

NRF[®] MONTHLY ECONOMIC REVIEW

Economic Data & Trends for the Retail Industry

June 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

The economy stays on course despite fiscal policy uncertainties

June marks the eighth consecutive year of U.S. economic expansion, the third-longest in the post-World War II period. While the pace of growth has not measured up to past expansions, there is no reason to expect that it will end anytime soon. The expansion has been subject to fits and starts, but the narrative regarding the economic outlook has not changed – economic activity is expected to continue to grow and will probably oscillate around a trend of about 2 percent. Complicating the outlook are uncertainties regarding prospective fiscal policy and other policy changes. Some proposed policies could help gross domestic product growth but others have the potential to be negative. It is certainly not clear what will be enacted, and sticking to a base forecast of 2 percent GDP growth – excluding policy factors – is quite suitable at this juncture.

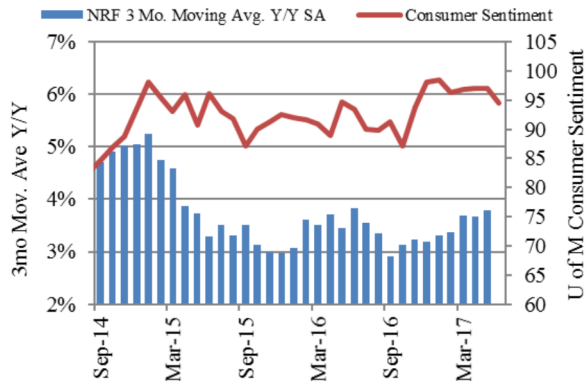
After experiencing a mini-slump earlier this year, the pace of consumer spending is expected to return to its recent trend and support improved economic activity. Consumers' ability to spend has been strengthened in recent months but their willingness to spend has been moderate. Households have continued to restructure balance sheets and manage credit carefully. Personal income rose 0.4 percent in April and was 3.6 percent higher than the same month a year ago. Household wealth reached a record \$94.8 trillion in the first quarter of 2017 as the stock market and home prices climbed. Gains in income and household net worth are key components underpinning consumer spending. Total consumer credit rose a modest \$8.2 billion in April, the slowest increase in five years. Nonetheless, consumers have slowly geared up their use of credit as part of their spending and it remains at manageable levels. The rise in consumer debt is a signal of strength rather than weakness.

Meanwhile, many recent economic data points are mixed, with some showing apparent weakness. There has been a slowdown in both housing starts and existing home sales. Housing has recently been a driver of growth and is expected to be a key contributor to the 2017 economy. Consumer expectations about the economy have clearly been scaled back. The preliminary University of Michigan consumer sentiment index for June dropped 2.6 points, falling to 94.5 – the lowest level since November. Manufacturing indices remain in expansionary territory but production fell for the second time in the past three months. While not as strong as April's surge and perhaps softer than desired, retail sales in May saw a monthly uptick of 0.2 percent. The trend in retail sales over the last several months has been positive and continues to support our annual outlook for 2017 retail sales growth of between 3.7 and 4.2 percent.

Inflation has decelerated in recent months, edging down 0.1 percent in May while overall consumer prices increased 1.9 percent year-over-year in May. Although the trend in the Consumer Price Index shows inflationary pressures are at a minimum, softer inflation is likely to weigh on wage growth. All in all, the consumer will continue to spend as long as the economy creates jobs. A step-up in wage growth and confidence would support a boost in spending.

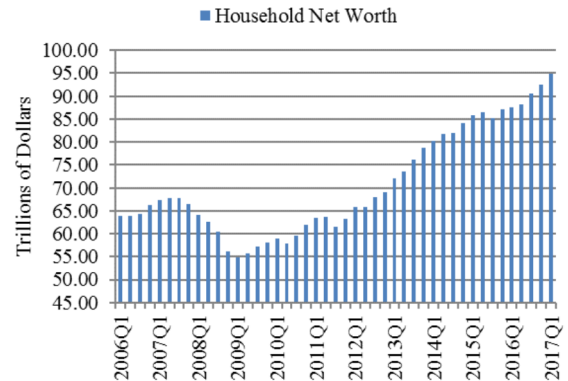
CONSUMER SENTIMENT

The June preliminary consumer sentiment index dropped to 94.5, the lowest level since November. Yet retail sales are still showing healthy gains for the year.



