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 | Labor Market to Play Increasingly Critical Role in Economic Outlook

Consumer spending is currently far above pre-pandemic levels thanks to unprecedented monetary and fiscal policies that have backstopped demand by putting money into wallets for nearly a year and a half. Monthly child tax credit checks have recently begun adding to household income and will help spending. But as the economy moves forward into the later months of 2021, federal aid will taper off and there will be an important focus on the ability of the labor market to generate ongoing strength in wages and salaries to support spending. U.S. consumers remain in the mood to spend, but the labor market and job creation will play an increasing role in their ability to do so.

Labor market conditions influence confidence and spending, making them a critical driver of the broader economy and making the outlook for labor a critical indicator of economic conditions ahead. Fortunately, measures of the state of the labor market are abundant. New claims for unemployment insurance benefits are reported weekly, and the monthly Current Employment Survey jobs report, the monthly Job Openings and Labor Turnover Survey, and the quarterly Employment Cost Index all provide additional insights.

Every Thursday, the Labor Department reports the number of new claims filed for unemployment insurance, providing a view at both the state and national levels that can signal changes in consumer income and confidence along with the unemployment rate. For the week ending August 21, initial jobless claims totaled 353,000, holding near a pandemic low seen the week before. The four-week moving average was 366,500, a decrease of 11,500 from the previous week and the lowest level since 225,500 in mid-March 2020 just before the economy began to shut down because of the pandemic. The claims data provides an important snapshot on how many workers are choosing to return to the labor force and forgoing unemployment benefits. While the impact from the delta variant does not yet appear to be a drag on job gains, further declines in unemployment claims could slow in the coming weeks as the variant intensifies.

The unemployment claims numbers are consistent with other labor market data. Payroll gains were strong in July, rising by 943,000 jobs, the largest increase in 11 months, and averaged 832,000 jobs per month over three months.

JOLTS data shows that nonfarm job openings rose to 10.07 million in June, a new record high, and that there were 9.48 million unemployed Americans – just under one unemployed worker for every job opening in the economy. That speaks to the tightness of the labor market, with more job openings than people looking for work. In retail, there were 1.15 million job openings, but merchants were able to fill only 1.12 million of the positions.

Different states have drastically different populations and are home to different industries, so their job growth rates vary greatly, and state policies such as taxes and economic regulation can also play a role. Nonetheless, the July employment report for state and regional economies kicked off the third quarter on a strong footing even as labor shortages persisted and the delta variant spread more invasively in some regions than others. Payrolls increased in 38 states and the District of Columbia and were essentially unchanged in 12 states. Over the year, nonfarm employment increased in all 50 states and the District.

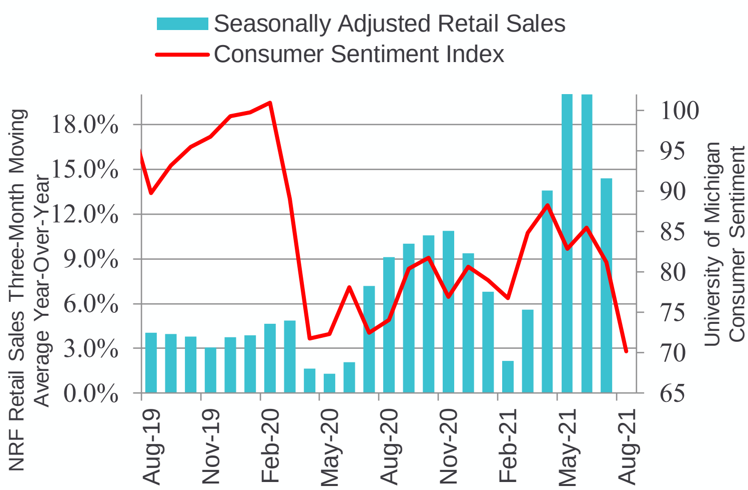
The quarterly Employment Cost Index is complex data but is the preferred measure of compensation, reflecting trends in costs to employers for total compensation, wages and benefits while controlling for composition of the workforce so as not to be skewed by employment shifts among occupations and industries. The index ticked up to 2.9 percent growth for the 12-month period ending in June, the highest rate since the fourth quarter of 2018. Growth had hovered between 2.7 percent and 2.9 percent for the 10 quarters prior to the pandemic and decreased to 2.4 percent in September 2020. Wages and salaries – a key component of the index – increased 3.2 percent for the 12 months ending in June.

