# MONTHLY ECONOMIC REVIEW

**Economic Data & Trends for the Retail Industry**

## February/March 2019

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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

**December retail sales were disappointing, but are the estimates believable?**

With the labor market so strong and incomes increasing, it is difficult to believe numbers reported by the U.S. Census Bureau that indicated consumer spending collapsed in December. The Census Bureau — reporting its numbers a month late because of the government shutdown — said December retail sales grew only 2.3 percent year over year, despite reports from some individual retailers that sales had grown twice as much. That left NRF's calculation — which is based on Census data but leaves out automobile dealers, gasoline stations and restaurants — at only 0.9 percent year-over-year growth despite gains of 5.7 percent in October and 5.1 percent in November. Certainly, the ongoing trade war with China, the resulting stock market volatility and the shutdown that began just before Christmas were all expected to weigh on December's results, as did the Federal Reserve's interest rate hike that month. And there is little doubt that the economy has entered 2019 with less momentum than previously expected. But did retail sales truly collapse? It might be the numbers are an anomaly resulting from the delay in data collection and how seasonal adjustment factors were applied.

The labor market in January surprisingly picked up where it left off in December. Employment gains exceeded expectations for a second consecutive month, notwithstanding the government shutdown. Employers added 304,000 jobs, almost twice as high as the consensus forecast. While we expected a reduced pace in January to offset the surge in December, December's figures were sharply revised upward to 222,000 with the usual monthly and annual benchmark revisions. Nonetheless, job growth averaged an impressive 241,000 positions over the past three months, making it hard to argue that the economy is faltering with job gains so strong. As job growth remains strong, wage gains are accelerating at the fastest pace of this expansion. Wage growth as measured by private average hourly earnings and the Employment Cost Index's numbers for wages and salaries have both risen by 3 percent. Stronger wage growth will allow consumers to continue to be the key driver of economic activity.

The seasonal adjustment process used in reporting monthly retail sales may have compounded December's dip in retail sales data. The government adjusts retail sales data to smooth out huge changes from month to month and provide a clearer picture of sales trends. It should be noted that December is the biggest month of the year for consumer spending and thus when Census released December's figures, they were seasonally adjusted by applying the largest seasonal factor. Consequently, the weaker December spending was amplified downward. Correspondingly, a rebound in retail spending in January will be helped by the seasonal adjustment process, which can magnify the unadjusted results. With the temporary factors behind us and the Fed currently on pause from raising interest rates, better retail numbers in January and February may ease concerns about the state of the consumer and the economy.

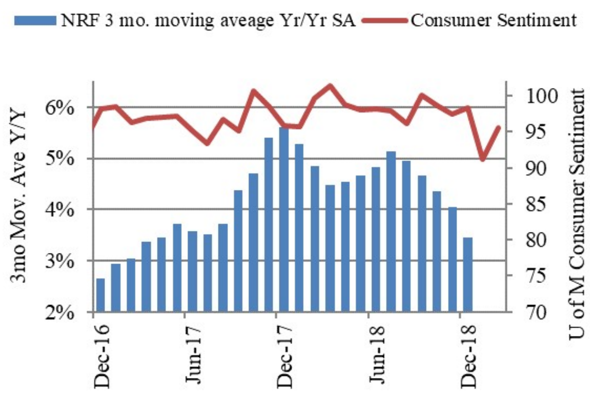
Accordingly, we need to wait for a more complete picture of the economy and its direction. There is a backlog of data due to the shutdown, to the point that the Census Bureau has yet to announce when January retail sales figures and December revisions will be available. More insight on December personal income and outlays along with January personal income will be available on March 1, when the Bureau of Economic Analysis releases its reports, also delayed by the shutdown.

## SYNOPSIS

It will be interesting to see if and how much consumer spending on services took a pass at the end of 2018. January personal spending data will not, however, be included. The shutdown will also delay Census' annual revision of retail and food services data that is typically released in April every year.

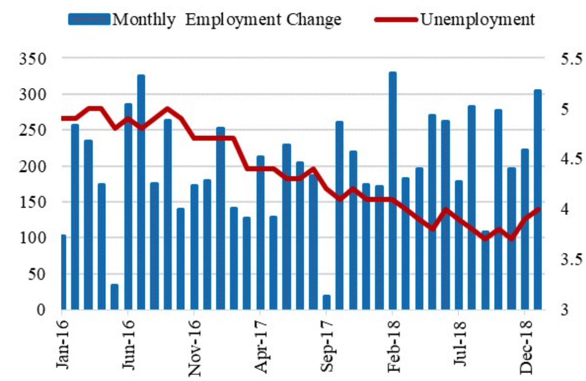
## CONSUMER SENTIMENT

The preliminary February estimate of the consumer sentiment index regained 4.3 points after January's slide. December retail sales data, which was delayed, was weaker than expected.