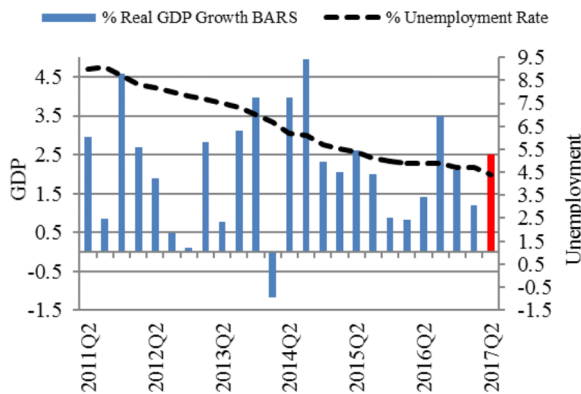
HOUSEHOLD WEALTH

Household wealth reached a record \$94.8 trillion in the first quarter of 2017 as the stock market and home prices climbed. Household net worth and a strong job market helped consumers' ability to spend.



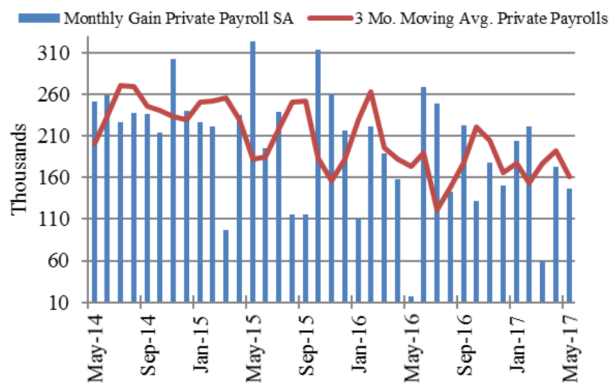
GDP GROWTH

First-quarter revisions put real GDP growth at 1.2 percent, rather than 0.7 percent. Weaker than expected industry, housing and retail numbers suggest the second quarter will see 2.5 percent growth.



PAYROLL

The decelerating trend in job gains should be watched as it could signal a moderation in economic activity but is more likely to indicate firms' inability to fill job openings.



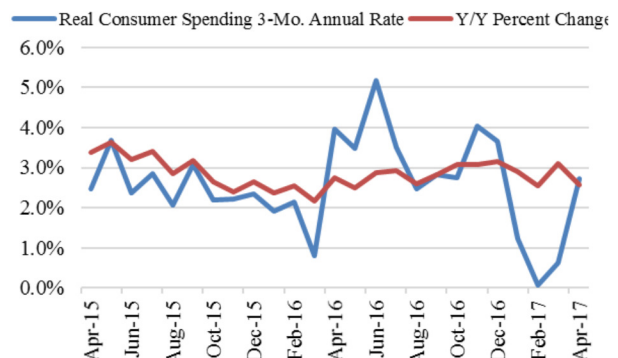
EMPLOYMENT

Retail jobs peaked at 15.9 million in January and job openings in April were at their second-highest level compared with any previous April.

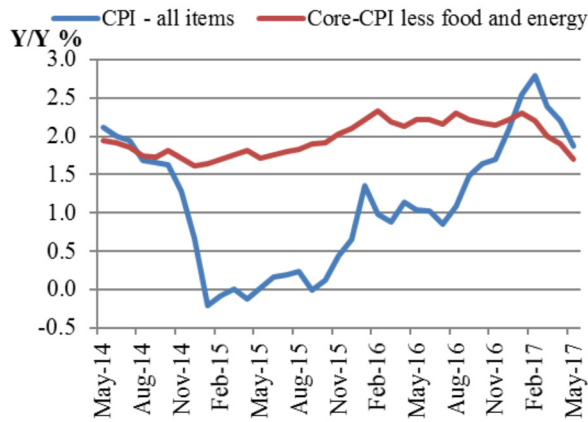


CONSUMER SPENDING

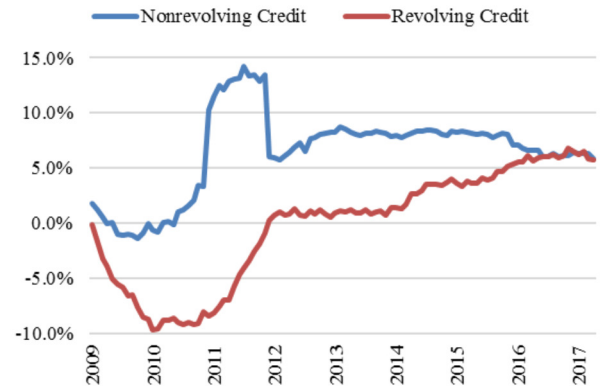
After adjusting for inflation, real consumer spending has bounced back from a weak first quarter and the current pace supports greater spending in the coming months.



Year-over-year changes in the Consumer Price Index show inflationary pressures are at a minimum. The key driver of the decline has been lower energy prices.



Total consumer credit gained \$8.2 billion, the slowest increase in 5 years. Revolving and non-revolving credit have both maintained steady growth since 2016.



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