MONTHLY

# Economic Review

JULY 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 | Revised Retail Sales Forecast Reflects Clear Trends, Not Short-Term Fluctuations

Revising our annual retail sales forecast isn't something NRF takes lightly. With estimates of retail sales up and down each month and facing multiple revisions and long lags before the data becomes final, it can be difficult to separate the signal from the noise. We prefer to move cautiously as we attempt to fathom true trends rather than be distracted by what could turn out to be short-term fluctuations.

Nonetheless, the economy and consumers have proven to be much more resilient than expected, and we revised NRF's 2021 forecast last month. We now expect sales to grow between 10.5 and 13.5 percent over 2020, to a range between $4.44 trillion and $4.56 trillion. That compares with our initial forecast this February of between 6.5 percent and 8.2 percent, with a total between $4.33 trillion and $4.4 trillion.

We updated the forecast because it has become clear that the U.S. economy and retail sales are growing far faster and more steadily than anyone could have expected just a few months ago. Retail sales have shown solid growth, both in year-over-year increases that have continued for a year now, and actual dollar amounts, which are at near-record levels. We are seeing not just unprecedented growth from months of pent-up demand as the economy reopens but momentum as well.

Our initial forecast was made when there was still great uncertainty about consumer spending, vaccine distribution, virus infection rates and additional fiscal stimulus. Since then, we have seen spending grow, vaccines have become available to virtually anyone who wants one, infections have fallen and additional stimulus in the form of the American Rescue Plan Act has been signed into law.

Retail sales have increased year-over-year every month since June 2020. And while year-over-year comparisons have been skewed because of last year's store shutdowns, the $388.6 billion in retail sales seen in May was the second-highest level on record, topped only by $414.7 billion in December 2020. (The NRF numbers exclude automobile dealers, gasoline stations and restaurants to focus on core retail.)

While the May results remain subject to revision, the first five months of the year showed retail sales tracking 17.6 percent above the same period in 2020 – a rate of growth likely sufficient to meet or exceed our February forecast even if sales are flat for the remainder of the year.

There are clear signs of a strong and resilient economy. We have seen impressive growth already, U.S. economic activity continues to expand rapidly, and most indicators point toward an energetic expansion through the remainder of the year. The reopening of stores and the economy is progressing, the number of vaccinations continues to grow, the tremendous availability of fiscal and monetary stimulus has worked its way through the economy, and the labor market is gaining momentum. Households are poised to emerge from the pandemic by jumping the economic curve and are ready to resume normal living, working and playing.

We are anticipating the fastest overall economic growth we've seen in this country since 7.2 percent in 1984. It takes a lot to reopen a $20 trillion economy, but the recovery has accelerated much faster than most of us believed possible a year ago. Gross domestic product growth has been front-loaded for the year, up by an annual rate of 6.4 percent during the first quarter. We are now forecasting full-year real GDP growth to approach 7 percent rather than the 4.4 percent to 5 percent we forecast back in February. Spending will likely begin to shift away from retail goods toward services, but the retail industry has greatly benefited from the acceleration of spending. And more spending will help increase employment and income across the economy, leading to a virtuous cycle of even more spending that yields additional employment and income gains.

Both business and consumer confidence are improving, which should greatly influence the contours of the economy going forward. Consumer sentiment rebounded in mid-June and economic conditions remain robust. The sheer amount of both fiscal and monetary policy intervention has lifted personal income, more than replenishing what was lost last year and creating an overabundance of purchasing power. In addition, the historic stockpile of savings accumulated while Americans were forced to stay at home rather than going out has real potential for influencing growth this year.

