MONTHLY
Economic Review

OCTOBER 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 | Watch What Consumers Do – Not What They Say – as Economy Ploughs Ahead

With consumer spending accounting for roughly two-thirds of U.S. gross domestic product, all eyes are closely watching shoppers' ability to drive the economy amid the recent rise in COVID-19 cases. And if consumer finances are any indication, there's reason to be optimistic: Households remain in good shape, with consumers in the aggregate actually underspending relative to current income. Even though enhanced unemployment benefits have expired and are no longer providing a boost to personal income, the loss is easily offset by the savings stockpiled since the coronavirus pandemic began – the savings rate rose to 9.6 percent in July and remains noticeably above pre-COVID levels. Going forward, income growth should benefit from strong employment and wage growth. Child Tax Credit checks, which will continue through December, will also provide a bump.

Nonetheless, infections have become a major impediment to consumer confidence, and with good reason. The seven-day average of new cases reported by the Centers for Disease Control and Prevention soared from a pandemic low of just under 12,000 in June to about 160,000 at the beginning of September, with average daily deaths increasing from a low of about 200 in July to over 2,000 in mid-September – the highest tallies for cases and deaths in over six months. New cases dropped to about 95,000 by the end of September and deaths to about 1,300 but the numbers remain high and experts caution that further decline could be slow. More vaccination will help, but the United States has a long way to go with only 64 percent of those eligible receiving even one dose so far and only 55 percent fully vaccinated.

The COVID-19 situation has been a significant factor impacting the direction of the economy. According to the Federal Reserve's latest "Beige Book" report, the deceleration in economic activity in late summer was largely attributable to a pullback in dining out, travel and tourism, reflecting safety concerns as households became more cautious due to the rise of the delta variant, and, in a few cases, international travel restrictions. Payrolls gains came in surprisingly low in August, rising by just 235,000 jobs – half the monthly average this year and less than one- a quarter of July's 1.1 million – and confirming that the delta variant was hindering activity.

Monthly economic data from the just-completed third quarter suggests the economy lost momentum from its robust 6.6 percent annualized rate in the second quarter. The Federal Reserve's Open Market Committee recognized the downdraft at its September meeting, saying the path of the economy continues to depend on the course of the virus and downshifting its forecast for economic growth this year to 5.9 percent from the 7 percent expected in June. Additionally, the committee now expects the unemployment rate to end 2021 at 4.8 percent, up from the 4.4 percent projected in June. Despite slower growth, the economy is still expanding and the committee raised its growth expectations for 2022 to 3.8 percent rather than the 3.3 percent projected in June.

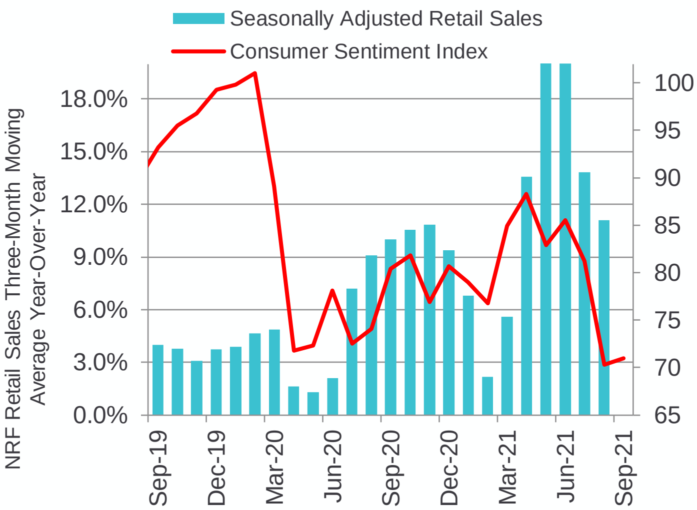
Meanwhile inflation has heated up and remains a big question for the economy. Inflation measured both by the Consumer Price Index and Personal Consumption Expenditures Price Index (the Fed's preferred inflation measurement) has surged since the fourth quarter of 2020. The August reading of the CPI was up 5.2 percent year-over-year and the PCE index was up 4.2 percent from a year ago, with higher prices largely reflecting supply chain shortages and distribution challenges. This trend is being felt by everyday shoppers and many consumers expect inflation to remain elevated. The Federal Reserve Bank of New York's August Survey of Consumer Expectations found the public expects inflation over the next year to come to 5.2 percent, up one-third of a percentage point from the month before for the tenth 10th consecutive monthly increase and a new high.

