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 | End-of-Year Check Shows a Healthy Economy

The U.S. economy is on track to end 2023 with vigorous growth for the year at an annualized rate of nearly 2.5% – much more than expected a year ago. Inflation-adjusted gross domestic product was recently revised upward for the third quarter to a 5.2% annual rate from the prior estimate of 4.9%, marking the fastest quarter of growth since late 2021. A strong labor market, rising wages and access to excess savings have helped spending continue despite inflation and higher interest rates.

In the first three quarters of 2023, the economy grew at a 3.2% annualized pace. That stands in sharp contrast to the cooling that is expected in the fourth quarter, however. As of December 1, the Federal Reserve Bank of Atlanta's "GDPNow" model estimated growth at 1.2% for the fourth quarter. While the probability of a soft landing has increased, ongoing challenges and worries about the outlook continue. High interest rates remain in place and the resiliency of the consumer is being tested.

Along with third-quarter GDP revisions, the Bureau of Economic Analysis has also provided the first look at gross domestic income for the third quarter. In theory, GDI and GDP should be nearly identical, but GDI grew only 1.5% in the third quarter after posting a 0.5% gain in the second quarter. That left the average of GDP and GDP increasing 3.3% in the third quarter compared with an increase of 1.3% in the second quarter. While GDP measures the value of everything produced, GDI measures the value of everything earned during production, including wages, rent, interest and corporate profits. This is the fourth consecutive quarter in which GDI growth has lagged GDP growth and adds to the argument that the economy is slowing, but neither indicates that growth has halted.

According to the BEA, consumer spending rose only 0.2% adjusted for inflation month over month in October, down from a solid 0.7% gain in September for the slowest pace since May. Households reduced spending on automobiles, furniture and clothing but expanded spending on travel, health care and housing. Nonetheless, consumer spending has provided continued resilience to the economy, with nominal personal spending rising 5.3% year over year. That was accomplished as disposable personal income (personal income less current personal taxes) increased a bit faster at a healthy 7%. The moderate pace of consumer spending in October was evident in overall October retail sales, which the Census Bureau said were down 0.1% from September but up 2.5% year over year. That compared with increases of 0.9% month over month and 4.1% year over year in September.

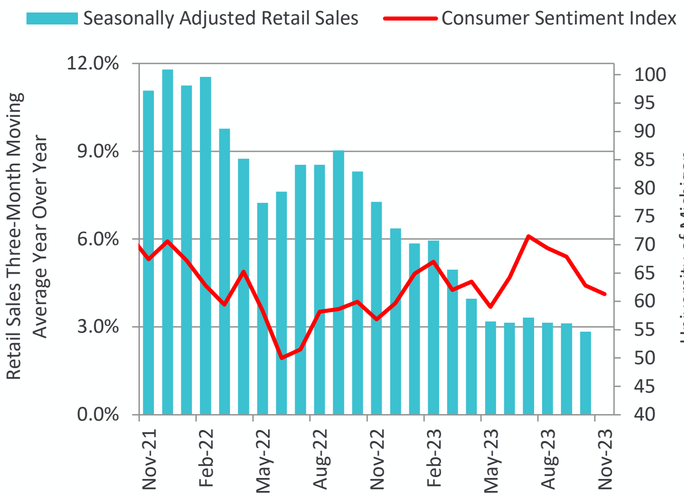
The remarkably resilient consumer sector has been the story of 2023. Overall finances have been in good shape, but excess liquidity is shrinking and access to credit has become more expensive as banks have become more cautious in extending loans to consumers. The tightness of financial conditions has the effect of curbing the purchasing power fueled by job and wage gains. Nonetheless, continued consumer resilience is expected for the November 1-December 31 holiday season. NRF expects record spending and has forecast holiday retail sales to increase between 3% and 4% over 2022.

The Bureau of Labor Statistics' Job Openings and Labor Turnover October report indicates the labor market has clearly slowed since the start of the year. The number of jobs available at the end of October was at 8.7 million, the lowest since March 2021. In addition, the unemployment rate has ticked higher to 3.9%, the highest since January 2022. On a positive note, hiring held steady in October following reduced job growth in recent months, and the number of layoffs remained low and stable. The biggest challenge in the coming months is to overcome businesses cutting back on investment spending, workers or worker hours. Reduced business spending or hiring could further lessen consumer spending since one person's income results in spending that benefits another.

