

# NRF<sup>®</sup> 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

### A lot depends on the consumer – but it always does

All eyes continue to be focused on the consumer. Consumer spending typically accounts for more than two-thirds of gross domestic product, so it is difficult to grow the economy if households don't get out and spend. Strong consumer spending propelled the U.S. economy in the fourth quarter of 2016, which was up by a 3.5 percent annual rate. This year, however, the economy appears likely to once again be off to a slow start.

Reports on the economy have been mixed. Leading indicators suggest that momentum and expansion in economic activity are in store for 2017 and may even pick up. Yet recent consumer spending was sluggish, manufacturing production declined after six months of gains, residential construction slowed and employment grew much more weakly than expected with only 98,000 net new jobs in March after increases of more than 200,000 in both January and February. Nominal consumer spending on all goods and services for January and February showed increases of 0.2 percent and 0.1 percent, respectively, after the very strong monthly increase of 0.6 in December. Interestingly, this economic performance is against a backdrop of business and consumer optimism.

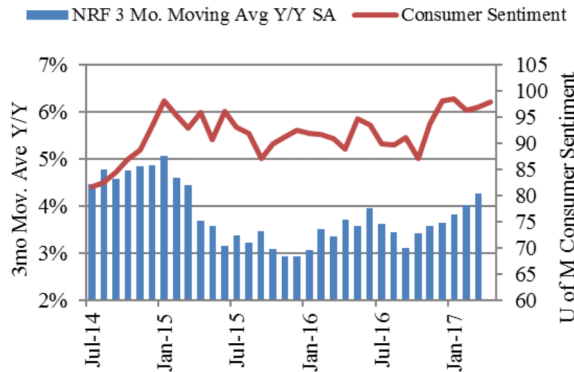
The recent soft spending figures are at odds with the rebound in consumer confidence. At this point, consumers and businesses don't seem depressed about either the pace of the economy or the progress of public policy making. Time will tell what the convergence of confidence and the real economy might look like. Politics is driving consumer attitudes and, consequently, these numbers might not be a reliable barometer of spending.

While job growth has been impressive over the last several years, there has been a lack of persistent wage growth despite the decline in the unemployment rate. Compared with previous expansions, nominal wage growth should be closer to 3.5 percent rather than the current 2.7 percent annual rate. What is holding wages back? Wage rates reflect two fundamentals: productivity and inflation. Both factors have been extraordinarily weak over the last few years. Employers' ability to raise wages and other compensation is tied to increases in labor productivity. Unfortunately, recent business spending on facilities, equipment and technology has not been decent enough to ramp up productivity and thus contributes to the shortfall in wage growth. On the inflation front, prices fell in March for the first time in more than a year but the 2.4 percent year-over-year pace of growth remained meaningful in terms of supporting wage growth. It is too soon to determine if the March pullback in consumer prices was a start of a new trend away from our view of a gradual build in core inflation.

Looking forward, where does the economy go from here? Economic data can be quirky and noisy, which causes false readings, especially at turning points. But indications still suggest a rebound in growth in the second quarter and, even without any fiscal stimulus to increase economic growth, the economy appears set to grow 2.2 percent in 2017.

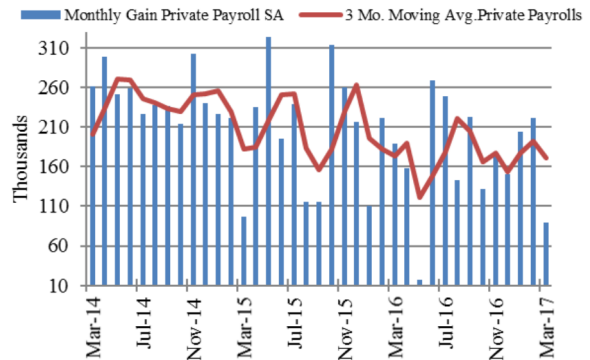
## CONSUMER SENTIMENT

Year-over-year retail sales growth increased although monthly retail sales have edged lower at an inconsistent pace. Consumer optimism remains very positive.



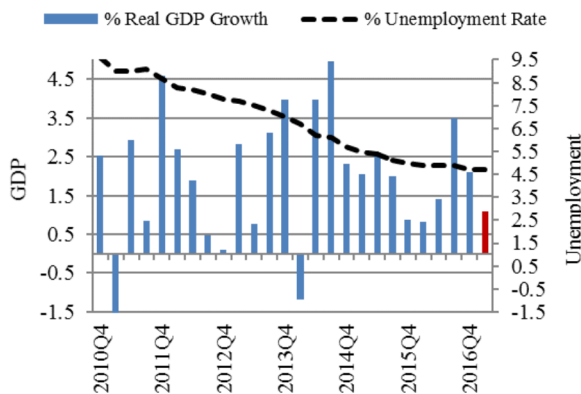
## PAYROLL

The sluggish first-quarter economy didn't result in large jobs gains. During the last few years, March has been the weakest month of the first quarter for job growth.