Amid all of this, it should come as no surprise that consumer confidence as measured by the University of Michigan stood at only 71 in September, far below the pandemic peak of 88.3 in April. Yet August retail sales as calculated by NRF – excluding automobile dealers, gasoline stations and restaurants to focus on core retail – rose sharply, up 2.3 percent month-over-month and 12 percent year over year. That brought the first eight months of the year to a 15 percent year-over-year gain and is on track to meet NRF's forecast of between 10.5 and 13.5 percent growth for the full year. That strong momentum shows there's a big disconnect between consumer confidence and consumer spending at the moment and that the downdraft in confidence may well be a false scent. There's a saying that you should never underestimate the American consumer – and its corollary is that you should watch what consumers do, not what they say.

Going forward, the labor market is playing an increasing key role in the economic outlook and the next two U.S. jobs reports are key. While August job gains were weaker than expected, there has been progress. The unemployment rate has fallen significantly, to just above 5 percent, and the upside surprise in the August jobs report was that wage growth accelerated to 4.3 percent on a year-over- year basis. That is a clear indication that demand for labor is still strong and that a lack of available workers – not a lack of jobs – remains the major hurdle to robust hiring. In fact, job openings were at a record 10.9 million in July. With the end of supplemental unemployment benefits taking away financial incentives to stay home and the reopening of schools easing childcare responsibilities for parents who want to get back to work, stronger growth should be on its way.

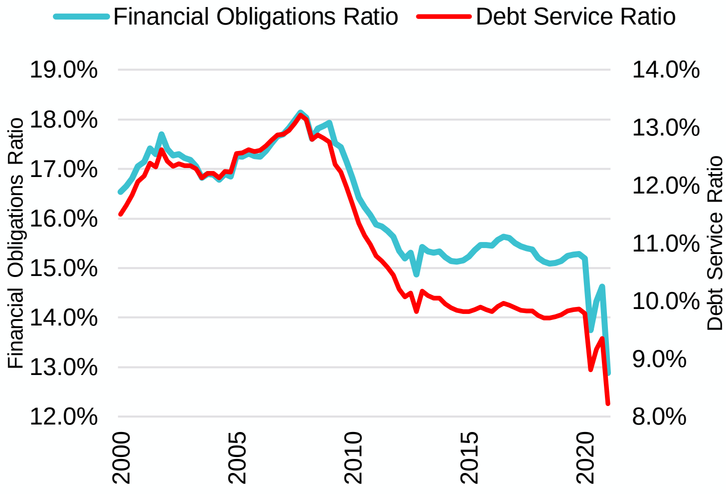
SALES AND SENTIMENT

Retail sales saw an unexpectedly sharp rise in August, showing the month's consumer sentiment reading was a false clue on spending. There's a big disconnect between consumer sentiment and retail sales.



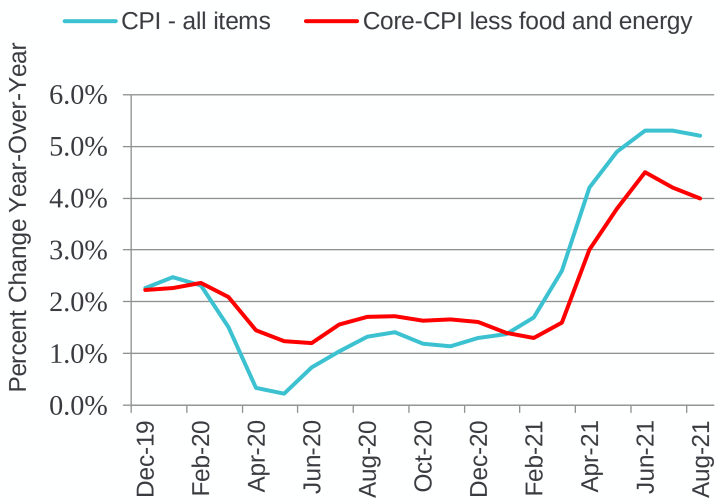
DEBT/FINANCIAL OBLIGATIONS

A record-low share of Americans' disposable income is going to pay off debt and financial obligations, largely reflecting the surge in income from stimulus checks.



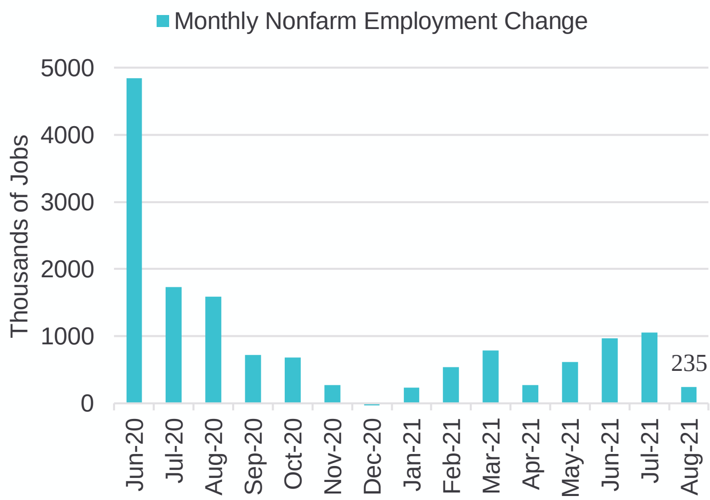
CONSUMER PRICES

The spike in consumer prices reflects both the increase in demand with the reopening of the economy and supply chain disruptions, but increases are beginning to recede.



