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

New Year Off to Strong Start

The U.S. economy ended 2017 on firm footing and has considerable momentum heading into 2018. Given the sturdy pace of both U.S. and global expansion, we expect another year of above-trend growth in the range of 2.5 to 3 percent. Consumer and business spending will continue to fuel growth and a pickup in foreign economic activity is expected to push down the dollar and increase demand for U.S. exports, adding to economic growth. An immediate economic lift from the recently enacted tax reform is also expected. With the economy at or near full employment, some inflationary pressure is expected. Inflation is expected to drift higher but will likely not reach the Federal Reserve's target until sometime in 2019. The probability of a recession is low.

The economy got off to slow start to 2017, with real gross domestic product growing only 1.2 percent year over year in the first quarter. The rate of growth improved to 3.1 percent in the second quarter and 3.2 percent in the third quarter, the best back-to-back quarterly growth rate since the middle of 2014. However, the consumer was not necessarily steady throughout 2017 as personal consumption was uneven with quarterly growth rates of 1.9 percent, 3.3 percent and 2.3 percent in the first three quarters. Numbers for the fourth quarter should show a pickup in overall consumption as retail sales during the holiday season benefited from households having the ability and willingness to spend. It was an uneven ride for employment throughout 2017, and particularly for the holiday season. September payrolls showed a meager gain of 38,000 jobs, a direct result of hurricanes. The job machine in October and November kicked in, averaging 230,000 additional monthly jobs but dropped to 148,000 in December. Employment gains are important because more jobs mean more income and more spending power.

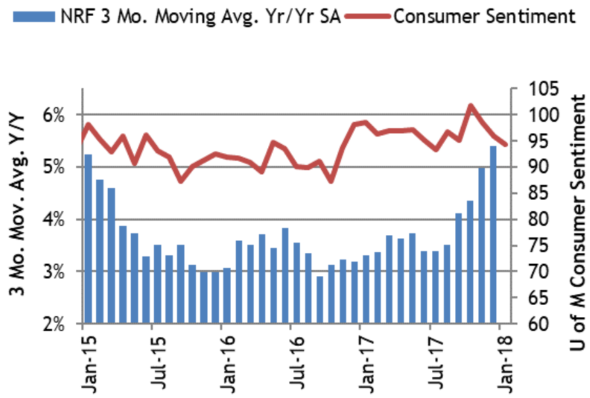
Holiday spending was affected by the confluence of job gains, a pickup in income, gains in home and stock prices and very confident consumers who appeared to be secure about their financial conditions. Those conditions provided the foundation for a 5.5 percent increase in holiday sales over 2016 that easily exceeded NRF's forecast of between 3.6 and 4 percent. It was the strongest holiday sales performance since after the end of the Great Recession.

Household emotions perked up in anticipation of the new tax changes coming in 2018, and had a particularly strong presence in holiday economic decisions. The economist John Maynard Keynes once remarked that economic activity results from rational motivations but may also be governed by "animal spirits." In his view, consumers have non-economic interests and are not necessarily rational in their pursuit of economic preferences and those spirits are a key cause for fluctuations in the economy. The recent reduction in the savings rate and the upturn in the use of credit in recent months helped holiday spending decisively and may also be an indication of confidence in a brighter future.

Notwithstanding, retailers played a key role in consumers willingness to spend from the very start of the season. Strategic launching of promotions, special discounts, savings codes, gift cards linked to mobile apps, emails and standard advertising caused a sense of urgency to take advantage of these opportunities. Retailers leveraged technology that connected directly to shoppers. Big data analytics helped retailers decide what merchandise and prices would be available at particular times in the season. In general, merchants had the right mix of promotions and staffing to meet consumer demand. All in all, holiday spending was impressive and a very positive indication that both the consumer and the economy are healthy and doing well.

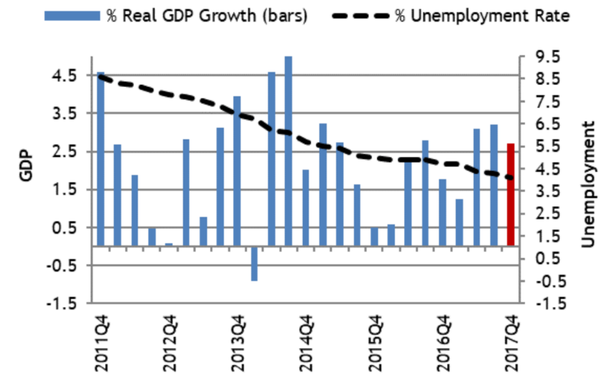
CONSUMER SENTIMENT

December 2017's three-month retail sales average was 5.4 percent over last year. January's preliminary consumer sentiment index slipped to its lowest level in six months.



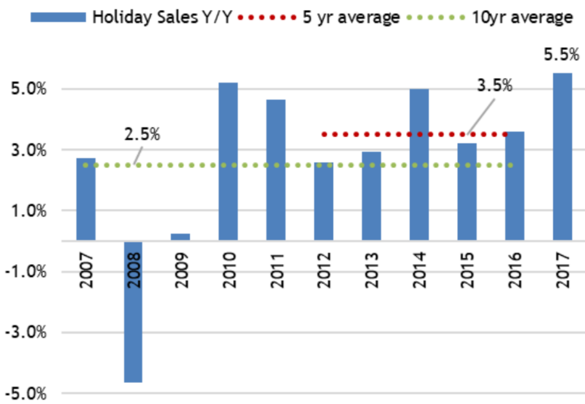
GDP

Third-quarter GDP grew 3.2 percent year over year. Fourth-quarter GDP is expected to come in a tad slower.