The current stance of monetary policy and associated high interest rates is quite tight even though the economy has sustained solid growth and inflationary pressures continue to moderate. The Personal Consumption Expenditures Index followed by the Federal Reserve was unchanged in October, with 3% year-over-year growth, the lowest since March 2021. Core prices, which exclude food and energy, were up 3.5% year over year, the weakest pace since April 2021. The Fed is closely watching inflation developments and is aiming at 2%. It is too soon to forecast when the Fed will begin cutting interest rates, and it is possible that additional tightening could occur at or very close to the end of the current rate-hiking cycle.

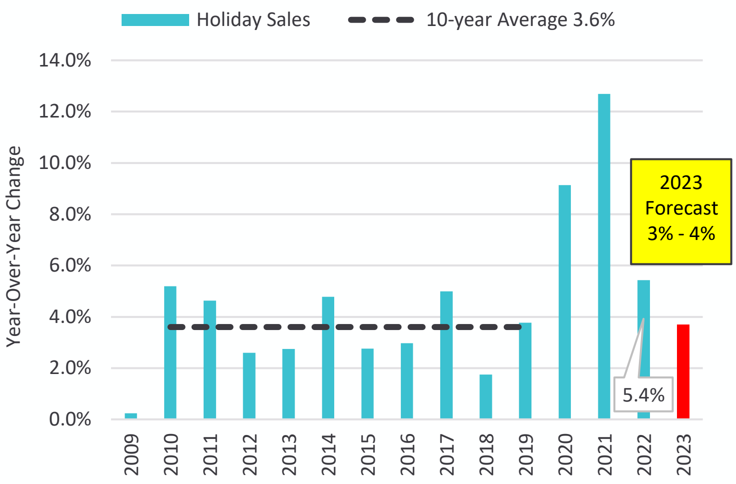
SALES AND SENTIMENT

Retail sales based on Census data minus autos, gas and restaurants remain positive and close to the three-month moving average of 3%. Consumer sentiment is consistent with a slowly growing economy.



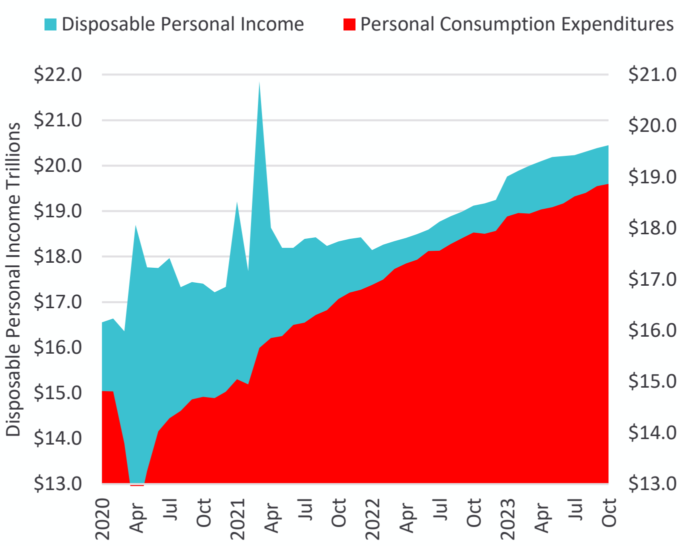
NRF HOLIDAY FORECAST

NRF expects holiday spending to increase between 3% and 4%, which compares favorably with the 10-year average of 3.6% prior to the pandemic.



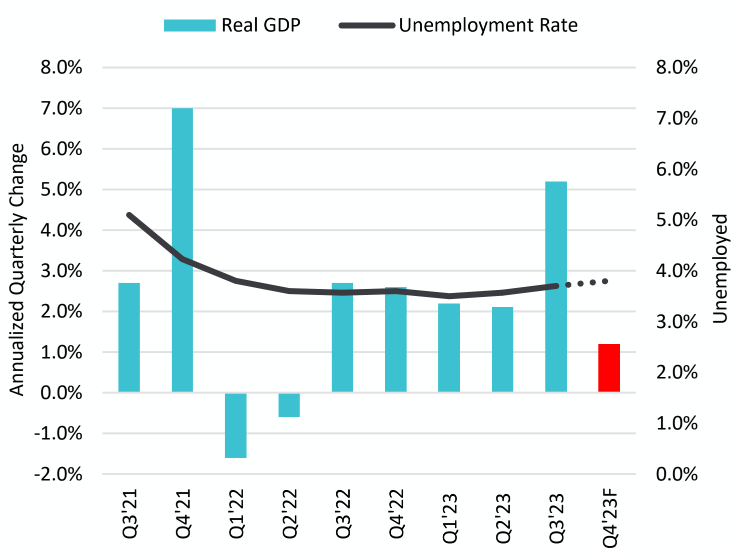
INCOME & CONSUMPTION

Disposable personal income expanded in October and remained healthy. Healthy households should be willing to spend this holiday season.



