 percent — a rebound in economic growth and the best result seen in two years. Consumer spending alone contributed a vital 2 percentage points to growth. It is clear that the U.S. consumer is in the driver's seat and the U.S. economy will continue its dependency on the pace of household spending. Consumers have not been haphazard or unselective with their spending; throughout 2016 and especially during the holiday season, shoppers continue to be price-conscious, seeking value and taking advantage of promotions.

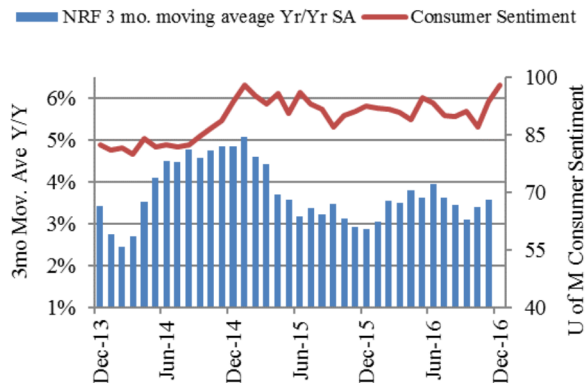
Holiday season retail sales will be a major ingredient in the final calculation of fourth-quarter GDP. November personal income and spending data indicates, however, that the economy may be losing some momentum. Personal income was essentially flat including a downward revision to October's reading, though registering a growth of 3.5 percent on year-over-year basis. Meanwhile, aggregate wage growth, which is the leading component of personal income, posted a solid 4.2 percent reading. This measure supports the idea that households have the wherewithal to spend. Slower job growth this year compared to last may be a contributing factor to the perceived income slowdown. Adding jobs to the economy results in additional income and new spending, especially retail sales. Having said that, the moderation in November still follows two very strong months of gains.

While fourth-quarter GDP growth is expected to be moderate, its fundamentals and third-quarter momentum remain intact. Business and consumer sentiment remain elevated since the election. Stock prices are resilient and home prices are rising. Meanwhile, it is heartening to see that with recent increases in income and net worth, spending has been sustained without any reductions in savings. The savings rate has been sturdy at over 5 percent during the economic recovery and has averaged 5.6 percent for the last two years. Moving forward with wage growth picking up as the job market tightens, households should have the financial power to maintain their spending despite the potential for slowed job growth.

NRF expects consumers to remain a key support to economic growth in the year ahead. With inflation and interest rates edging higher, the pace of consumer spending growth is likely to remain stable, even with continued job and income growth. Never count the consumer out. As long as consumers continue to spend, the economy will continue to grow.

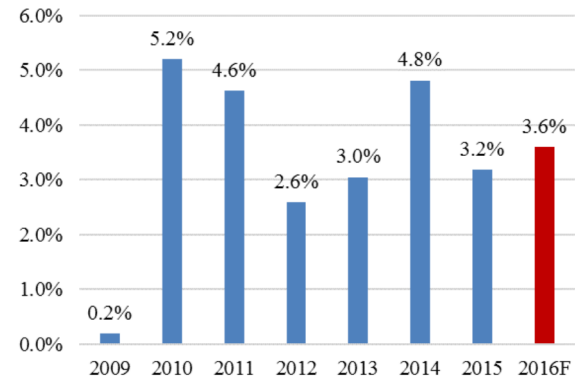
CONSUMER SENTIMENT

November's three-month retail sales average was 3.6 percent above its level a year ago. December consumer sentiment climbed to the highest level in two years.



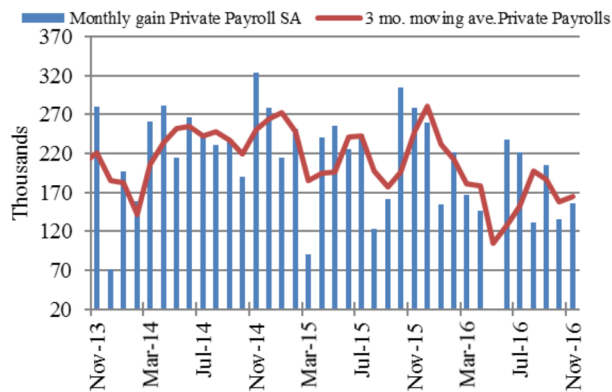
HOLIDAY SALES

November's retail sales results indicate that retail sales for the holiday season remain on target with NRF's holiday sales forecast of 3.6 percent.



