Economic Data: The economy has a lot riding on consumers

Last month we reported on the importance of staying up to date on economic trends, and that holds true as there has been a battery of key data released recently. U.S. economic growth remained modest in the third quarter, based on revised data from the Bureau of Economic Analysis. Gross domestic product grew at an annualized rate of 2.1 percent, topping both the 1.9 percent rate originally reported and the 2 percent pace seen during the second quarter. The revisions reflect solid consumer spending and both business inventories and fixed investment numbers were revised upward, although government spending and net exports were revised downward. During this expansion cycle, real GDP growth has averaged 2.3 percent per quarter.

The latest six-month average of 2 percent GDP growth points to a significant easing in the economy from the same time a year ago, when growth was at approximately 3 percent, driven in part by the tailwind from tax reform. Given the upward third-quarter GDP revision, our current estimate of fourth-quarter GDP growth is in the neighborhood of 1.8 to 2 percent.

Despite the gradual slowdown in the U.S. economy, consumers remain supportive and October retail sales were a good step forward into the all-important holiday season. The University of Michigan consumer sentiment survey rose to 96.8 in November from 95.5 in October. That was the best reading since 98.4 in July and came after a collapse to 89.8 in August driven by tariff and trade issues. The present environment of low unemployment, low inflation, low interest rates, higher wages and job gains along with advances in the stock market has kept consumer attitudes at an elevated level. Retail sales in October increased 0.2 percent seasonally adjusted over September and 4.2 percent unadjusted year over year. As of October, the three-month moving average was up 4.3 percent over the same period a year ago. In the first 10 months, retail sales grew 3.7 percent year over year.

Consumers are in good financial shape and do not appear to be stretched. Nominal disposable income declined 0.1 percent in October even as nominal consumer spending posted a solid 0.3 percent monthly increase. October’s decline in income followed increases of 0.3 percent in September and 0.6 percent in August. Nonetheless, the largest driver of personal income is employee compensation, which grew 0.4 percent. That gain was offset by losses in the more erratic components of proprietors’ income and personal interest income, which each posted losses of 0.1 percent. While the month-to-month decline in the top-line income figure might not portend well for consumer spending, it is only a one-month change and not necessarily a trend. More important is that the trend in consumer spending remains healthy.

Official labor market data for October showed a stronger-than-expected net gain of 128,000 jobs. The previous two months (August and September) were revised higher by a net of 95,000. Although October’s jobs gain was below the 176,000-job average of the prior three months, that may have been because of the General Motors strike and the layoff of temporary Census Bureau workers who had been brought on for early preparations for the 2020 count. The unemployment rate ticked up to 3.6 percent but remained at historically low levels. The slight uptick reflected an increase in the labor force participation rate as more workers continue to seek employment.
Retail payrolls looked a lot better as well. Retail gained 6,100 jobs in October, a fairly good outcome and a positive impression as the industry headed into the holiday season. The three-month moving average went from a loss of 7,100 retail jobs in September to a gain of 3,400 in October. In October the retail unemployment rate was 3.7 percent, slightly up from September’s all-time low of 3.6 percent. Keep in mind that government data on retail employment counts only employees who work in stores and not those in warehouses, distribution centers, call centers, innovation labs and other fast-growing parts of the industry.

Although growth has undoubtedly slowed, the evidence of consumer strength shows that the current expansion still has fuel to propel it forward. Consistent with our assessment, the Federal Reserve’s November Beige Book, tracking economic activity from October through mid-November, indicated that the U.S. economy expanded at a modest pace. Most Fed districts reported stable to moderately growing consumer spending, and increases in auto sales and tourism were seen across several districts. Outlooks generally remained positive, with some expecting the current pace of growth to continue into next year.

The economy has a lot riding on consumers and needs the consumer to keep growing. Conditions are shaping up for a good holiday retail season and we have maintained our forecast for holiday retail sales growth between 3.8 percent and 4.2 percent over 2018. Even at the low end, that would beat the five-year average of 3.7 percent.
**RETAIL SALES**

Consumer confidence and fundamentals remain in place and support the NRF outlook for a solid holiday sales season. The October retail sales increase matched NRF expectations.

**EMPLOYMENT**

Non-farm payrolls increased by 128,000 jobs between September and October and indicated that the job market remains sturdy.

**ECONOMIC GROWTH**

Growth in U.S. economic activity continues to slow. Real gross domestic product grew at an annualized rate of 2.1 percent in the third quarter, below the current expansion’s average of 2.3 percent per quarter.

**JOB OPENINGS**

The retail job market continues to chug forward in a competitive environment with 790,000 hires and 714,000 openings. Retail’s unemployment rate remains at a near-record low of 3.7 percent.

**ECOMMERCE SALES**

Households continue to drive the economic outlook and growing ecommerce sales are a key factor in overall retail sales growth.

**PERSONAL INCOME & CONSUMPTION**

Households are not stretched. October personal income and consumption decelerated but were healthy overall. The October savings rate dipped to 7.8 percent from 8.1 percent in September.
October consumer prices showed a mixed reading. The Consumer Price Index was up 1.8 percent year over year versus 1.7 percent in September. The core CPI was 2.3 percent compared with September’s 2.4 percent.

The outlook for the U.S. economy indicates slower growth. The Conference Board’s October Leading Economic Index suggested that growth will weaken further in the coming months.