MONTHLY

Economic Review

MARCH 2021

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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 | **Vaccination, economic recovery and growth**

There is no doubt the economy is positioned for growth in 2021, but how much growth comes down to a single non-economic force — the coronavirus. Despite all other factors, what happens with the economy depends more than anything else on the effectiveness of COVID-19 vaccines and their distribution. That is the principal assumption of NRF's 2021 retail sales outlook.

This year, retail sales — excluding automobile dealers, gasoline stations and restaurants — are expected to increase between 6.5 percent and 8.2 percent over 2020 to a total between $4.33 trillion and $4.4 trillion, exceeding the 4.4 percent average during the previous five years. The 2021 spending forecast includes online and other non-store sales, which are expected to increase between 18 percent and 23 percent to between $1.14 trillion and $1.19 trillion.

During 2020, preliminary results show retail sales grew 6.7 percent over 2019 to $4.06 trillion, nearly doubling NRF's forecast of at least 3.5 percent growth, which was issued before the impact of the global pandemic could be seen. The 2020 growth rate, while subject to revision, topped the previous record of 6.3 percent in 2004 and compares with 3.9 percent growth in 2019. Online sales during 2020, which are included in the total, skyrocketed 21.9 percent to $969.4 billion as consumers heavily shifted spending to ecommerce. Robust holiday sales capped the strong 2020 figures, growing an unexpectedly high 8 percent over the same period in 2019.

Consumers and the economy overall remain in good shape despite stalled momentum at the end of 2020. We expect real gross domestic product growth in 2021 to be in the range of 4.5 percent to 5 percent as we enter a second year with strong savings, high stock valuations, increased home prices, enhanced government support and record-low interest rates. Consumers have plenty of purchasing power, and built-up savings combined with pent-up demand will be accelerants for growth. Households have at least $1 trillion in accumulated savings and there are many options on how and when that money will be spent.

As the economy gains traction, we expect a surge in consumer spending and gains in the labor market. By December 2021, unemployment is projected to be approximately one full percentage point lower than the end of 2020. An average of 220,000 to 300,000 jobs per month should be added, depending on the pace of the economy in the second and third quarters. Wage gains will also enter into the calculus of spending, and the Federal Reserve Bank of Atlanta's Wage Growth Tracker showed wages were up 3.4 percent for the three months ending in January 2021, almost back to the 3.8 percent seen a year earlier. For workers who have remained employed during the pandemic, the median growth in hourly wages has not weakened anywhere near as much as was experienced during the recovery from the Great Recession.

The pace of growth will be patchy as we do not have a monolithic economy. Not all regions of the economy will be in sync given differing demographics, industrial bases and state or local government policies. Nonetheless, we should see a return to normalcy beginning in the second quarter.

Largely because of COVID-19’s impact on the ability of the public to travel, go out to dinner or attend entertainment and sporting events, 2020 saw a large compositional shift in spending away from services, which normally account for 70 percent of consumer spending, to goods. Retail will continue to benefit from this shift during 2021 but we expect to see some portion of spending on services return to pre-COVID-19 levels. We don’t have a lot of data to study regarding an uptake in services after recession periods since most recessions and subsequent recoveries are driven by goods spending. We do know that affluent households have a higher propensity to spend on services and discretionary goods, with Bureau of Labor Statistics consumer expenditure data showing the top 10 percent of the income spectrum spend more than twice as much on meals away from home and three times more on entertainment. The affluent have been largely spared the financial impact of the pandemic and are likely to resume those activities once it is safe to do so.

One of the enduring outcomes of the pandemic is that it precipitated broader adoption of the digital economy, which has hastened the retail industry’s pace to become more multichannel. Households are becoming attached to the convenience and product selection afforded by buying online, and many that had not been ecommerce shoppers before the pandemic are likely to continue to shop online.

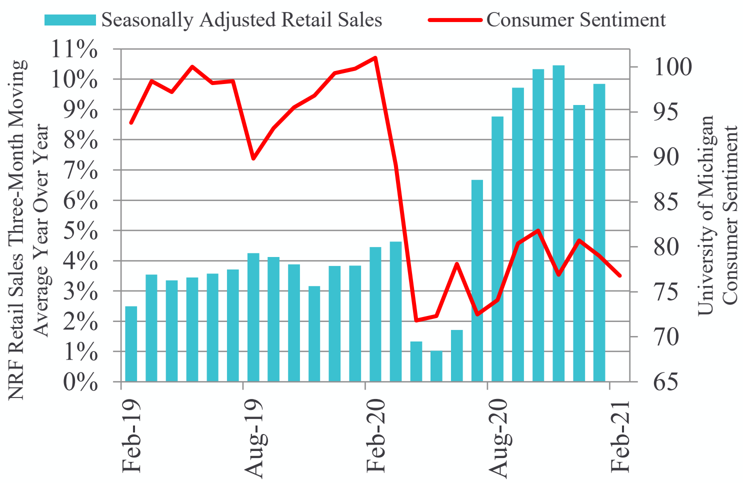
We expect to reach our retail sales forecast regardless of whether Congress passes the $1.9 trillion stimulus package currently under consideration, but the measure would certainly provide an additional boost to consumer spending as has been seen with other relief efforts over the past year.

