

NRF[®] MONTHLY ECONOMIC REVIEW

Economic Data & Trends for the Retail Industry

August 2017

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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. consumers and economy maintaining their momentum

The U.S. economy bounced back in the second quarter, with gross domestic product growing at a 3.0 percent annualized rate according to the second estimate from the Bureau of Economic Analysis. That was more than twice the pace of the first quarter, bringing growth in the first half of 2017 to 1.9 percent – very close to the 2 percent expected for the full year. Personal consumption resumed its role as the biggest contributor and was a highlight of the second quarter GDP report, rising at an annual rate of 3.3 percent. The recent BEA update indicates the most significant changes were related to stronger consumer spending on both durable and nondurable goods and stronger investment spending. These changes are encouraging after the sluggish first quarter, and confirm the economy continues to grow at a steady pace.

Consumer optimism supported by several months of solid employment are key ingredients supporting the increase in spending. Changes in consumer sentiment do not correlate closely with spending but do give some indication of spending strength or weakness. Nonetheless, the rebound in consumer sentiment as measured by the University of Michigan in August provides an encouraging picture: Importantly, private payrolls in August increased 191,000 on a three-month moving average. The unemployment rate edged higher to 4.4 percent in August but has fluctuated between 4.3 and 4.4 percent since April.

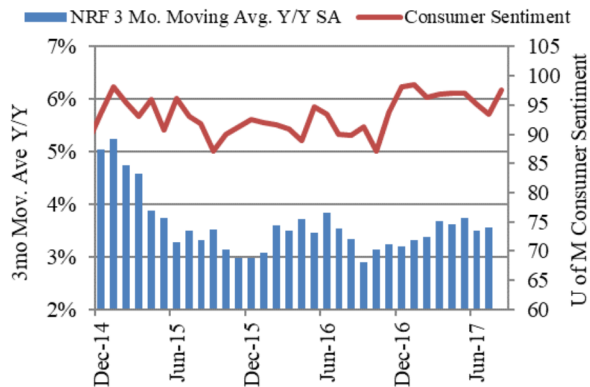
A major reason the economy is not accelerating faster is that gains in worker compensation continue to be modest. The Employment Cost Index, the best measure of wage pressures in the U.S. labor market, showed year-over-year wage growth held steady at 2.4 percent during the second quarter, far below the 3.5 percent that would be expected given previous expansions during tight labor markets. Nonetheless, other data and the underlying trend suggest that wage growth appears to be headed in the right direction. The labor market is tightening, spurring some wage gains, but it has plenty of runway to improve.

NRF anticipates stronger sales heading into the fall and holiday seasons. However, due to some significant changes in underlying national data trends we will be required to revise to our 2017 forecast. Both revisions to several years of retail sales numbers by the Census Bureau in late April and to personal income and consumption numbers by the Bureau of Economic Analysis in June will affect the inputs we use to make our forecast. Weaker-than-expected spending in the first quarter along with decelerating inflation have also contributed to the change. We now expect retail sales growth of 3.2 to 3.8 percent rather than the 3.7 to 4.2 percent forecast earlier.

Despite this revision, it is important to note that retail continues a long-term pattern of increased sales. Sales are still growing, albeit more slowly than expected. The rebound in July retail sales – up 0.6 percent seasonally adjusted over June – supplemented by upward revisions for June and May reinforces the strength in consumer spending. Total retail sales have grown year-over-year every month since November 2009, and retail sales as calculated by NRF – excluding automobiles, gasoline stations and restaurants – have increased year-over-year in all but one month since the beginning of 2010.

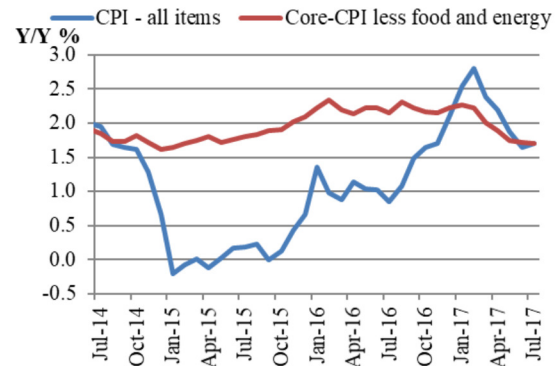
CONSUMER SENTIMENT

Retail sales rebounded in July, with prior months' revisions showing stronger sales than previously thought. The mid-August consumer sentiment index rebounded from recent drops.



