

NRF[®] MONTHLY ECONOMIC REVIEW

Economic Data & Trends for the Retail Industry

November 2018

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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

From jobs to GDP, the economy continues to grow

The U.S. economy saw strong growth during the third quarter as gross domestic product increased at an annual rate of 3.5 percent, continuing the momentum built throughout the year, according to the federal Bureau of Economic Analysis. That's slower than the 4.2 percent growth in the second quarter but still above the long-term trend of approximately 3 percent and well above the 2.3 percent average since the current expansion began in the third quarter of 2009. Consumer spending during the third quarter grew by a strong 3.6 percent year over year and business investment was up 2.5 percent. Importantly, the economic fundamentals for growth remain in place.

The economy and the labor market keep rolling along, and job growth continues to be a driver of confidence and spending. Job gains remained strong through October, averaging 212,000 monthly, and in the last 12 months U.S. payrolls have increased by 2.5 million workers. The unemployment rate remained at 3.7 percent, the lowest since December 1969. The bottom line is that the U.S. job growth engine shows no sign of slowing down yet.

As previously emphasized, consumer spending and, in turn, retail sales correlate closely with income and wage gains. The tightening labor market is finally causing firms to raise wages, with average year-over-year increases breaking the 3 percent barrier for the first time in nearly 10 years.

The Bureau of Labor Statistics calculates two different measurements of wages. The most frequently cited is average hourly earnings, which were up 3.1 percent year over year as of October, breaking the 3 percent rate for the first time since April 2009. While this number is released each month and is a timely indicator of regular wages, it does not include bonuses or other types of pay. Its primary disadvantage is that it does not account for composition shifts of employment. For example, if employment gains are strong in a high-wage industry, then average hourly earnings can increase even if wages elsewhere are unchanged. Due to this methodology, the indicator can be less stable.

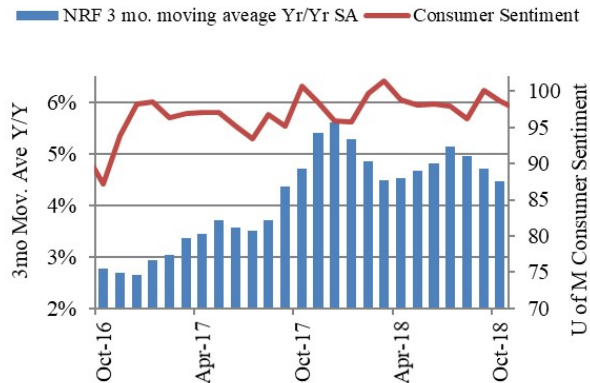
The other indicator is the employment cost index, which measures both wages and overall compensation and is watched closely by the Federal Reserve. Looking at just private-sector wages and salaries, the ECI rose sharply in the third quarter with a 3 percent year-over-year increase that was the highest since the second quarter of 2008. Because the ECI is a fixed-weight measurement of occupations and industries, it is less susceptible to changes in the mix of employment. Its disadvantage is that it is only estimated quarterly, providing less timely information than the hourly earnings number.

While the surge in payrolls might make headlines for the press and politicians, the 3 percent-plus wage gains are the data that probably catches the eyes of the Federal Reserve's Open Market Committee the most as members debate interest rates. Although faster wage growth could prompt an acceleration in the pace of inflation, it has been on a meandering and slow path upward and a sharp pickup is not anticipated. At a recent meeting of business economists, Fed Chairman Jerome Powell said he doesn't see evidence that the labor market is at risk of overheating or pushing up prices.

While November retail sales — the first monthly leg of the holiday season — will not be released until mid-December, disposable income and consumer spending data showed solid growth in October. These numbers were headed in the right direction as households entered the holiday season and were consistent with NRF's holiday forecast of up to 4.8 percent growth over 2017.

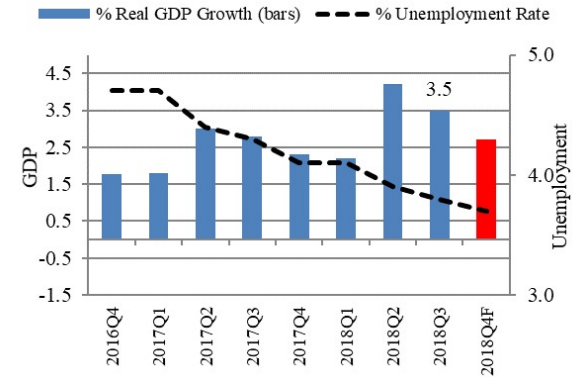
CONSUMER SENTIMENT

The University of Michigan Consumer Sentiment Index dropped 1.1 points month over month to 97.5 in November but consumer sentiment in recent months has been historically high.



