NRF 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 | Fast Pace of Economy Comes with Aches and Pains

We are now in the second half of 2021, and the economy has heated up along with the summer temperatures. Gross domestic product surpassed its pre-crisis peak during the second quarter and vigorous growth is expected throughout the rest of the year. It is a very different year from 2020 and a much better one. The economic momentum has been helped by government monetary and fiscal policies and, more importantly, by the rollout of COVID-19 vaccinations. These drivers of the economy are still helping but are fading. Monthly child tax credit checks that began in July could help, but the pace of vaccinations has slowed considerably, stimulus checks have been spent or tucked away, half the states have ended supplemental unemployment benefits and those benefits will expire for everyone else after Labor Day.

The National Bureau of Economic Research – the official arbiter of when a recession has occurred – announced last month that the recession brought on by the pandemic ended in April 2020. The official recession lasted just two months, the shortest downturn on record, but by no means does that mean the economy has fully recovered. While most economic measurements have returned to pre-pandemic levels, employment has lagged with approximately 7 million fewer workers on payrolls today than in February 2020. The unemployment rate remains elevated at 5.9 percent, compared with a half-century low of 3.5 percent before the downturn.

Vaccination is the key to further economic recovery, reopening and rebuilding. As of last week, only 56.9 percent of the U.S. population had received at least one dose and only 49.2 percent were fully vaccinated, according to the Centers for Disease Control and Prevention. With the outlook for the global economy continuing to hinge on public health, vaccine numbers are extremely important not just for the United States but also the whole world. The latest Blue Chip Economic Indicators report says the biggest threat to global stability is an uneven rollout of vaccines and the emergence of additional variants while the biggest impetus for growth is faster-than-expected global vaccination.

There has been a pickup in COVID-19 cases across the United States tied to the delta variant but there is no evidence that the variant is impacting consumer behavior so far. Increased infection rates and renewed mask mandates might have an impact, but at this point consumer activity during the third quarter is continuing to resemble pre-pandemic behavior as the reopening of stores and the economy progresses.

Households are flush with cash and consumers have become mobile again as they shop at stores, visit restaurants, enjoy entertainment events and take trips. Consumer spending in June indicated strength heading into the third quarter. June's solid year-over-year retail sales increase of 18 percent as reported by the Census Bureau signaled a further reopening of the economy for many retailers that had seen weak sales during the pandemic.

Department, clothing and electronic stores all showed steep declines during the pandemic but have shown faster sales increases than other retail sectors over the last few months. Back-to-school shopping will also contribute to retail sales in these sectors, and NRF's consumer survey estimates that combined K-12 and college sales will increase approximately 6 percent over last year. With retail sales up 16.4 percent year-over-year for the first six months of the year, we are in line with NRF's revised forecast that 2021 sales should grow between 10.5 and 13.5 percent over 2020.

While retail spending was strong in June, there was a pullback in the mid-July University of Michigan Consumer Sentiment Index to 80.8 from 85.5 the month before. The rise in gasoline prices has sparked inflation concerns and fears around the delta variant of COVID-19 are also likely weighing on confidence.

