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

Out of the frying pan and into the fire?

We are all trying to digest the trade situation, which looks bleak. Earlier this year, it was thought an agreement would be accepted by now, but there has been an aggressive escalation in the trade war. U.S. tariffs have been hiked on Chinese goods and retaliatory tariffs have been added by China on U.S. goods. While the full effects are hard to measure given all the moving parts, the longer this continues the higher the costs are to U.S. households. According to a National Bureau of Economic Research study, the costs of tariffs are not only a tax burden to consumers in the form of higher prices for imports from China but also increased prices for products from elsewhere as companies shift supply chains from China to less-efficient and higher-cost countries.

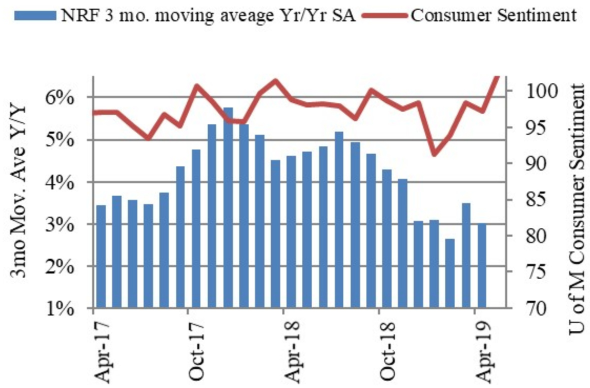
It is important to recognize that the longer the current tariff policy stays in place, the more difficult it is to unwind. The NBER study says many companies have begun to make substantial "sunk-cost" investments in supply chains in countries other than China. The study also shows that the impact is being felt by U.S. consumers: By the end of 2018, import tariffs were costing U.S. consumers and firms that import foreign goods an additional $3 billion per month in added tariff costs and another $1.4 billion per month in efficiency losses. According to NBER, the 2018 tariffs cost the typical U.S. household $419 a year. In addition, tariffs on $200 billion of imports from China were increased from 10 percent to 25 percent in May. The authors analyzed the cost of these new, higher tariffs and found they will impose an annual cost of $831 a year on the typical U.S. household.

Hopefully the economy can continue to hold its current momentum, but it will be challenging in the face of stronger trade headwinds. The timing of this new round of tariffs is unfortunate as underlying fundamentals of the economy have improved and are accelerating. The Federal Open Market Committee, which sets the Fed's interest rates, sees a strong economy — consistent with NRF's view. Consumer spending is expected to be solid in the coming months thanks to the strong job market, rising incomes and upbeat consumer sentiment. In addition, while the housing sector had been a drag on gross domestic product growth for some time, recent data points to improvement. Ironically, the FOMC saw reduced trade risks at its April 30-May 1 meeting, yet recognized that uncertainties remain. "A number of participants observed that some of the risks and uncertainties that had surrounded their outlooks earlier in the year had moderated, including those related to the global economic outlook, Brexit and trade negotiations," the committee said. "That said, these and other sources of uncertainty remained."

We haven't changed our 2019 forecast but we are watching developments very closely. The trade war is expected to add to increased uncertainty and is already manifesting itself in market volatility. Our economic future depends on U.S. households being resilient, able to deal with increased uncertainties and being confident about spending. The magnitude of trade costs has the ability to create large economic distortions affecting economic and financial conditions. We have already seen how financial conditions can change quickly, as was evident in December 2018 when business and consumer confidence dropped along with spending. Fortunately, the Fed has shifted its monetary policy toward neutral from its previous bias of hiking interest rates. At this time, the case for a Fed rate cut isn't compelling but history shows the Fed has cut rates when recession risks have increased or financial market conditions have tightened significantly.

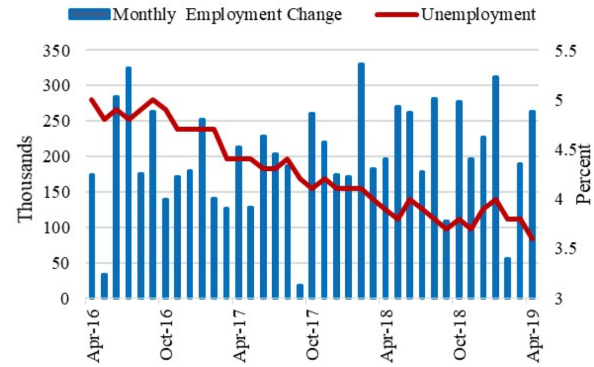
CONSUMER SENTIMENT

Consumer sentiment jumped in May to 102.4, according to the University of Michigan's preliminary report. This new cyclical high since January 2004 should signal a faster pace of future retail spending.