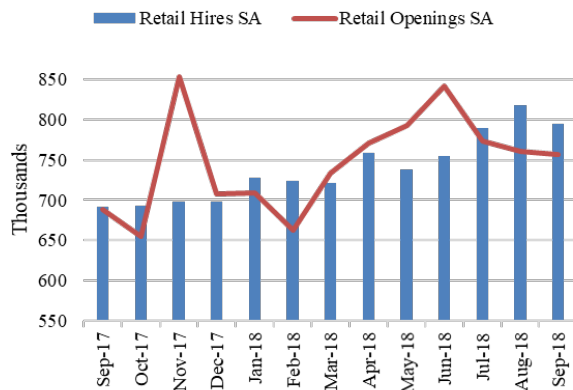
GDP

GDP grew at an annualized rate of 3.5 percent in the third quarter, driven by robust consumer spending. Fourth-quarter GDP growth is expected to be approximately 2.7 percent.



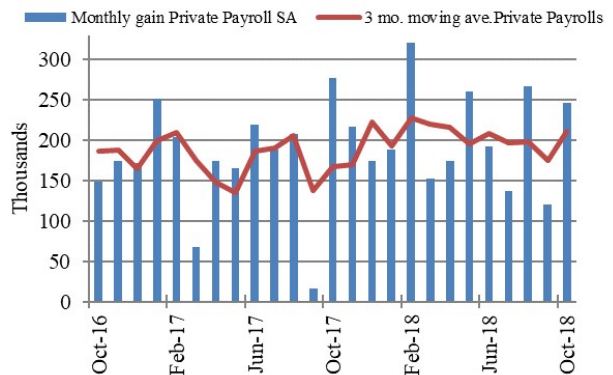
JOB OPENINGS AND HIRES

Total October retail industry employment totaled 15.9 million jobs, seasonally adjusted. Retail openings and hires were at monthly highs in September at 795,000 and 756,000, respectively.



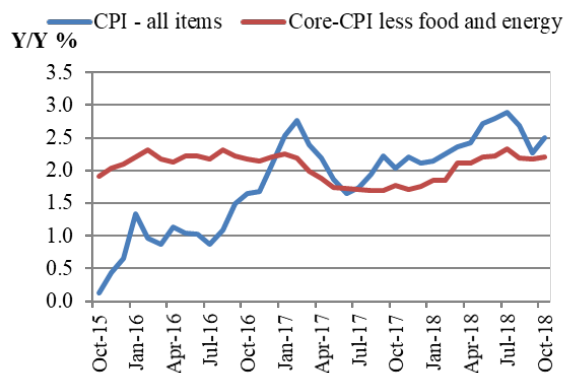
PRIVATE PAYROLLS

The labor market rebounded from the hit from Hurricane Florence with more gains than expected as private payrolls rose by 246,000 jobs in October.



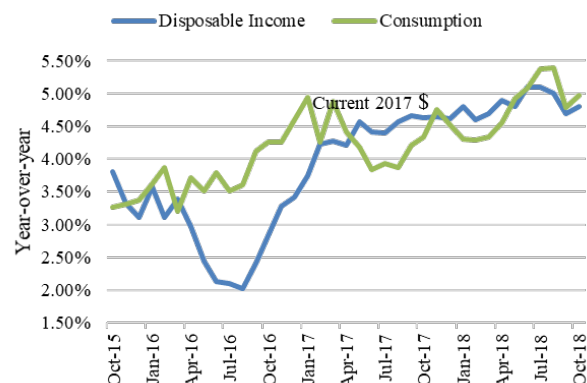
CONSUMER PRICE INDEX (CPI)

The Consumer Price Index came in stronger in October than the previous month. Compared with a year earlier, the headline CPI was up 2.5 percent. Core CPI was unchanged from September.

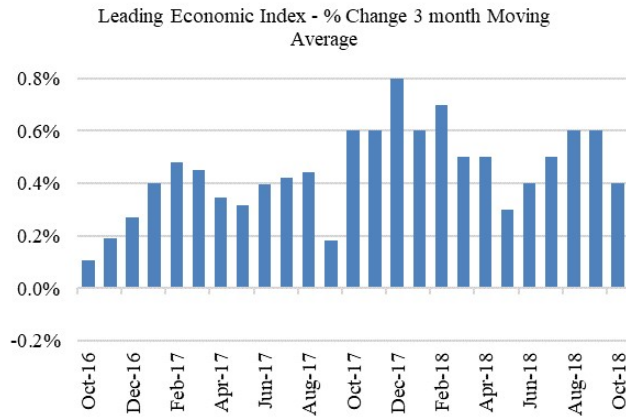


INCOME AND SPENDING

October disposable income and consumer spending showed solid growth and was headed in the right direction as households entered the holiday season.



Prospects for the U.S. economy continue to be positive. The Conference Board's Leading Economic Index increased in October by 0.1 percent. But its three-month moving average shows a possibly slowing pace.



Third-quarter online sales were up 14.5 percent from a year earlier but the slowest growth in the prior six quarters. Ecommerce was 9.8 percent of total retail sales.

