NRF® MONTHLY ECONOMIC REVIEW

Economic Data & Trends for the Retail Industry

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Jack Kleinhenz, Ph.D., CBE
Chief Economist
National Retail Federation

**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

Economy continues to grow but at a slower pace

The past few months have been a dramatic period for the nation's economy. December saw a stock market rout that was followed by a near-historic rebound. The 35-day government shutdown that began just before Christmas delayed the gathering, analysis and reporting of retail sales and other key economic data. Frigid temperatures in much of the country kept shoppers home. December's tightening by the Federal Reserve was followed by an extended pause in rate increases. Trade policy tensions and global financial stability concerns continued. And a sharp decline in consumer confidence was replaced with a cheery outlook by mid-March. With all these moving parts and crosscurrents, it is not surprising that overall consumer spending and the broader economy have been impacted.

Fourth-quarter gross domestic product for 2018 was among the data delayed by the government shutdown. As expected, economic activity in the quarter grew at 2.6 percent year-over-year, a step down from stronger growth earlier in 2018. For 2018 as a whole, the economy grew by 2.9 percent. Consumer spending grew only 2.8 percent in the fourth quarter, leading the deceleration in economic growth. Much of the consumer spending in recent years has been fueled by the stock market and the wealth it creates. Accordingly, the downshift in spending and consumer confidence was due in part to the volatility and selloff in the stock market during the fourth quarter that erased $3.7 billion in net worth for American households and weighed on the consumer psyche. Offsetting some of the fears relative to the decline in household net worth, however, stocks have bounced back sharply so far in 2019. In addition, the retail sales rebound seen in January after the sizeable monthly drop in December also eased concerns about consumer strength. Nonetheless, it is increasingly likely that GDP growth in the first quarter will turn out to have been well below the average quarterly growth rate of 2.3 percent registered since the recession ended.

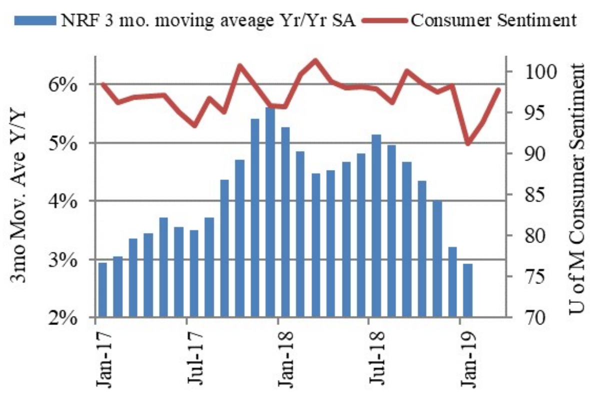
As previously noted, it is the consumer who is key to the economy's performance, and the outlook for the consumer has not fundamentally changed. As long as job growth holds up, wages rise and the stock market remains on a satisfactory path, consumers will have the confidence to safely spend. Consumer spending typically accounts for approximately two-thirds of GDP, so it has an outsized effect on economic activity. Job growth in the past few months has been on a roller coaster but is still strong and moving in the right direction. Payrolls increased only 20,000 in February after a dramatically impressive 311,000 in January. But averaged out over three months, job gains were at a solid pace of 186,000. That remained slightly ahead of NRF's forecast of 170,000 per month for 2019. The unemployment rate dipped to 3.8 percent in February, hovering in its recent range as job openings are filled by rising labor force participation. The labor force participation rate has held steady at a recent high of 63.2 percent, indicating that the market remains tight despite the small number of February hires.

Average hourly earnings increased in February to a business-cycle high of 3.4 percent over the same month a year earlier. Although wage growth has accelerated, the impact on consumer price inflation has been modest. Both headline and core consumer price index growth rates (up 1.5 percent year over year and 2.1 percent respectively) have moderated recently, which allows the Fed to hold off on rate changes. Low inflation and steady gains in wages bode well for consumer purchasing power as well as contributing to GDP growth going forward. While wage growth has posted seven consecutive months of gains of 3 percent or more, the pass-through to consumer inflation from increased labor costs has been minimal thanks to stronger productivity growth. Productivity rose 1.9 percent at a seasonally adjusted annual rate in the fourth quarter. If that improvement is sustained, labor costs can remain well contained, more job opportunities become available and inflationary pressures are unlikely to get out of hand.

At this juncture, the data paints a mixed picture, especially in light of ongoing uncertainties and the lagged effects of the difficult situations and opposing pressures in the last three months. While our outlook for the economy for the full year remains relatively unchanged, the weakness in the first quarter and ongoing global growth concerns are expected to give way to slightly slower-than-expected growth in 2019. Although down from 2018's pace, we are now looking for GDP to grow approximately 2.2 percent rather than the 2.5 percent we forecast in early February.