EMPLOYMENT

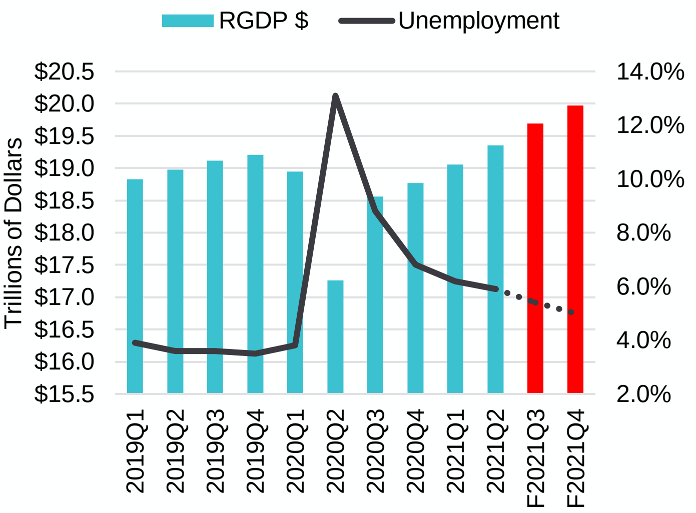
Payroll gains dropped sharply in August to 235,000 jobs, about half what was expected. July gains were revised higher, from 943,000 to 1.1 million.



NRF National Retail Federation

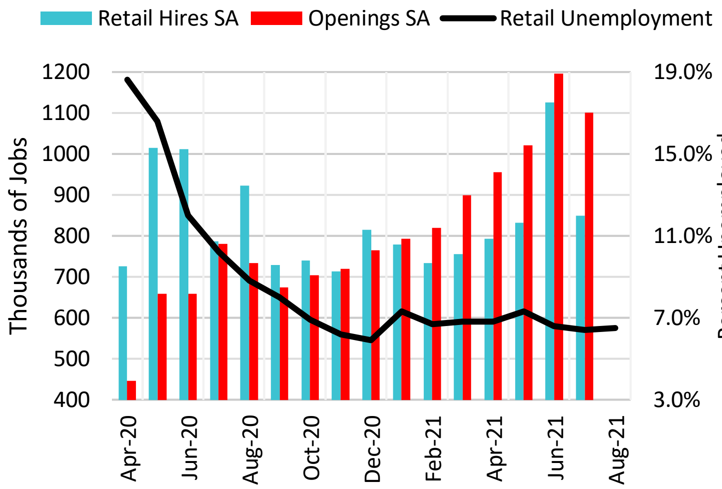
GDP & UNEMPLOYMENT

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



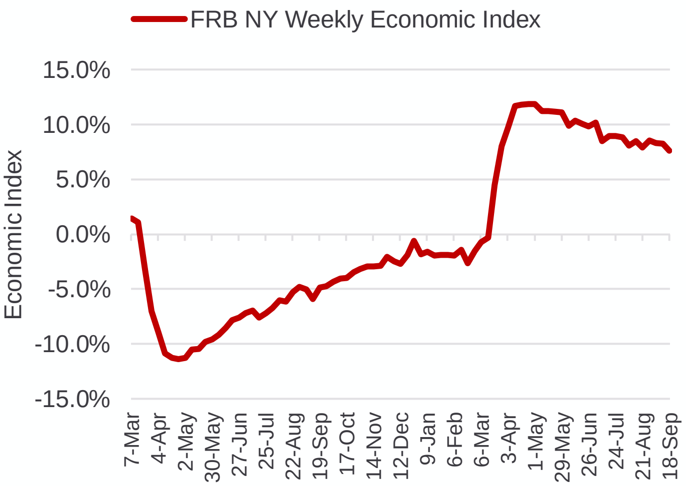
EMPLOYMENT & OPENINGS

Retail job openings and hires are well above historical experience. July openings amounted to 1.1 million and hires totaled 849,000.



NY FED ECONOMIC INDEX

The New York Fed's Weekly Economic Index is scaled to the fourth-quarter GDP growth rate. The latest reading indicates GDP for the third quarter was 7.6 percent higher than the same quarter a year earlier.



ECONOMIC INDEX

The Conference Board's Leading Economic Index rose sharply in August and remains on a rapidly rising trajectory. The index points to continued economic growth over the next six to nine months.

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