Businesses across the economy are reporting that it is difficult to find the workers they need and have responded by raising pay, which raises concerns about inflationary pressures starting to build. Trends in wages and salaries are critical for the economic outlook as policymakers debate whether the recent spike in inflation will be temporary or longer lasting. The bulk of the recent upturn in U.S. inflation has been driven primarily by supply chain bottlenecks and low levels of inventories, but higher labor costs are often passed on to consumers and are considered a precursor of broader inflation. We will be monitoring labor market developments intently to determine if expanded payrolls expected in the coming months will influence inflationary pressure, especially as wages and salaries increase.

While second-quarter economic activity was softer than expected, consumer spending was quite strong. Looking forward, continued momentum in the job market will provide the income needed to support household spending. Meanwhile, the delta variant is on the rise and could impact spending for restaurants, travel and accommodations, delaying job recovery in those industries. Early reports on consumer sentiment have underscored that there are rising concerns. We are closely watching COVID-19 cases and hospitalizations, which represent a downside risk to the economic outlook. At this point, some disruption to retail sales is anticipated but at a relatively modest level, and we have not trimmed back our expectations for retail sales this year. Retailers continue to safely serve customers and even temporary store closures are unlikely. If anything, the retreat in services spending will provide some wallet shift back to discretionary goods spending.

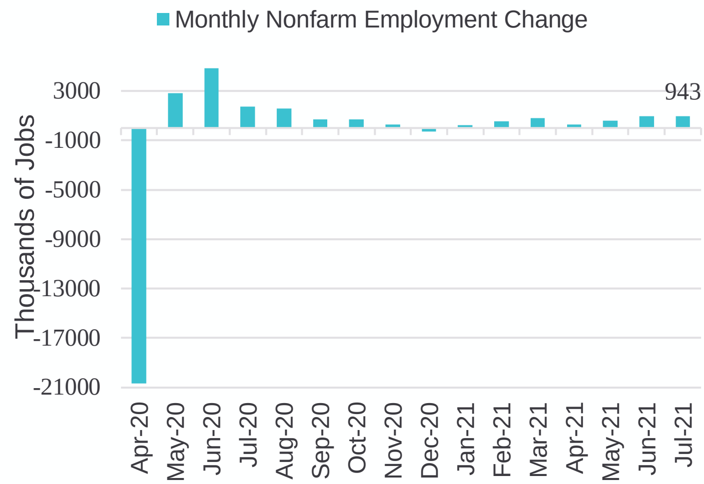
SALES AND SENTIMENT

Monthly retail sales slowed in July due in part to supply chain disruptions and a shift of consumer spending to services. Mid-August consumer sentiment data suggests consumers are fearful about another wave of COVID-19 infections.



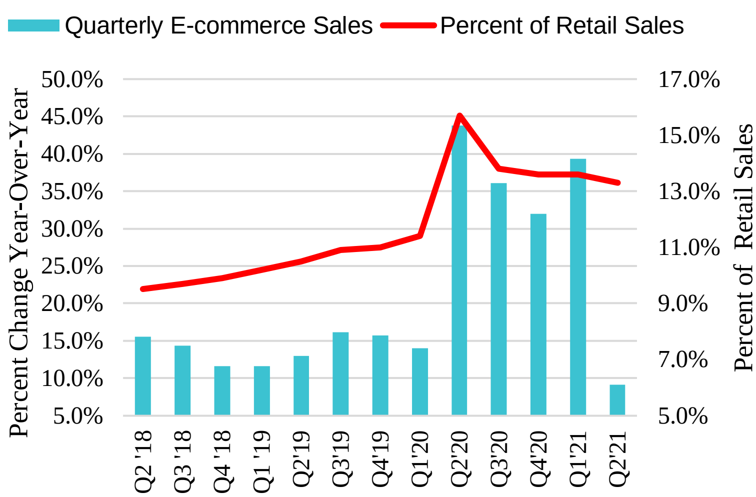
PAYROLL EMPLOYMENT

Payroll gains were strong in July, rising by 943,000. May and June gains were revised higher by a combined 119,000 jobs. The three-month moving average grew to an impressive 832,000.