The outlook for 2021 is one of vaccination, economic recovery and growth. We are optimistic about improving macroeconomic conditions as COVID-19 infections decline and distribution of vaccines becomes more widespread. Yet the road is never straight, and we have challenges ahead. The pandemic remains the largest uncertainty and the biggest risk the economy faces in 2021. We all want to get out of this crisis and hopefully a much better year is around the corner, but it will take time to achieve the needed immunity levels.

The one constant we have is that data on the economy is changing daily. NRF will be monitoring available data and factors and will update our estimates accordingly.

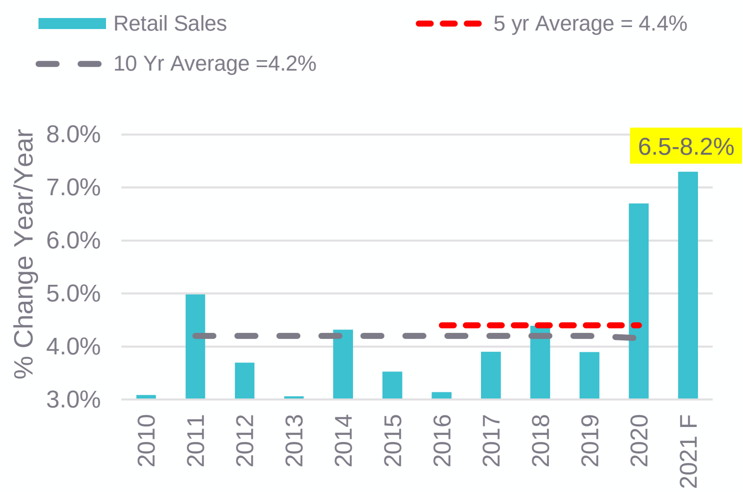
SALES AND SENTIMENT

January retail sales surged after the late-December passage of the $900 billion fiscal stimulus package. But consumer confidence remains down almost 25 points from February of last year.



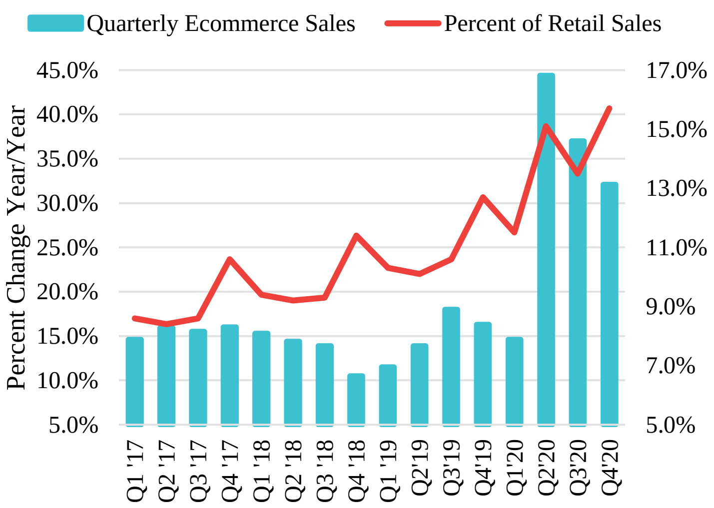
RETAIL SALES GROWTH

Retail sales are expected to grow at least 6.5 percent in 2021. The underlying fundamentals for retail sales remain in place for back-to-back annual growth of 6-plus percent.



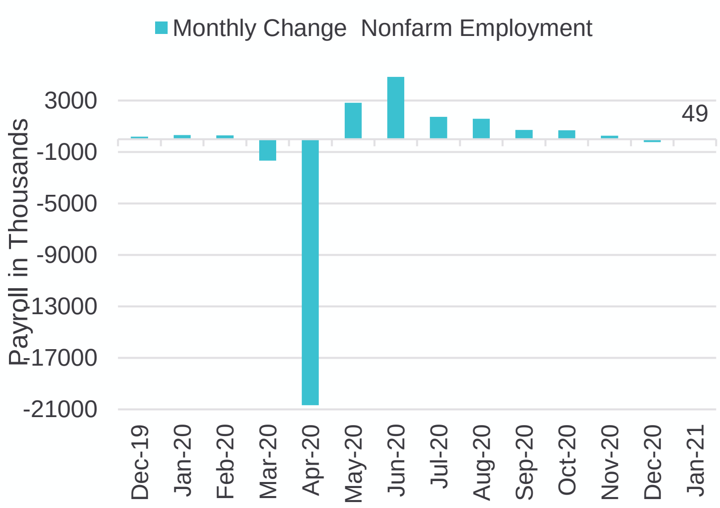
ONLINE SALES

Internet sales in the fourth quarter increased 2.2 percent from the previous quarter and were 32.1 percent above the same quarter in 2019. Online's share of total retail sales ticked up to 15.7 percent.



