National Retail Federation

MONTHLY Economic Review

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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 | Making sense of the economic puzzle

Developing an economic outlook is very similar to completing a jigsaw puzzle – there are many pieces that need to fit together. Completing a puzzle is highly probable given patience, having all the pieces, and having the picture on the box to guide assembly. But it's not the same when attempting to fit pieces of the economy together in today's environment. Many of the pieces are missing. Most importantly, the picture from the box is not available. Understanding the current economy, let alone the future economy, is a complicated puzzle that incorporates science, art, judgment and good luck.

A good start in visualizing how the pieces fit together is to understand recent variables. Part of this is framing the pandemic's effect on the economy and understanding policy decisions made to confront its disruption. There have been unprecedented and extreme swings in many economic variables in the past six months. This has led to uncertainty in interpretation of statistical data, as it is not clear what is being supported by government stimulus and what is normal demand. Consequently, past trends and historical relationships may not be applicable, especially for holiday spending and holiday jobs.

The depth and severity of the recession happened unusually quickly, but the loss of economic activity was fortunately not as outrageous as previously expected. The immensity of the contraction in gross domestic product showed up in the second quarter, when the pandemic turned the labor market on its head. Unemployment went from a very low 3.5 percent in February to an ultra-high 14.7 percent in April and the economy lost 22.2 million jobs in March and April. While employment gains in May through August brought back 10.6 million jobs, we have only recovered about half the jobs lost from COVID-19 this spring. A general return to 2019 levels of economic activity is not projected to occur until around 2022.

Federal stimulus and relief programs were new pieces to the puzzle. The decline in second-quarter GDP would have been worse if not for the buffer of fiscal and monetary policy. Job losses were massive but unemployed workers had all or a good portion of their income replaced through enhanced unemployment benefits while most taxpayers received stimulus checks. However, these benefits have ended, and a new fiscal package is uncertain.

The momentum of the economy has held up fairly well and the labor market is moving in the right direction, but at a much slower pace, and Federal Reserve Chairman Jerome Powell says market conditions may be worse than headline numbers indicate. Without additional income support, spending could stumble as the unemployed are forced to reduce spending. The inconstant nature of the health crisis remains a risk with the still-elevated spread of infection continuing to weigh on recovery. One possibility is a new wave of COVID-19 combined with a failure to provide fiscal support, precipitating an economic speedbump with slower spending growth or even a contraction in consumer spending.

There is solid evidence that signals a better-than-expected outcome through the third quarter. Retail spending and housing have recovered strongly, and manufacturing businesses are optimistic. Fueled by government payments and low interest rates, consumer spending has bounced back faster than expected in a clear “V-shaped” recovery, but it's too soon to say the consumer recovery is complete. Spending on services, which makes up three-fourths of GDP, is at approximately 10 percent of its pre-COVID peak. On the other hand, some services dollars are making their way to retail, helping drive consumer spending.

Sales of both new and existing homes, spurred in part by record low interest rates, have exceeded expectations recently and mortgage applications have bounced back, bringing increased spending at home improvement stores, furniture retailers and manufacturers of building materials, furniture and appliances.

Manufacturing and services are expanding, with the Institute for Supply Management reporting overall activity rose solidly in August to the highest level in two years. The ISM services index dipped in August but remained healthy, with a broad consensus that the third quarter will show a sharp rebound despite the virus remaining a constraint for services spending.