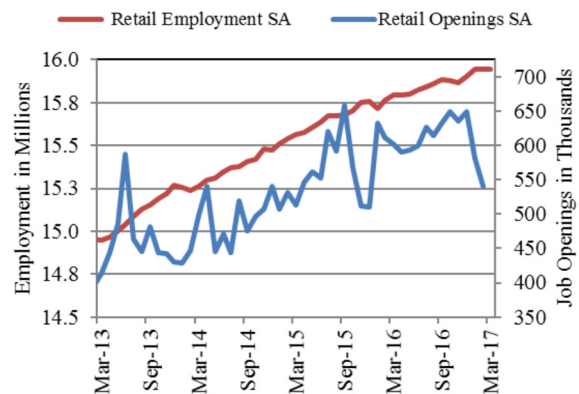
## GDP GROWTH

Despite heightened optimism, spending pointed to GDP slowing in the first quarter to around 1 percent compared with 2.1 percent in the fourth quarter.



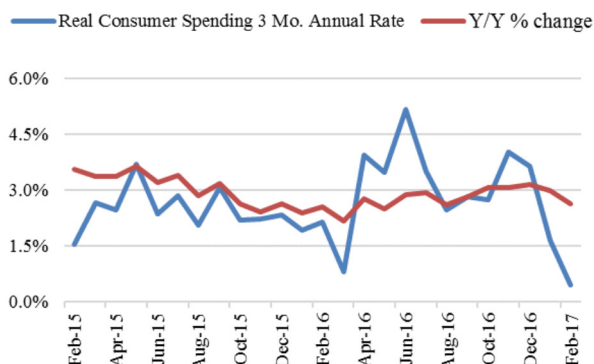
## EMPLOYMENT

Retail job losses in March were in the spotlight as the industry continued its transition to be leaner and more streamlined. Meanwhile retail job openings are ongoing.



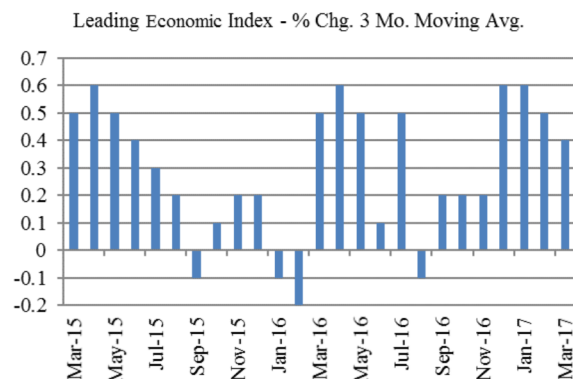
## CONSUMER SPENDING

First-quarter real consumer spending (inflation adjusted) slowed significantly to around 2 percent, much weaker than the fourth-quarter pace of 3.5 percent.



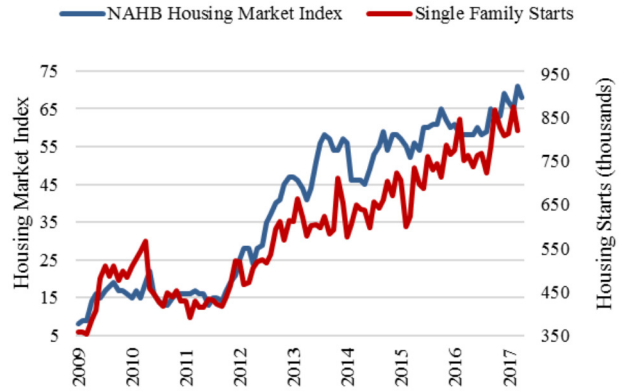
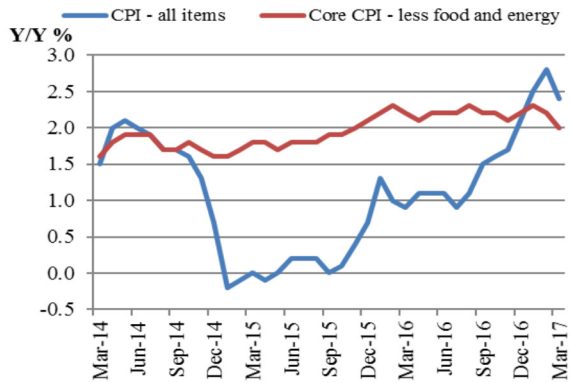
## CONFERENCE BOARD INDEX

The Leading Economic Index continued its upward trend in March but more consumer and business spending is needed to offset the soft first quarter.



Consumer prices fell for the first time in over a year with the drop in gasoline prices. Core prices fell due in part to a decline in apparel prices. Consequently, the Federal Reserve is unlikely to

After hitting a 12-year high in March, the National Association of Home Builders index fell six points in April. The pullback in single family starts appeared to be weather-related.



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