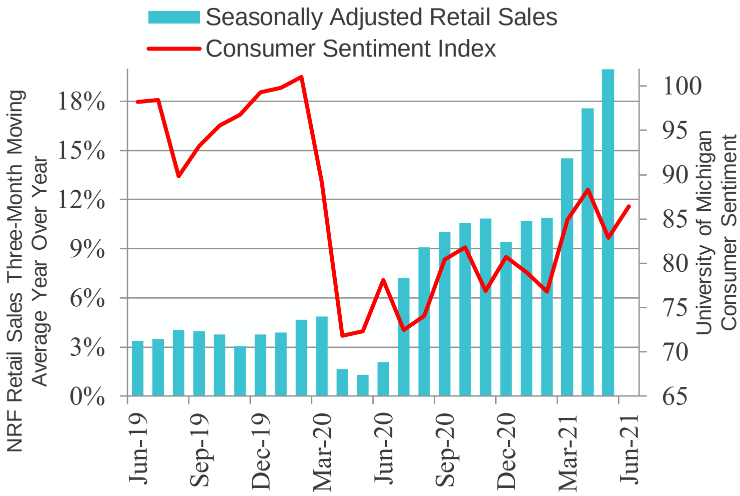
The economy remains at 0.9 percent below its level at the end of 2019, but we expect it will return to pre-pandemic levels of output this quarter. We look for real Personal Consumption Expenditures, which reflect spending on both goods and services, to grow 7.5 percent year-over-year, compared with the 4.5 percent assumed at the end of January.

As always, surprises could still be in store as the year progresses. Downside risks are evident and include an increase in commodity prices, supply chain disruptions and labor market scarcity. A key wildcard is inflation, and it is not clear how price increases might impact consumer spending as households deplete the stockpile of savings and government stimulus winds down. We see inflation across 2021 remaining strong at a minimum of 2.4 percent as measured by the PCE price index, up from 1.9 percent assumed in February.

As the pandemic illustrated so vividly in 2020, we should expect the unexpected. But based on the data at hand, things are looking very good for the economy and consumers, and we think it was prudent to update our forecast given the brightening picture.

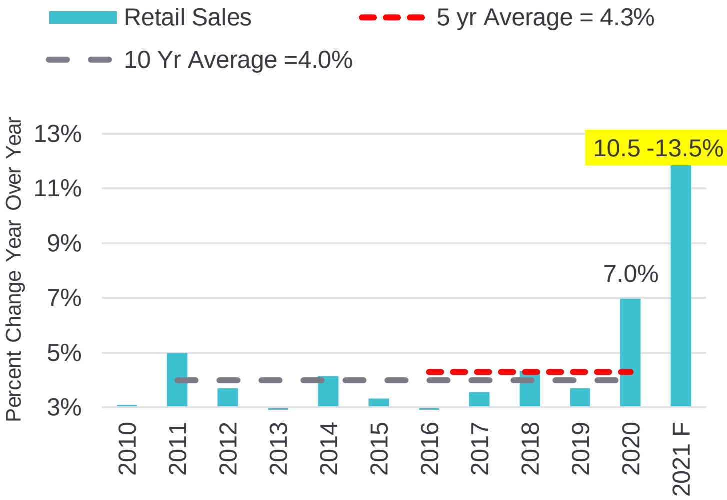
## CONSUMER SENTIMENT

Consumer sentiment rebounded in mid-June, reversing much of May's large drop. Retail sales continue to be supported by the reopening of the economy, more vaccinations and ongoing job growth.