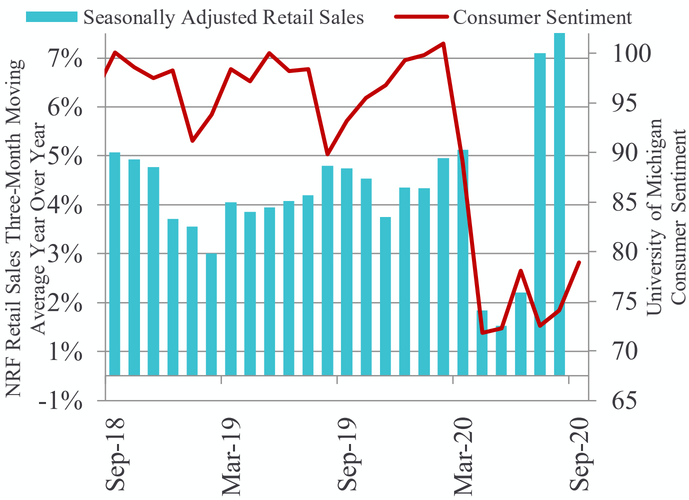
The labor market is still moving in the right direction. August’s robust gain of 1.4 million nonfarm jobs was the fourth-largest monthly amount ever as unemployment fell to 8.4 percent from 10.2 percent in July. Employment growth is expected to be slower but remain positive, helping support income and household consumption in the fourth quarter. Consumers have saved a portion of pandemic-related stimulus, and elevated household savings could offset the loss of government payments.

Consumer confidence remains well below levels seen before COVID-19 but is improving, with households upbeat about both current conditions and future expectations. Part of this may be the shoring up of household balance sheets. Despite a record drop in the first quarter caused by an economic shock from the pandemic, home values and bank accounts have continued to rise, buoyed by the stock market and bolstered by the second quarter’s stimulus checks and unemployment benefits. On the liability side, outstanding consumer credit fell even further than the first quarter. Even with household wealth at a record high, we must be careful not to be overenthusiastic. The plunge in wealth earlier this year was brief, but massive job losses, shutdowns and stay-at-home orders undermined confidence and scarred the economy.

We are waiting for new data to be released and are still assembling puzzle pieces for the 2020 holiday season. I am cautiously optimistic about the fourth quarter in terms of the economy and consumer spending, but the outlook is clouded with uncertainty pivoting on COVID-19 infection rates. The recession appears to be behind us and the reopening of the economy over the past several months has created momentum that should carry through the fourth quarter. The test is whether consumer spending will be sustained amid wild card puzzle pieces including policy surprises, the election and a resurgent virus.

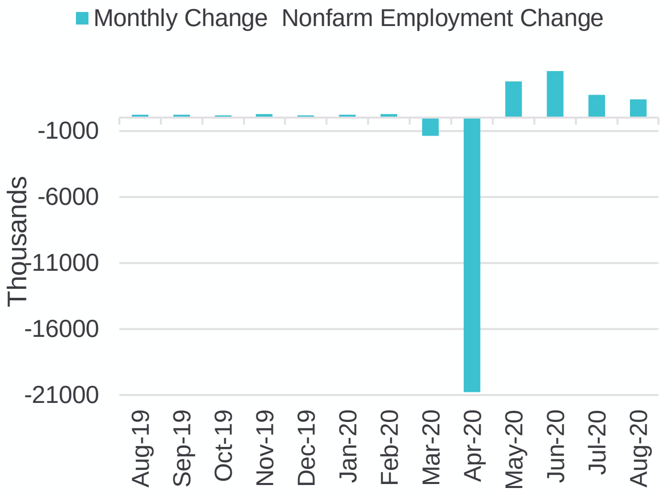
CONSUMER SENTIMENT

August retail sales data and year-over-year growth rates were noteworthy. NRF's calculation of retail sales growth rose to a record high after recovering from March and April's plunge. Consumer sentiment is improving yet remains in recessionary territory.



