

July, August
2016

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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

Perhaps the Economy is Stronger than the Data Indicate?

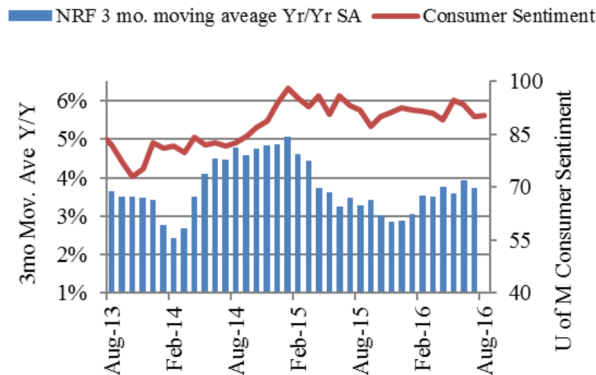
Second-quarter U.S. economic growth was well below expectations, increasing at an annualized rate of 1.2 percent, nearly half the gain anticipated by consensus forecasts. Consumer spending was the main driver of growth while investments continued to slouch and inventories fell for the first time since 2011. A lot of noise remained in the gross domestic product numbers related to the flagging energy sector and the global slowdown, but this could be clarified when numbers for the quarter are updated in August and September. The weak headline figure was somewhat discordant with a number of other indicators, and the underlying fundamentals of the economy are not as negative.

- Final real domestic sales across all sectors of the economy adjusted for inflation, a key measure of the domestic economy that takes out inventories and exports from GDP totals, were up solidly 2 percent on a year-over-year basis.
- A strong 255,000 net new jobs were added to the economy in July, which followed the blowout of 292,000 in June. Along with pulling more workers into the workforce, both average hourly earnings and average weekly hours increased in July. Consequently there are more people employed, more working longer hours and more earning larger pay. Taken together, that increases the propensity for retail spending.
- Consumers have the ability to spend and are in a good place due to rising or steady wage growth, increasing prices of homes and investments, an elevated confidence about the economy and not being overleveraged in their borrowing.
- Looking ahead, the economy appears to be on much more sturdy footing than some of the data indicates. While there are several blemishes, the probability of a recession remains relatively low.

July's retail sales numbers were flat compared with June and may have dampened expectations about the economy. However, coming off two months of strong payroll gains, there is reason to be skeptical of the reported numbers. Seasonal factors used to adjust the raw data are often at play, especially in the summer months – July had five full shopping weekends this year compared with four in 2015, the Fourth of July was on a weekday rather than a weekend, and Amazon held its second annual Prime Day. In addition, most of the nation has seen extremely warm this summer, and higher air conditioning costs may have diverted discretionary income from consumer spending. Given those considerations, it is important to wait for updates to be released to fully assess July's retail spending numbers.

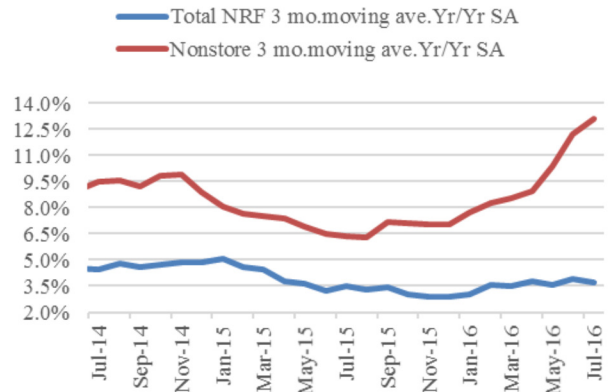
RETAIL SALES

Retail sales' three-month moving average year-over-year increase of 3.3 percent and elevated consumer attitudes back a faster pace than July's flat monthly performance.



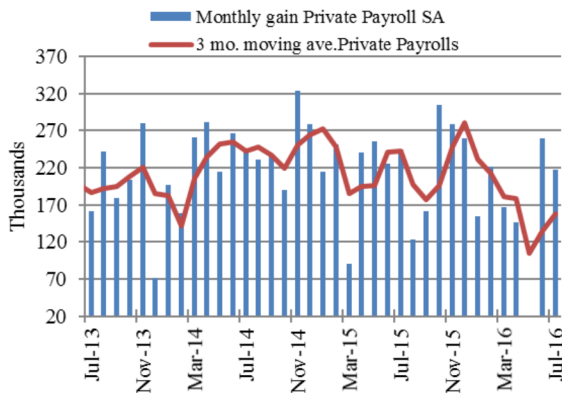
E-COMMERCE

Overall retail sales in 2016 have accelerated mildly, aided by strong e-commerce spending.



