NRF National Retail Federation

MONTHLY

Economic Review

May 2024

Jack Kleinhenz, Ph.D., CBE
Chief Economist
National Retail Federation

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 | First Quarter Results Show Economy Slowing But Still Growing

The U.S. economy lost some spring in its step during the first quarter as the pace of growth declined and the downshift came with an unexpected bout of inflation. But even with signs that the economic expansion is decelerating, the economy remains resilient, boosted by a solid job market and continued spending by consumers and businesses.

Gross domestic product grew at an annual rate of only 1.6% in the first quarter, less than half the 3.4% seen in the final quarter of 2023 and the lowest level since 2.1% in the second quarter of last year. Nonetheless, private final sales to domestic purchasers – which exclude inventories and imports and are a good indicator of underlying growth – still rose 3.1% after climbing 3.3% in the fourth quarter.

While substantial progress has been made on inflation since its peak in 2022, high prices are sticking around longer than expected. The price index for gross domestic purchases (not to be confused with gross domestic product) was up 3.1% year over year in the first quarter, compared with 1.9% in the fourth quarter. The Personal Consumption Expenditures Price Index followed by the Federal Reserve showed year-over-year inflation at 3.4%, compared with 1.8% in the previous quarter. Excluding food and energy prices, PCE inflation was at 3.7%, compared with 2% in the previous quarter.

Adjusted for inflation, personal consumption climbed 2.5% in the first quarter. That was down from 3.3% in the prior quarter but continued to be an important source of growth, adding 1.78 percentage points to GDP. The overall consumption picture remains healthy. The pace of growth for overall goods spending fell during the first quarter – particularly for motor vehicles, auto parts and fuel – but spending on services like travel, financial services and health care accelerated. Consumers clearly remain willing to spend on both goods and services despite ongoing cost pressures. Retail sales as reported by the U.S. Census Bureau were stronger than expected in March, with year-over-year growth hitting 4%, which compared with 2.1% in February. Retail sales gains over the last several months have been partially driven by higher prices but retail price increases in general have been slowing.

Much of the economic data paints a picture that the overall U.S. economy remains in very good shape. Solid employment growth together with rising wages continue to support household income and spending. The economy has benefited from an incredible labor market in particular. The three-month average payroll gain reached 276,000 in March, the fastest pace in a year. Despite the notable increase in payrolls the unemployment rate in March remained nearly the same at 3.8%, compared with 3.9% in February. The recent strength of job growth is being fueled in part by growth in foreign-born workers and therefore should not put upward pressure on wage growth. The labor market appears to be settling into better balance, with the latest Job Openings and Labor Turnover Survey data showing that openings fell to their lowest level in three years in March while both the number of people quitting and the number hired slowed. That implies that the labor market is gradually loosening and should take some pressure off wage growth.

Employment numbers released late last week pointed to continued economic growth but with a softening trend in the labor market. Payrolls grew by 175,000 jobs in April and the unemployment rate rose slightly, going back to the 3.9% seen in February.

Meanwhile, data from the Employment Cost Index shows year-over-year private industry wage growth averaged 4.3% in the first quarter, unchanged from the fourth quarter of 2023. While wage growth has provided workers with real pay gains that should continue their ability and willingness to spend, higher wages could also provide further upward pressure on inflation. That’s unwelcome news for Federal Reserve officials looking to contain inflation pressure. While wage gains are well below their peak in late 2021 and early 2022, they are above historical averages of 2-3% pre-pandemic and higher than what the Fed wants to see.

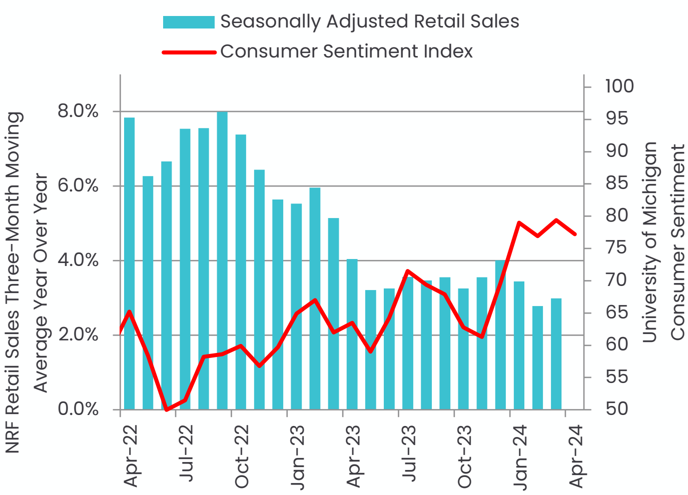
Consumers continue to expect that inflation will be at about 3% a year from now, according to the latest New York Fed survey. The survey also finds that consumers expect income growth to be at 3.1% at the same point and think spending to be faster at 5%. Consumer sentiment as measured by the University of Michigan showed a dip in April, but the index was ahead of gains recorded in December and January. With prices for services still increasing even as prices for goods level off, households continue to be concerned about the high level of prices and high interest rates but are still spending.

Despite persistent inflation, economic growth continues, underpinned by solid financial conditions. According to the Chicago Federal Reserve’s National Financial Conditions Index, conditions are on the easy side, increasing in late April to a negative 47. Interestingly, that’s approximately the same as in February 2022, the month before the Fed began to raise rates. (Readings below zero on the index are consistent with economic growth.)