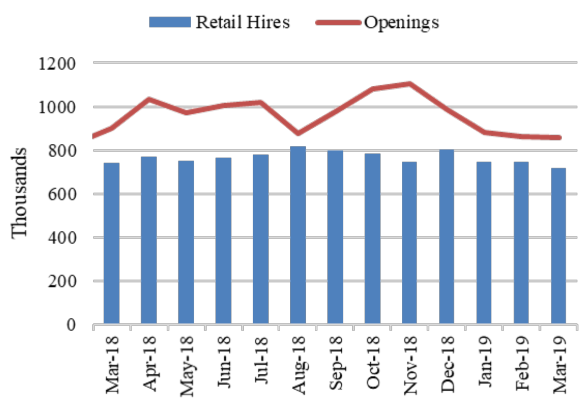
EMPLOYMENT

Employment increased by 263,000 jobs in April, exceeding expectations, while the unemployment rate fell to a cyclical low of 3.6%, the lowest in 50 years.



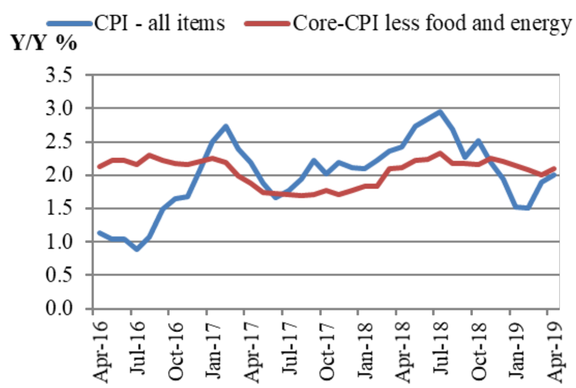
JOB OPENINGS AND HIRES

March's 860,000 retail job openings were the second-highest on record for that month, representing nearly 12 percent of the nation's 7.48 million opening. Retailers continue to want to add jobs.



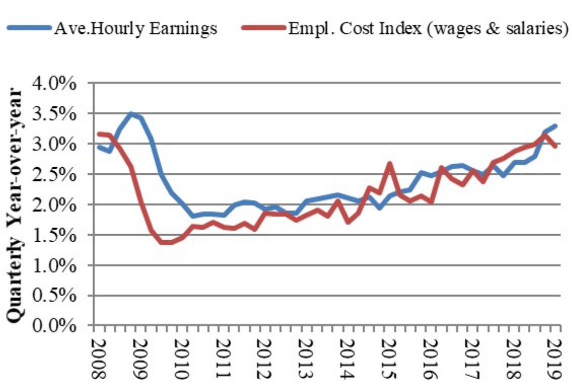
CONSUMER PRICE INDEX (CPI)

Consumer prices edged upward in April. Aside from higher gas prices, nearly all increases in inflation are in services. Higher inflation is expected with an expansion of tariffs.



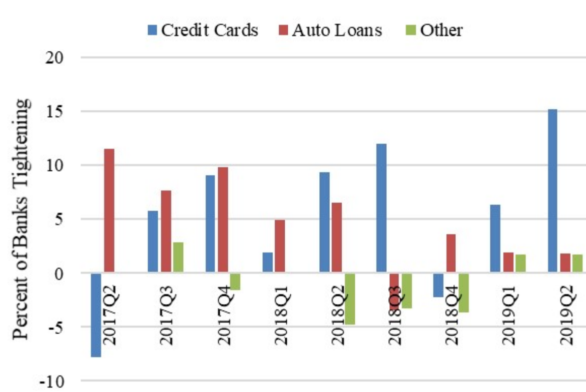
WAGES AND SALARIES

Wage growth is currently in the 3 percent range, suggesting the labor market is steadily improving but not overheating. At similar periods in previous expansions, wage rates grew by 3.5 percent.

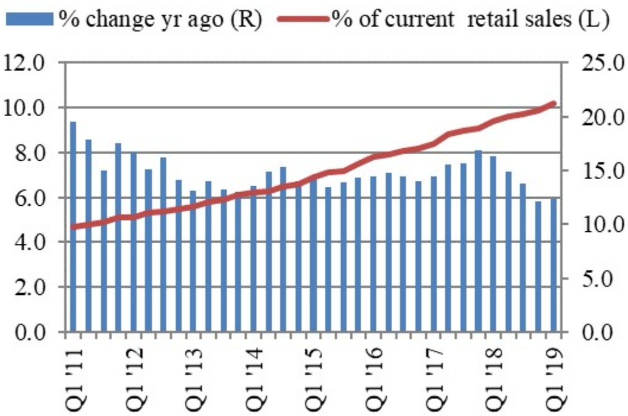


CREDIT

The Fed's Senior Loan Officer Surveys shows banks have steadily tightened lending standards for credit cards despite stable trends in delinquencies and defaults.



Ecommerce sales during the first quarter were up 12.4 percent from a year earlier, slightly above the previous quarter's pace of 12.1 pace.



The near-term outlook for the U.S. economy is positive, according to the Conference Board's Leading Indicators Index.