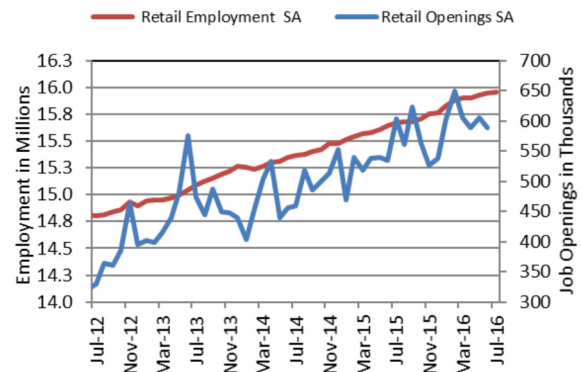
EMPLOYMENT

Job growth in July remained solid and supported gains in consumer spending and housing. The rebound in June and July should help sustain economic growth at 2 percent.



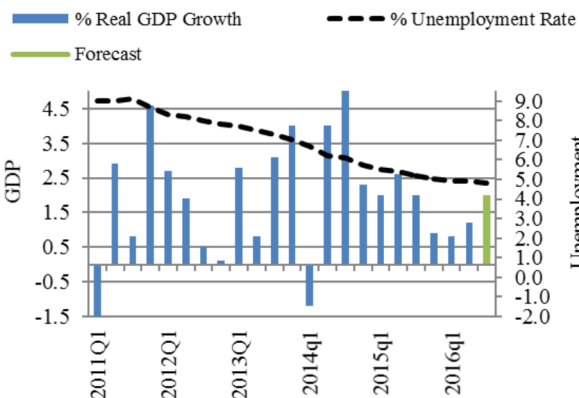
PAYROLL

July's retail payroll of nearly 16 million was an historic high. Retail job openings averaged 600,000 per month in the first half of 2016, signaling a healthy retail labor market.



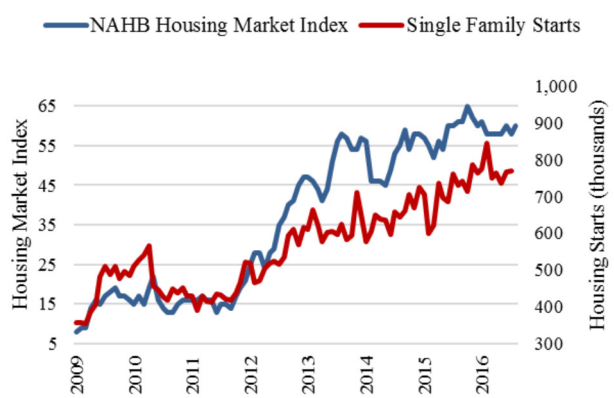
GDP GROWTH

It is hard to reconcile weak GDP growth that is surprisingly below expectations and yet strong enough for the unemployment rate to continue to fall.



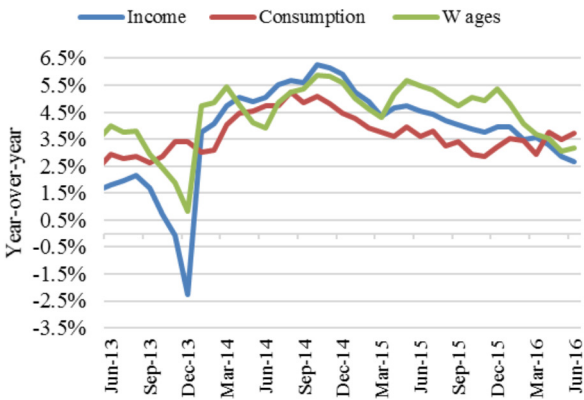
HOUSING MARKET

Builder confidence was positive and steady over the past six months, and consistent with the improving housing market. It bodes well for home-related retail sales.



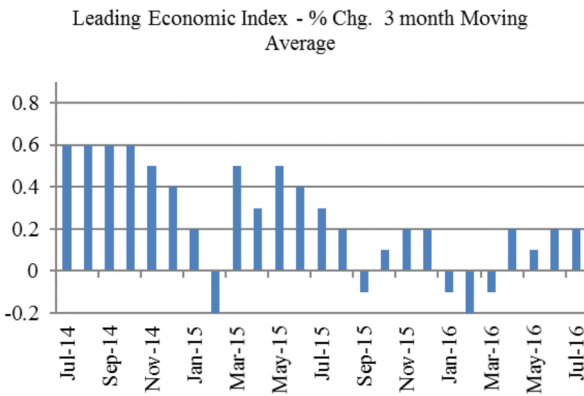
HOUSING MARKET INDEX

Aggregate income reflects the pace of payroll and wages and is holding up. Aggregate consumer spending is steady and slightly accelerating and is a key support to GDP growth.



CONFERENCE BOARD INDEX

The Conference Board's leading economic index portends moderate growth and is consistent with NRF's expectations of a pickup in economic activity.





**MONTHLY
ECONOMIC REVIEW**
Economic Data & Trends for the Retail Industry

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