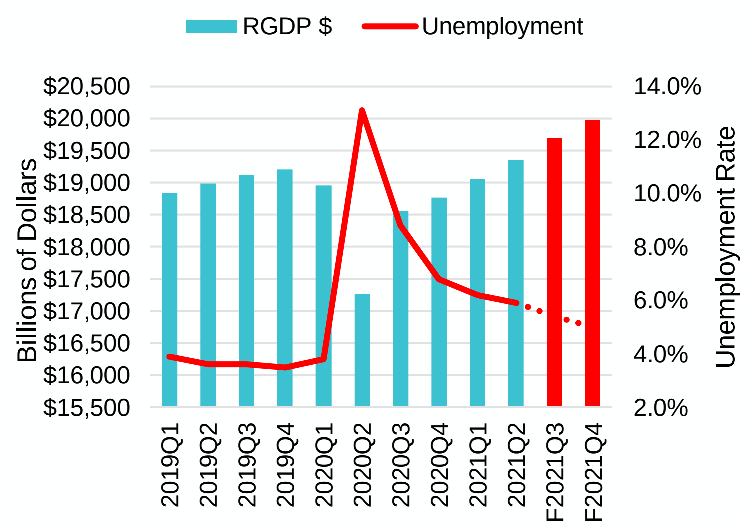
ECOMMERCE

Second quarter 2021 ecommerce sales increased 9.1 percent from the second quarter of 2020 and accounted for 13.3 percent of total sales, down from last year's peak but well above pre-pandemic levels.



GDP AND UNEMPLOYMENT

Real GDP is now above its pre-pandemic peak, increasing at an annual rate of 6.5 percent in the second quarter. The unemployment rate should be approximately 5 percent by year end.



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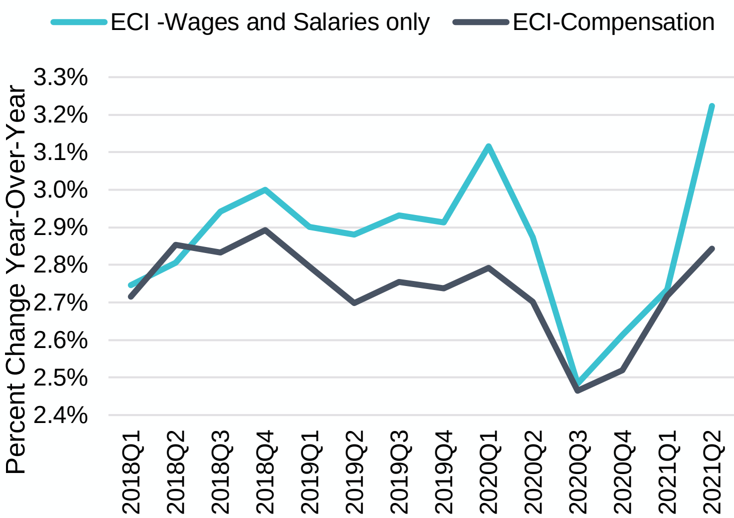
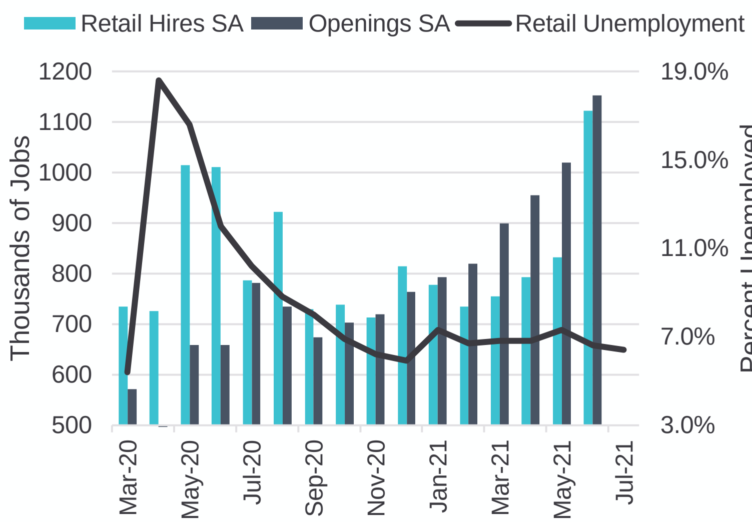
EMPLOYMENT COST INDEX