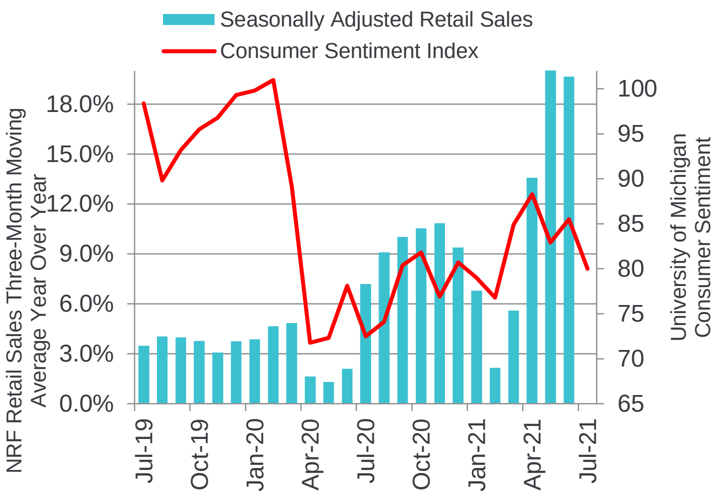
It is apparent that this is the fastest pace of expansion in decades, but it comes with aches and pains. The lack of available labor, shortages of products and services and bottlenecks in supply chains are creating friction and resulting in higher prices. It is unusual to be concerned about inflationary pressures so soon after a recession, but the current environment is far from ordinary. Inflation expectations can become self-fulfilling and are being watched closely by the Federal Reserve, market analysts and businesses alike. If workers believe prices will keep rising, they will demand raises, which will force employers to raise prices in a continuing cycle.

The Federal Reserve Bank of Atlanta's Wage Growth Tracker showed both hourly and weekly wage growth of 3.2 percent in June on a three-month moving average. In addition, consumers surveyed by the University of Michigan in mid-July expected inflation of 4.8 percent over the next year, the highest level since July 2008, when rising crude oil prices hit. Conversely, the Federal Reserve's second-quarter Index of Common Inflation Expectations – incorporating nearly two dozen inflation forecasts – showed modest expected growth of approximately 2.75 percent.

In my view, the current degree of inflation is unlikely to persist beyond the next 12 months or so, consistent with the Fed's "transitory" characterization. Inflation is expected to peak in the coming months as many of the drivers of the recent acceleration in prices fade away. However, the exact timing and magnitude is more uncertain due to supply constraints on goods. Consequently, I am keeping a close eye on actual prices and household expectations as they relate to the current outlook for spending. Nonetheless, with the Fed's adoption of "average inflation targeting" that makes 2 percent inflation a longer-term goal but not an upper limit, it is likely that monetary policy will be geared toward letting inflation be reasonably above that level for a period of time.

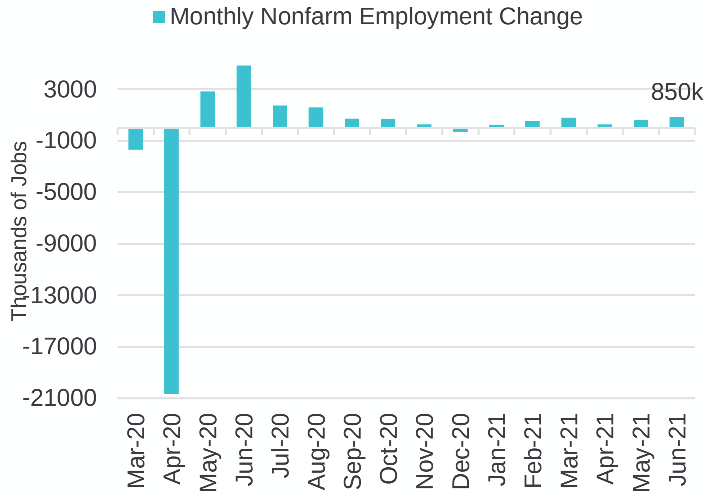
SALES AND SENTIMENT

Solid retail sales in June showed that the consumer is driving the U.S. economic recovery. However, consumers are concerned about rising prices and consumer sentiment reversed itself. .