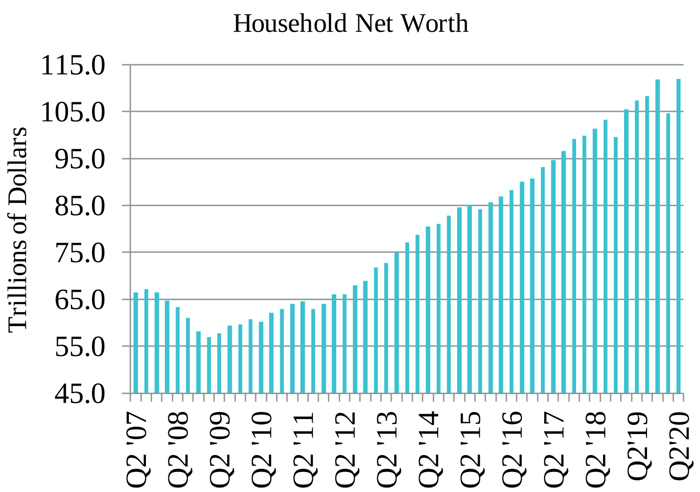
EMPLOYMENT

August's nonfarm payrolls rose by 1.4 million. However, payrolls are 11.6 million below their pre-COVID February level. The unemployment rate made a solid improvement, dropping to 8.4 percent from 10.2 percent in July.



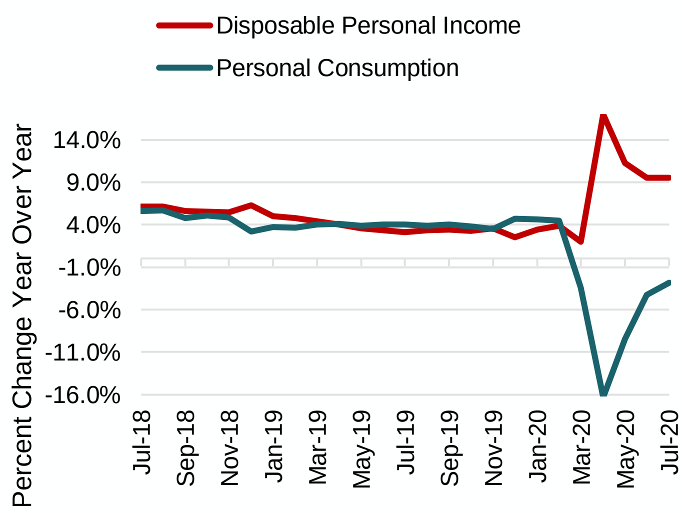
HOUSEHOLD NET WORTH

Household net worth surged in the second quarter, increasing by $7.6 trillion to $119 trillion to surpass the pre-pandemic peak. The gain was the largest in quarterly records dating back to 1952.



INCOME AND CONSUMPTION

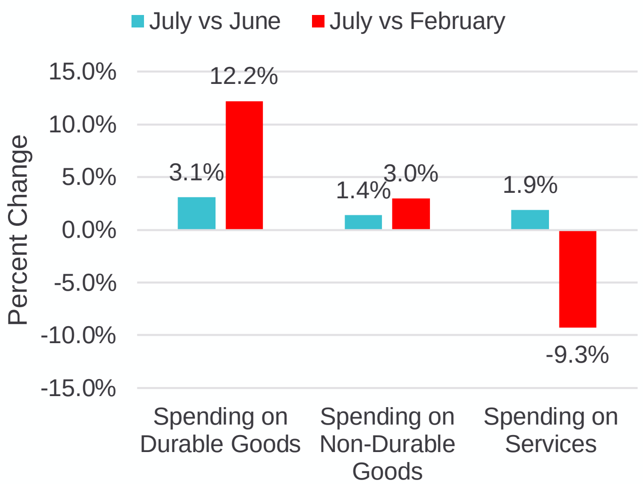
Federal stimulus and relief programs have supported incomes and consumer spending. Spending continued to rebound but remains below where it was in February.