The Employment Cost Index is up 2.9 percent year-over-year, matching the pace of growth from the later stages of the previous expansion. Wages and salaries increased 3.2 percent for the 12-month period.



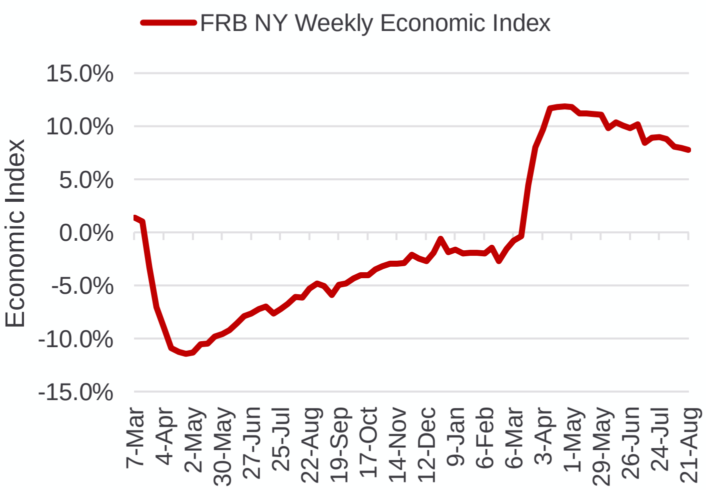
EMPLOYMENT & OPENINGS

Retail job openings and hires are well above historical experience. June retail openings surged to 1.15 million and hires increased to 1.12 million..



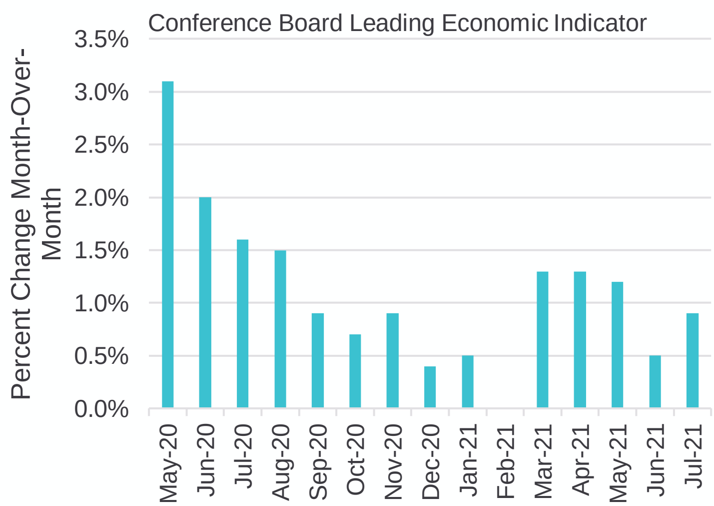
NY FED ECONOMIC INDEX

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 7.8 percent higher than the same quarter a year ago.



ECONOMIC INDEX

The Conference Board's Leading Economic Index registered a large gain in July, increasing by 0.9 percent. That followed a 0.5 percent increase in June and a 1.2 percent increase in May.



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