EMPLOYMENT

Payroll employment gains were much weaker in January than expected, increasing by only 49,000. January's unemployment rate fell to 6.3%, a decline of 40 basis points.



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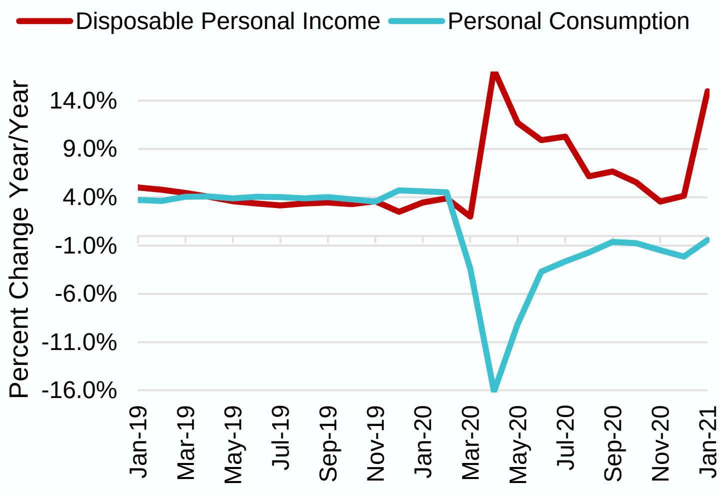
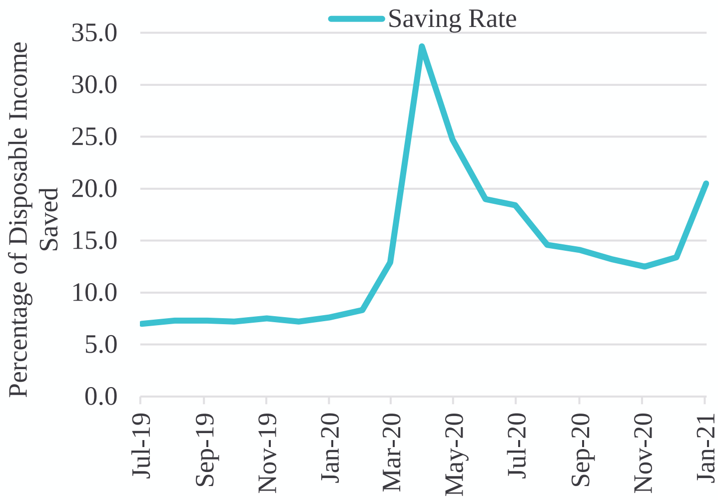
INCOME & CONSUMPTION

January's increase in disposable income was largely due to federal pandemic relief signed into law in late December which helped boost spending.



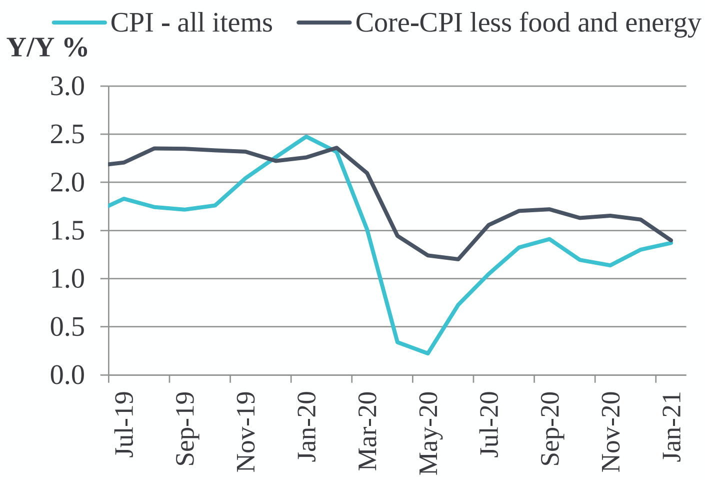
PERSONAL SAVINGS RATE

The personal savings rate spiked from 13.4 percent in December to 20.5 percent in January, which should continue to support consumer demand in the coming months.



INFLATION

On a year-ago basis, the Consumer Price Index rose 1.4 percent in January compared with 1.3 percent in December. Core CPI was up 1.4 percent, weaker than the prior 1.6 percent increase. Despite inventory shortages, commodity price pressures and supply bottlenecks, inflation continues to be very tame.



ECONOMIC SENTIMENT

The Conference Board's Leading Economic Index increased 0.5 percent in January, pointing to the ongoing strength of the economy and implying that the recovery will continue at least another six months.

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