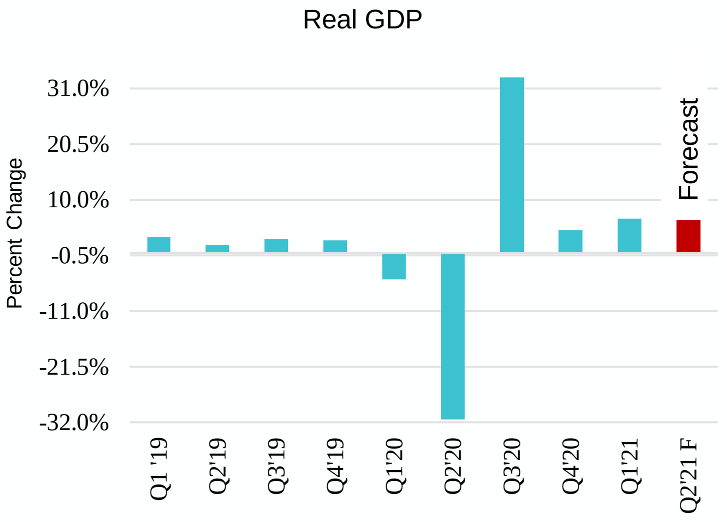

## RETAIL SALES FORECAST

While employment data was far weaker in April than expected, NRF remains optimistic about the trajectory of the economy and job growth this year.



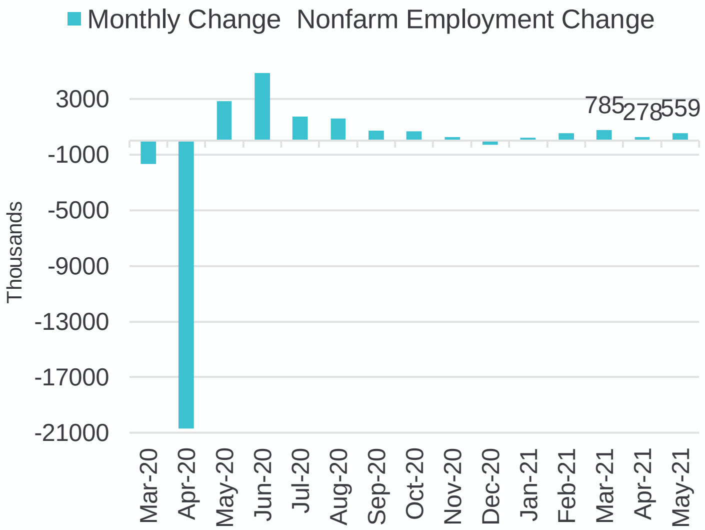

## REAL GDP GROWTH

Final estimates of first-quarter GDP continued to show a rebound in economic activity as stimulus flowed through the economy. Second-quarter GDP growth is expected to be around 8 percent.




## JOB GROWTH

Job growth picked up in May, although a little less than forecast. Payroll employment increased by a strong 559,000 net jobs. The unemployment rate dropped to a new pandemic low of 5.8 percent.



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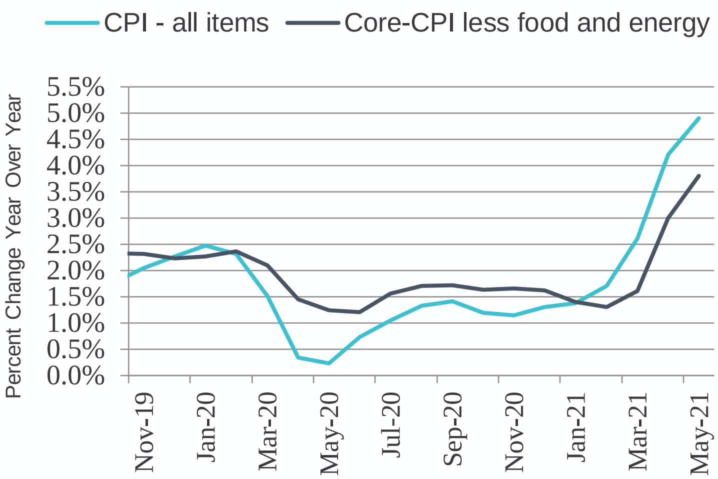
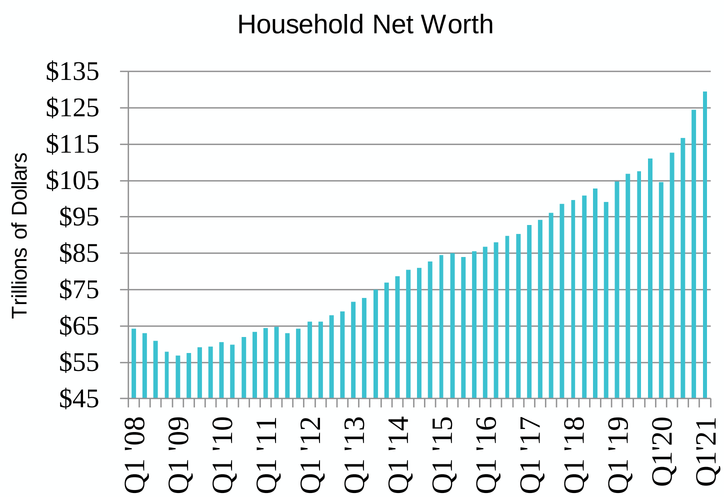
## CONSUMER PRICE INDEX