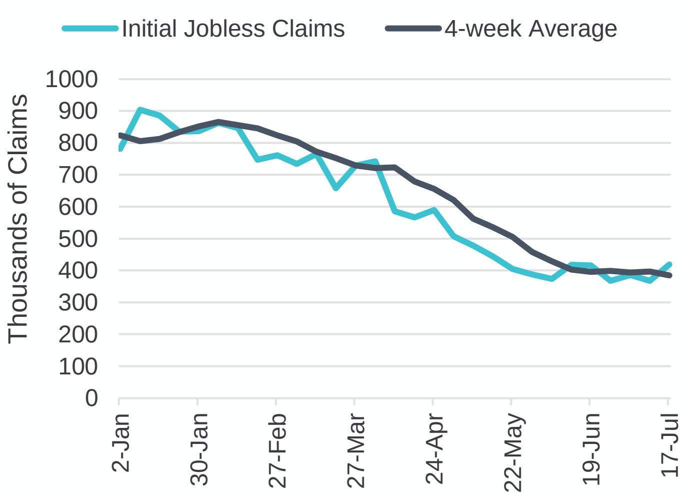
PAYROLL EMPLOYMENT

Payroll employment gains beat expectations in June, with jobs rising by 850,000, up from an increase of 583,000 in May and the strongest monthly gain since August 2020.



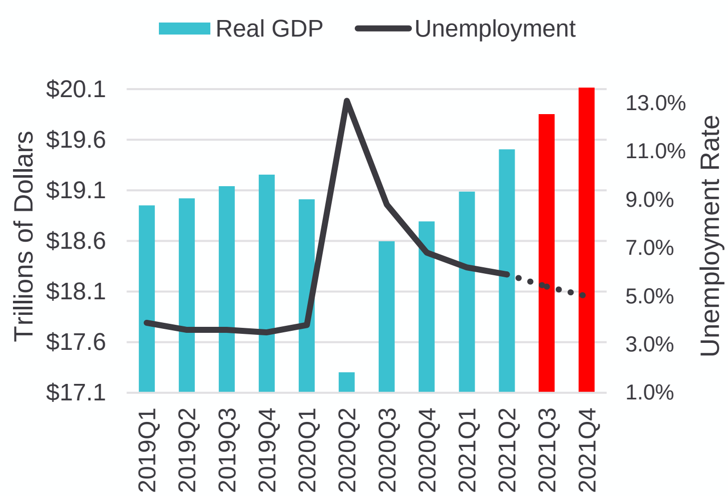
JOBLESS CLAIMS

There has been a noticeable reversal of progress in initial jobless claims since June. We expect claims to decline as more businesses begin to operate at full-capacity in response to increased demand.



GDP AND UNEMPLOYMENT

Real GDP could be up 6.7 percent year-over-year by the third quarter and up roughly 7 percent relative to the fourth quarter of 2020. The jobless rate should hover near 5 percent by year-end.



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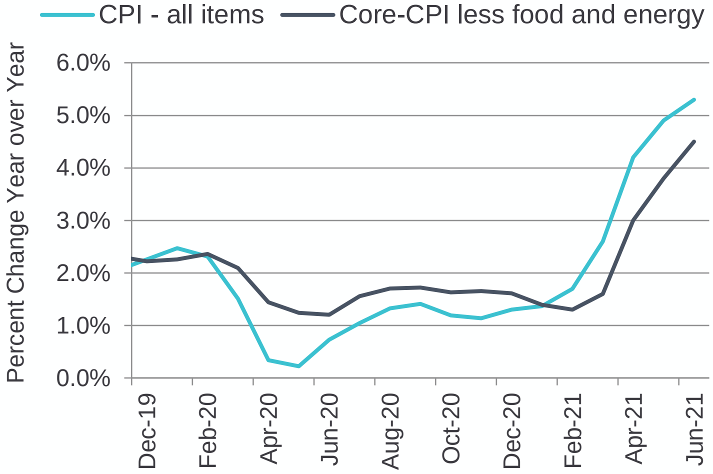
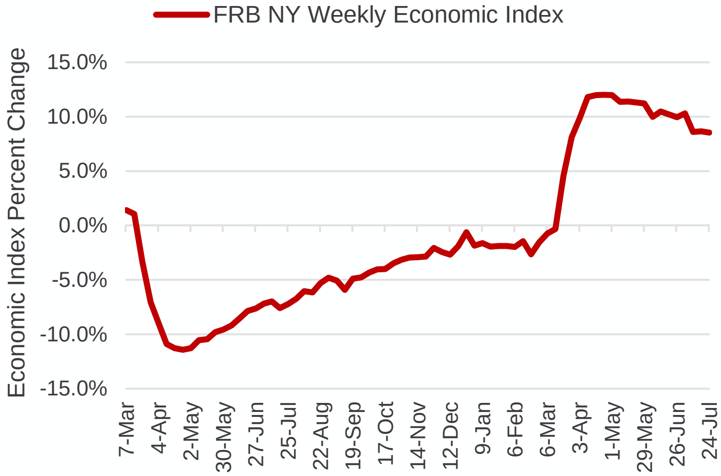
CONSUMER PRICE INDEX