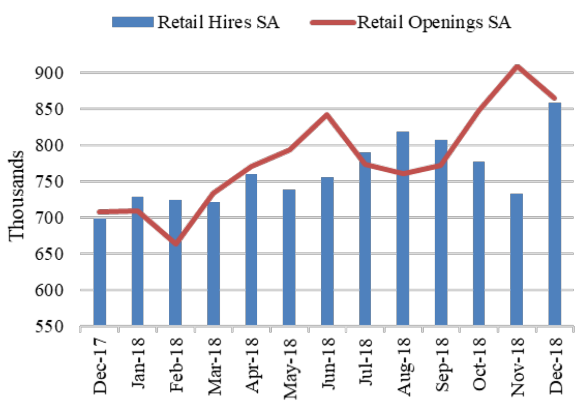

## EMPLOYMENT

The labor market began 2019 on very strong footing, adding 304,000 jobs in January. The unemployment rate increased to 4 percent, likely caused by the government shutdown.



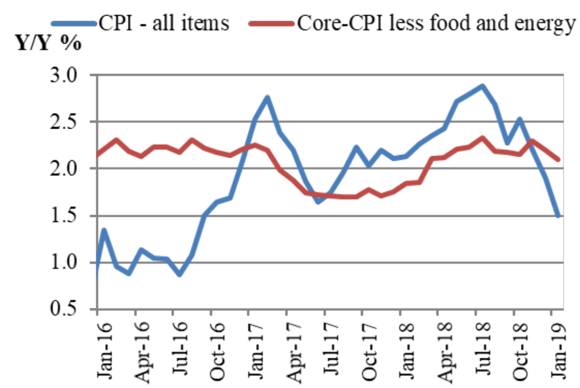

## JOB OPENINGS AND HIRES

The retail job market continues on its dynamic path. There were 864,000 openings and 858,000 hires in December, both record monthly levels.



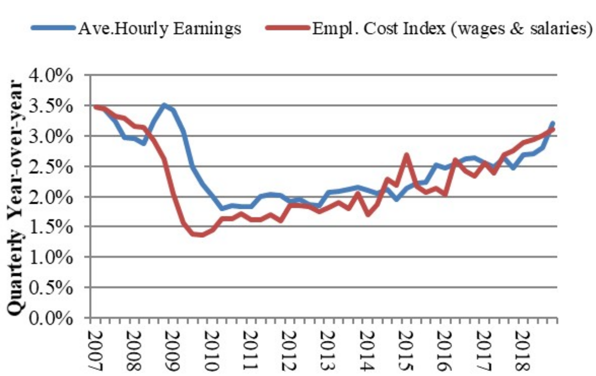

## INFLATION

Core inflation is hovering around the Fed's objective of 2 percent, and little upside risk to inflation is apparent over the next several months.



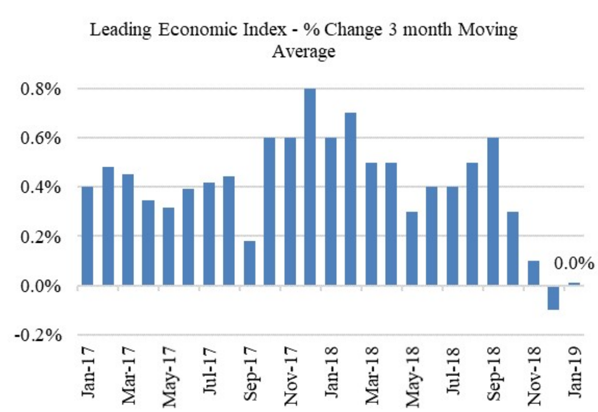

## WAGES AND SALARIES

Private avg. hourly earnings and Employment Cost Index wages and salaries are increasing at the fastest pace of this expansion, likely to continue as labor market conditions continue to tighten.



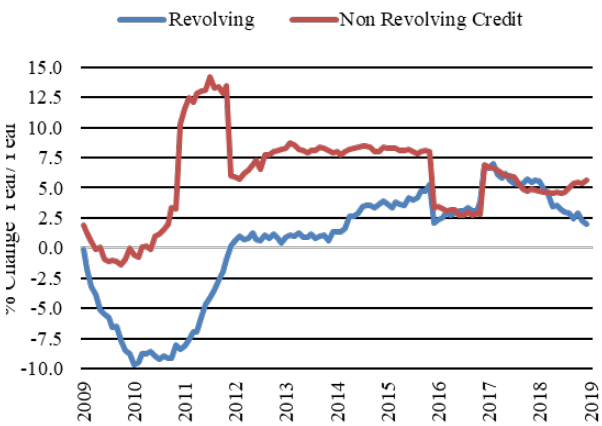

## LEADING ECONOMIC INDEX

The flat — but not declining — three-month moving average of the Leading Economic Index indicates favorable economic conditions in the coming months.



## CONSUMER CREDIT

Total consumer credit grew again in December, a gain of $16.5 billion. The revolving credit growth rate has decelerated, largely a reflection of credit card debt, suggesting slower consumption though still intact.




## FINANCIAL MARKET CONDITIONS

Financial market conditions appear to be a lot better as much of the tightening that occurred at the end of 2018 reversed in part due to a rebound in the stock market and Fed rate increases on hold.