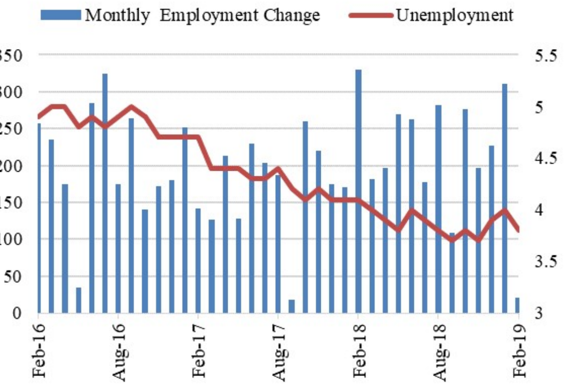
CONSUMER SENTIMENT

The preliminary University of Michigan consumer sentiment index increased from 93.8 in February to 97.8 in March. As of January, retail sales' three-month moving average was up 2.7 percent year over year.



EMPLOYMENT

Employment gains in February were well below expectations, adding only 20,000 jobs after an impressive January gain. The unemployment rate dipped to 3.8 percent.

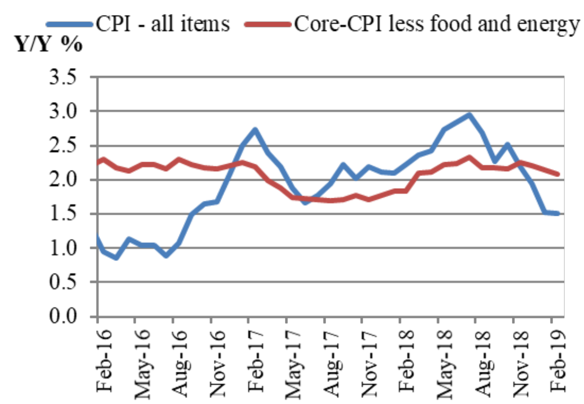


JOB OPENINGS AND HIRES

Not only are retail jobs being created and filled but there are more openings than can be filled than ever before. There were 889,000 openings and 756,000 hires in January.

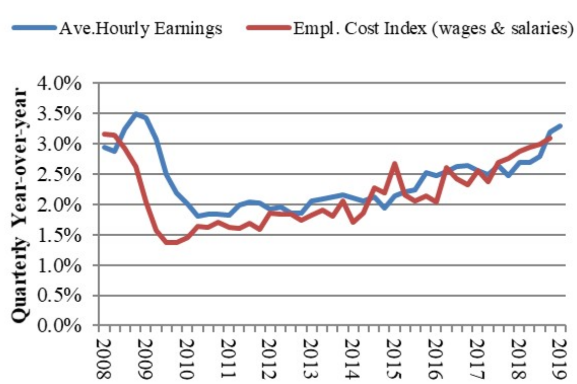
CONSUMER PRICE INDEX (CPI)

Since July 2018, the CPI has decelerated from a year over year increase of 2.9 percent to 1.5 percent. But core inflation is close to the Fed's target and indicates limited upside risk.



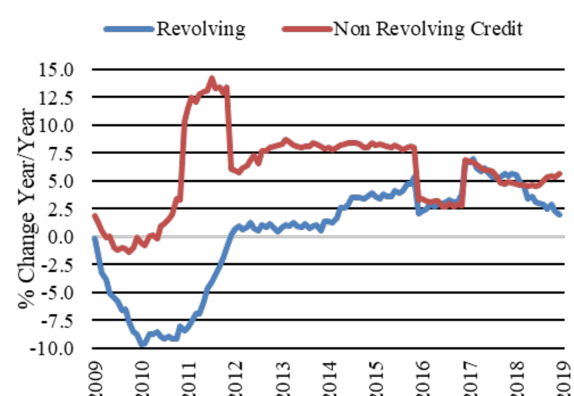
WAGES AND SALARIES

With higher earnings in February and lower inflation, workers have been seeing real gains in their purchasing power. That is a boost to their ability to spend and a potential lift to future retail sales.



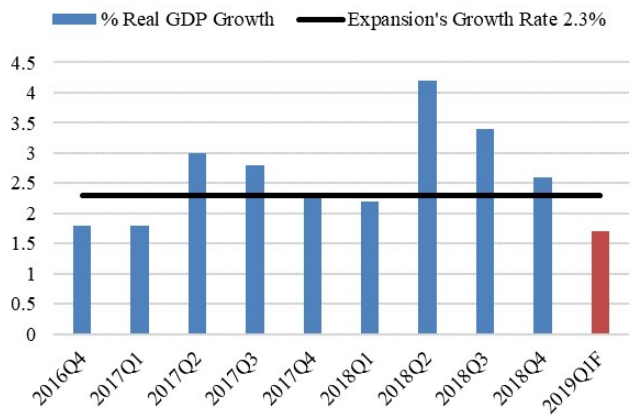
CREDIT

Consumers appear to be less dependent on revolving credit (credit cards) to make purchases. Tax reform that took effect in 2018 helped spending because of increased after-tax wages.



GDP

Fourth-quarter GDP grew at an annual rate of 2.6 percent after growing 3.4 percent in the third quarter. The deceleration was led by slower consumer spending. First-quarter GDP growth is expected to come in at approximately 1.7 percent.



CONSUMER SPENDING

As expected, consumer spending plummeted in December due to decreased retail sales. January disposable income fell off from its outsized gain in December, but there is still a wait for Jan. spending data.