June inflation was strong, with the Consumer Price Index up 5.3 percent versus a year ago. Excluding food and energy, core CPI was up 4.5 percent. Consumption is holding up well in the face of such rapid price increases.



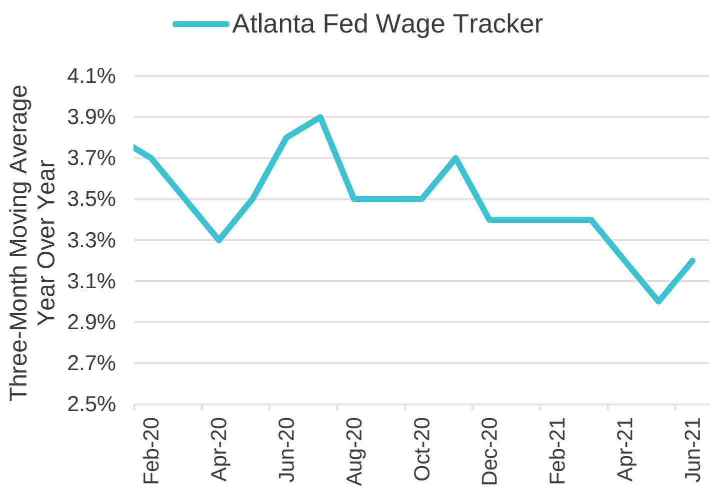
FRB NY ECONOMIC INDEX

The New York Fed's Weekly Economic Index is scaled to the fourth-quarter GDP growth rate. The current reading indicates GDP for the second quarter was 8.5 percent higher than the same quarter a year ago.



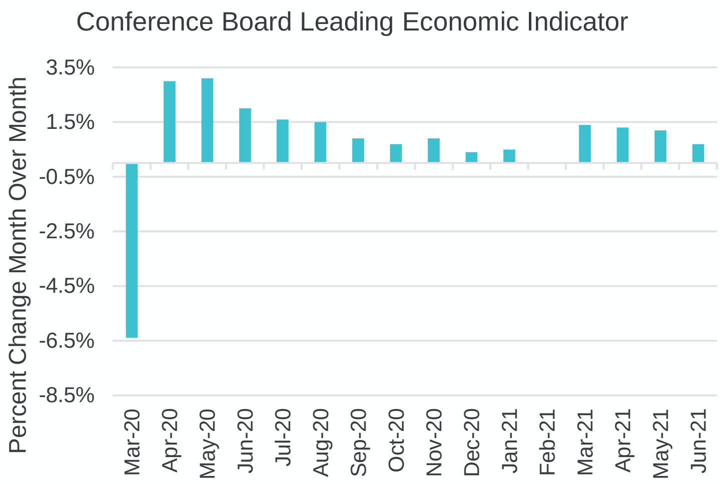
ATLANTA FED WAGE TRACKER

The Atlanta Fed's Wage Growth Tracker moved higher in June. On a three-month average, nominal wages were up 3.2 percent, similar to the 12-month average of 3.4 percent.



ECONOMIC INDEX

The Conference Board's Leading Economic Index continued to advance, increasing 0.7 percent in June. Overall, the recent data indicates solid growth over the coming months.



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