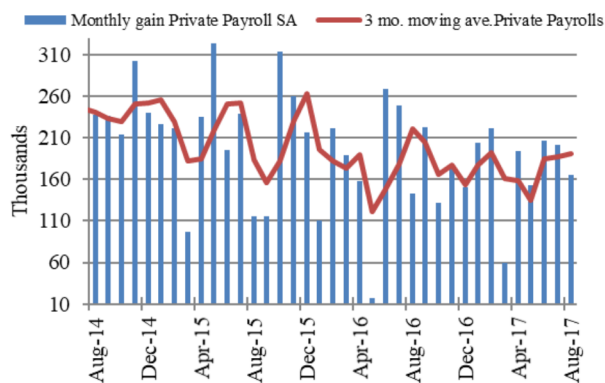
CONSUMER PRICE INDEX

The recent string of decelerating prices is at odds with the tightness in the labor market and the indications that the economy is nearing full employment.



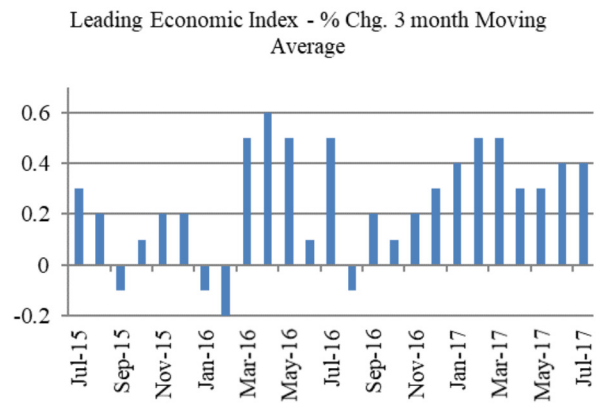
PAYROLL

August private payroll gains tend to fall off due to seasonal factors. However, private payrolls increased 191,000 in August on a three-month moving average.



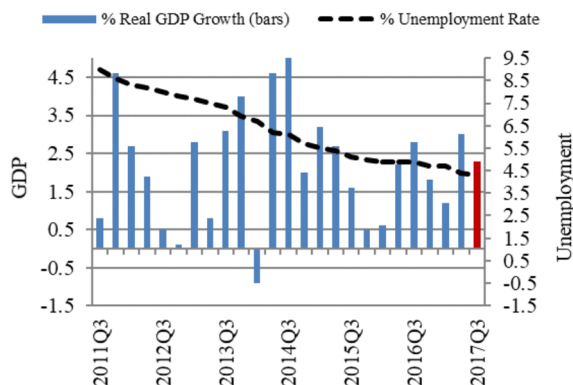
LEADING ECONOMIC INDEX

The Conference Board's leading economic indicator index shows the economy is growing steadily and solidly as it enters the third quarter.



GDP GROWTH

Second-quarter real GDP growth of 3.0 percent was stronger than expected. Consumer spending rose 3.3 percent, adding 2.3 points to GDP. Unemployment was again at a 10-year low.

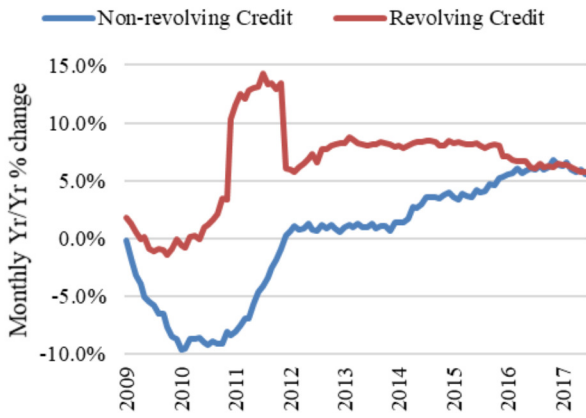


EMPLOYMENT

While both retail hires and openings have bounced around in recent months, the July Job Openings and Labor Turnover Survey showed a healthy retail labor market.



Consumer borrowing grew modestly in June following a strong showing in May. Meanwhile, non-revolving and revolving credit have slowed although debt burdens and financial obligations are near their 30-35 year lows.



Historical revisions to monthly retail sales in April and personal income numbers in June, along with lower-than-expected inflation in the first half of 2017 have lowered the 2017 NRF forecast to between 3.2 and 3.8 percent



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