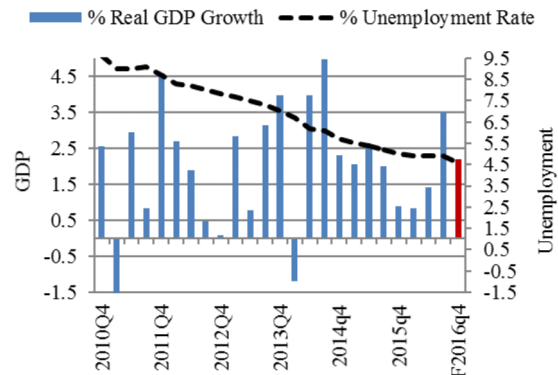
PAYROLL

December private payroll gains of 156,000 and its three-month average of 165,000 are consistent with solid consumer spending and economic growth.



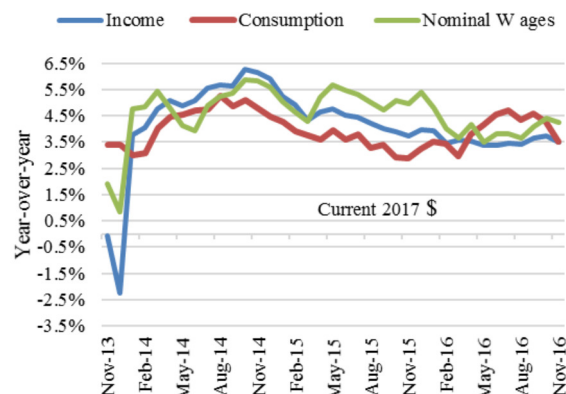
GDP & UNEMPLOYMENT

The pace of third-quarter GDP picked up faster than initially thought from 2.9 percent to 3.5 percent. November's unemployment rate of 4.6 percent is the lowest since August 2007.



INCOME & CONSUMPTION

Personal income growth was flat in November but supports consumer spending. Meanwhile, wages are beginning to pick up and should help bolster spending.

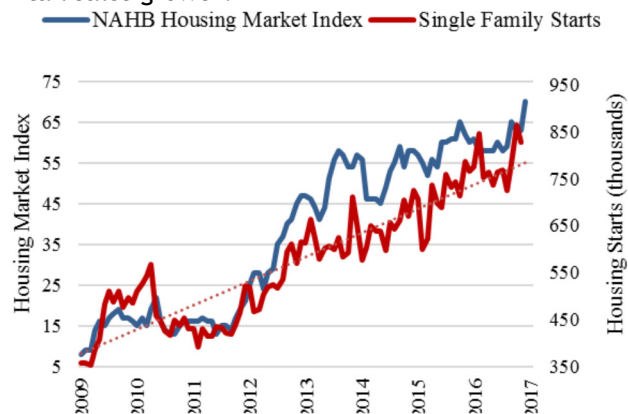


JOB OPENINGS

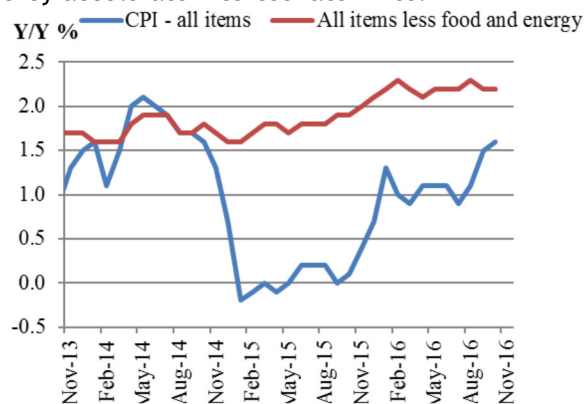
While November retail job gains were less than expected, job levels, openings and hires are at historic highs and consistent with a tighter retail labor market.



The trend for single-family housing starts and the jump in NAHB builder sentiment are positive indicators for home improvement and furnishing retail sales growth.



Inflation is outpacing wages and taking a bite out of spending capacity. Inflation will be watched carefully by the Federal Reserve as they accelerate interest rate hikes.





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