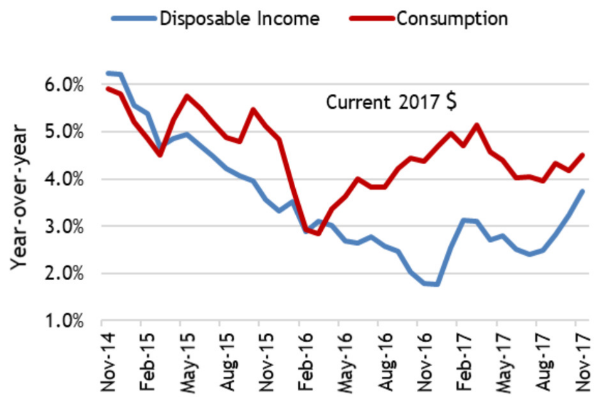
HOLIDAY SALES

Holiday retail sales during November and December increased 5.5 percent over 2016, which included a pickup of 11.5 percent in online/non-store sales.



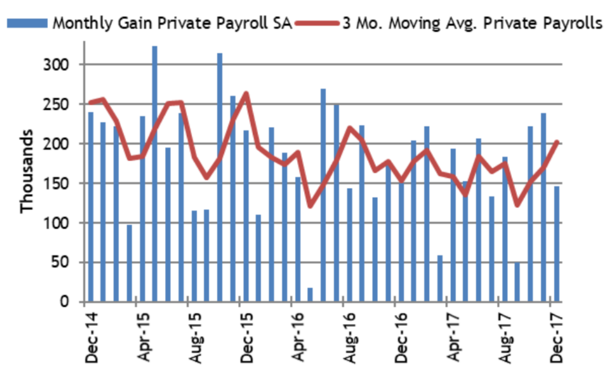
DISPOSABLE INCOME

Disposable income increased solidly in November, spurred by a modest rise in wages. Wages and salaries remain the key ingredient to income and aided robust holiday spending.



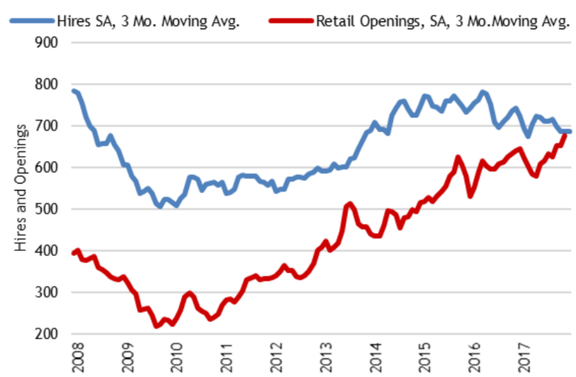
PAYROLL

While private payroll growth slowed in December, the average over the previous three months remained strong, supporting solid fourth-quarter consumer spending and economic growth.



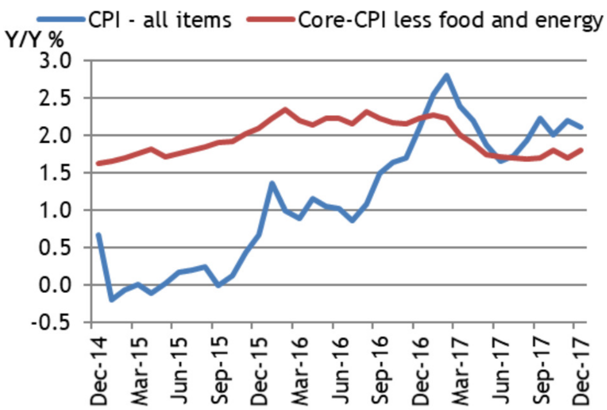
RETAIL JOBS

Retailers hired 677,000 workers in November. There were 711,000 openings as of the end of the month, the largest number of any month since 2000.



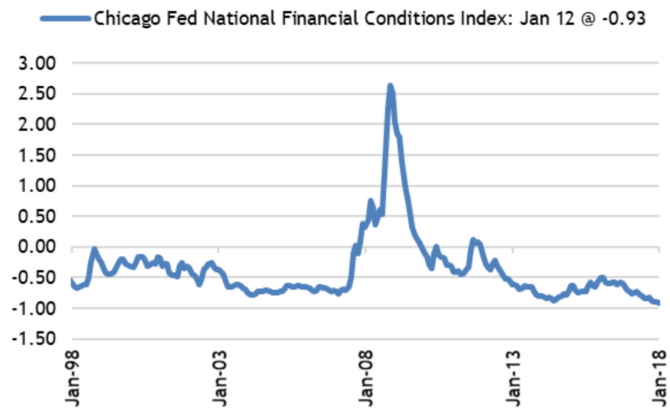
INCOME

During 2017, the consumer price index rose 2.1 percent. After the hurricanes, rising energy prices caused the CPI to accelerate. Meanwhile, a partial return toward trend occurred.



NATIONAL FINANCIAL CONDITIONS INDEX

A measure of how easily money and credit flow through the economy via financial markets, the NFCI is at its loosest since January 1994, according to the Federal Reserve Bank of Chicago.*



*** Positive values of the NFCI have been historically associated with tighter-than-average financial conditions, while negative values have been historically associated with looser-than-average financial conditions.**

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