NRF National Retail Federation

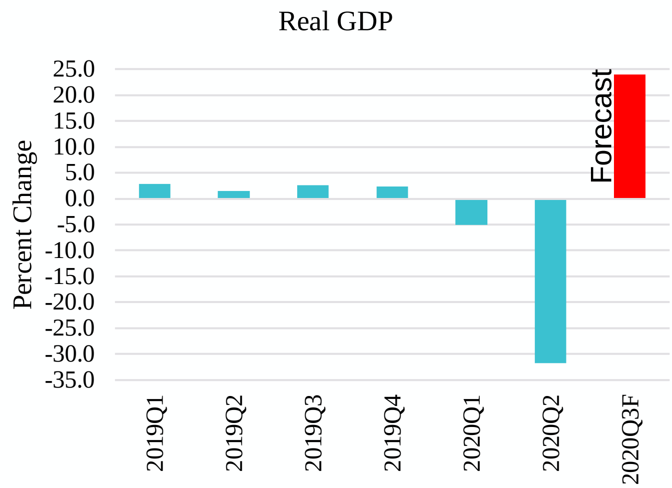
CONSUMER SPENDING

Consumer goods spending has recovered much of the ground lost during the second quarter. Yet spending on services, which makes up three-fourths of GDP, is 9.3 percent of its pre-COVID peak.



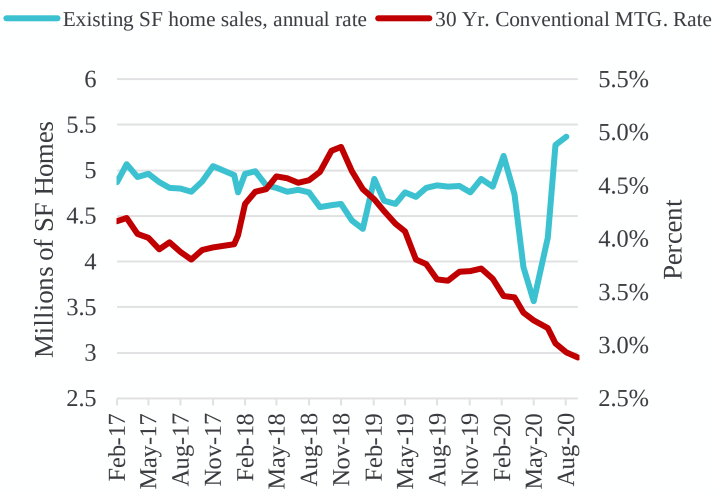
GDP GROWTH

While GDP growth is expected to rebound sharply in the third quarter, the COVID-19 recession is far from over. GDP is not predicted to get back to its prior peak until around 2022.



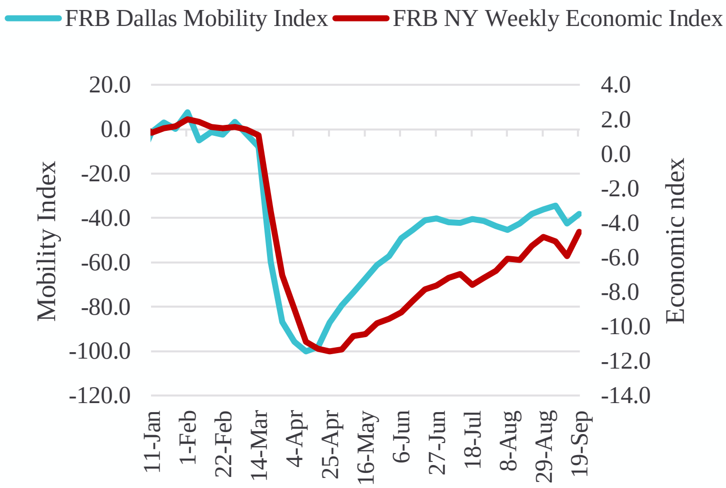
HOUSING MARKET

Home sales rose at the fastest pace since 2006 in the latest data, buoyed by historically low mortgage rates. Overall, the housing market remains a bright spot in the economy.



FRB INDEXES

The Fed's Weekly Economic Index and Mobility Index did a good job detecting the spring surge and slower summer activity. Upcoming holiday events will make this data precarious to interpret.



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