May's Consumer Price Index inflation jumped to 4.9 percent year-over-year, the highest rate seen in nearly 13 years. Inflation rates are likely to remain elevated as significant mismatches in supply and demand persist.



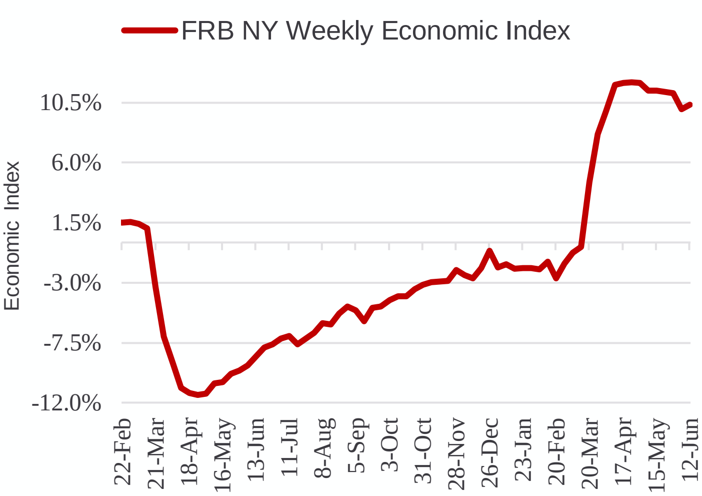

## ECOMMMERCE

Household wealth in the first quarter rose again, soaring 23 percent after rising 11.9 percent in the fourth quarter of 2020. At $136.9 trillion, wealth has reached another record high.



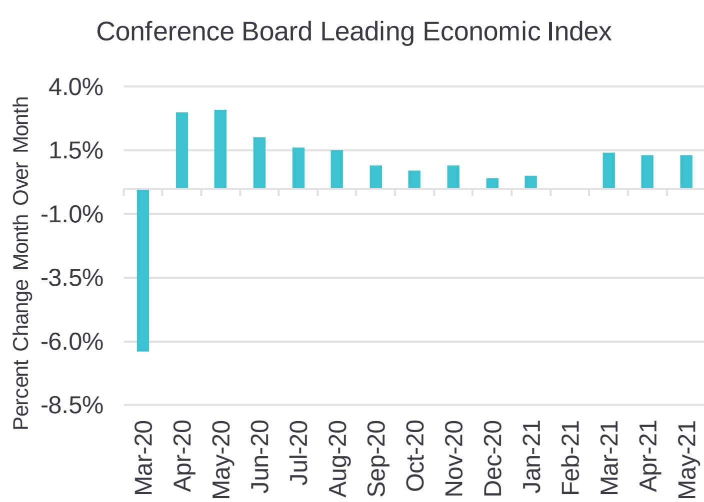

## FRB NY ECONOMIC INDEX

The New York Fed's Weekly Economic Index is scaled to the four-quarter GDP growth rate. The current reading indicates GDP for the second quarter was 10.5 percent higher than the same quarter a year ago.




## ECONOMIC INDEX

The Conference Board's Leading Economic Index increased 1.6 percent to 113.3 in April. The index confirms that the economic recovery picked up steam in March and April.



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