GDP

GDP rose a strong 4.9% in the third quarter. Economic indicators are expected to weaken in the next month or two as inflation and high interest rates remain a drag on the economy.



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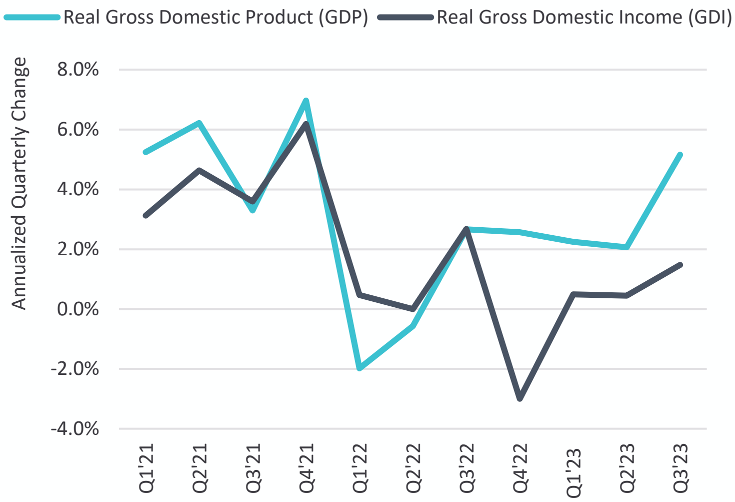
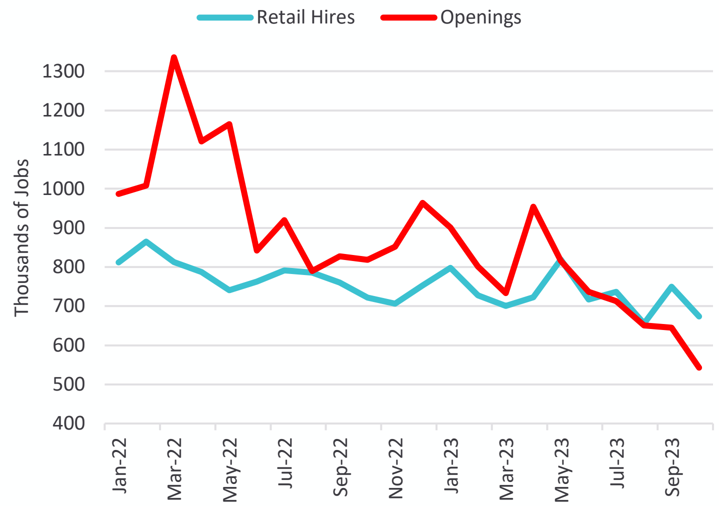
GDP and GDI

In theory, GDP and GDI should be equivalent since the act of spending creates income for others. However there has been a recent gap that suggests subdued GDI is signaling eroding economic growth.



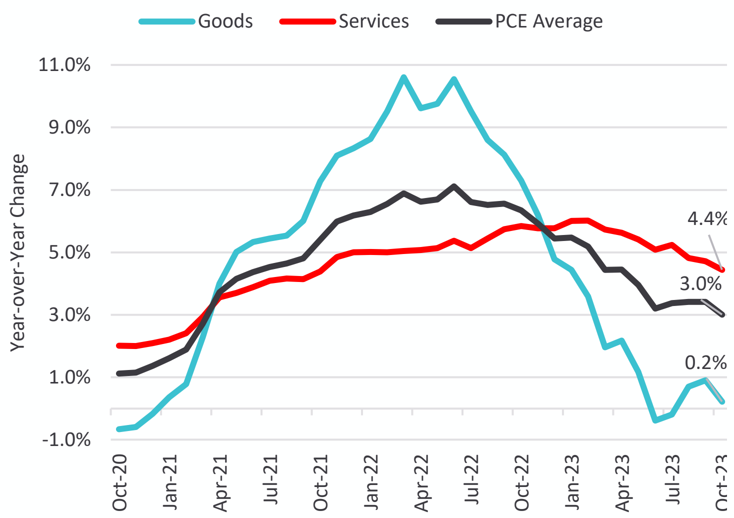
EMPLOYMENT

There were 543,000 retail job openings on the last business day of October, a post-pandemic low that confirms labor demand has cooled. Hires remain healthy, totaling 674,000.



CONSUMPTION EXPENDITURE

The Personal Consumption Expenditures Price Index has drifted downward on an annual basis. While goods prices have downshifted significantly, service prices continue to drive inflation.



GOODS VS SERVICES

The 5.3% pace of consumer spending growth in October was heavily dependent on services spending, particularly travel. Consumers slashed spending on automobiles, furniture and nondurable goods.

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