As expected, the Fed’s Federal Open Market Committee left the federal funds target range unchanged at 5.25%-5.5% at last week’s meeting. The committee believes it will likely take somewhat longer for inflation to fall to the Fed’s objective of 2%, and there is still a good deal of uncertainty regarding the timing of a rate change. With the labor market still rebalancing, economic growth still steady and financial conditions easy, we expect the Fed will likely push out the decision on easing of interest rates for some time yet.

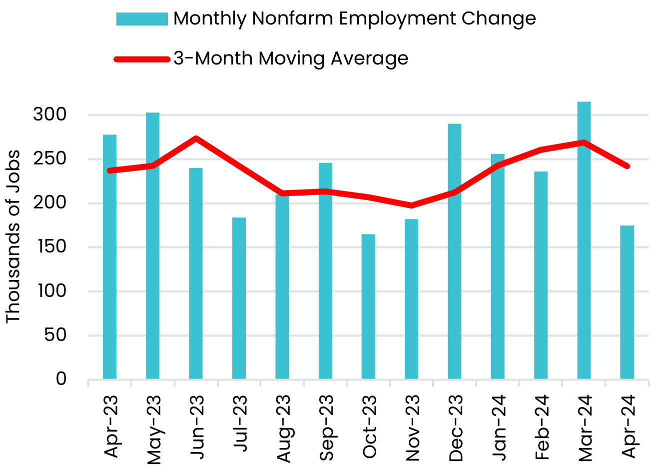
SALES & SENTIMENT

Retail sales growth picked up at the end of the fourth quarter but has slowed in 2024. Consumer confidence jumped in early 2024 and remains high.



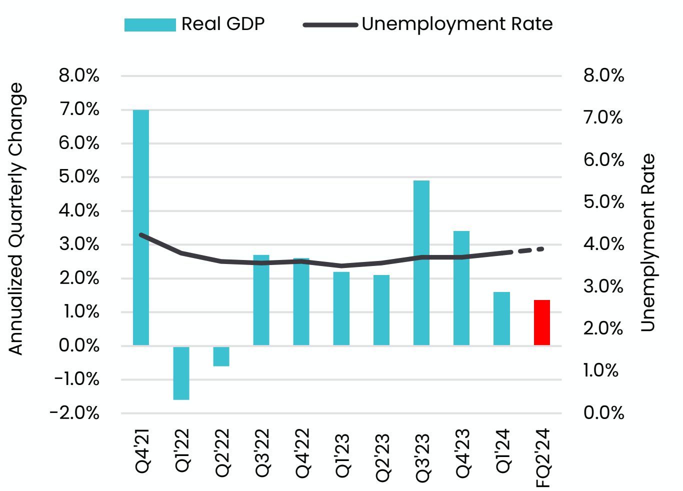
JOB GROWTH

The labor market is going strong and continues to be in good shape. After an impressive first quarter, the economy gained another 175,000 jobs in April for a three-month average of 242,000.



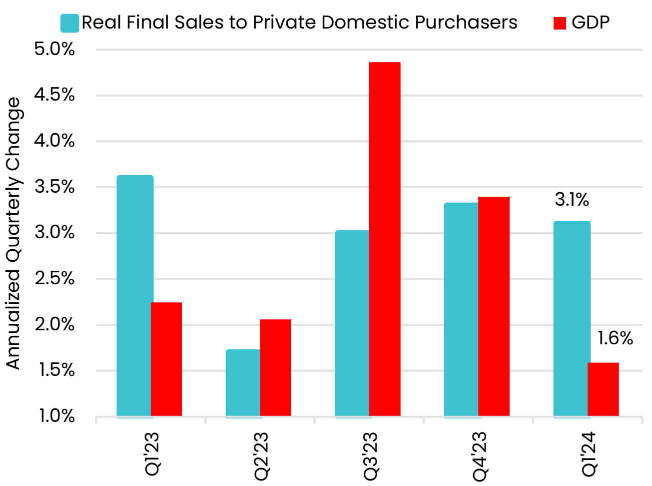
GDP & UNEMPLOYMENT

GDP growth declined from 3.4% in the fourth quarter to 1.6% in the first quarter. While the economy lost some momentum, the unemployment rate edged lower.



RETAIL SALES TO PRIVATE DOMESTIC PURCHASERS

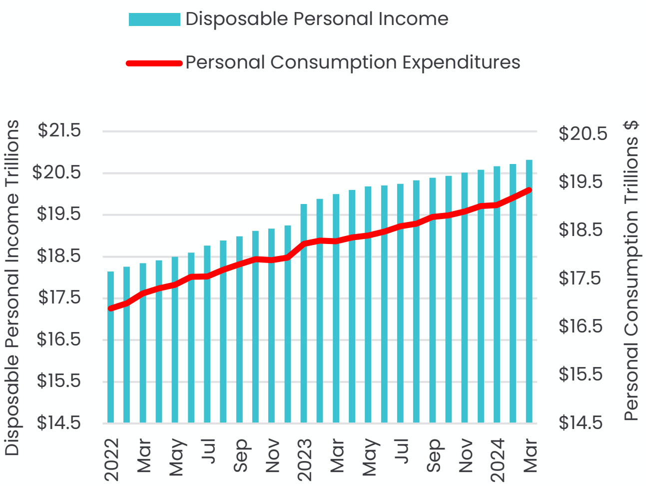
There was a healthy pace to real final sales to domestic purchasers (excluding government, net exports and inventories) during the first quarter, primarily driven by consumer spending.



National Retail Federation

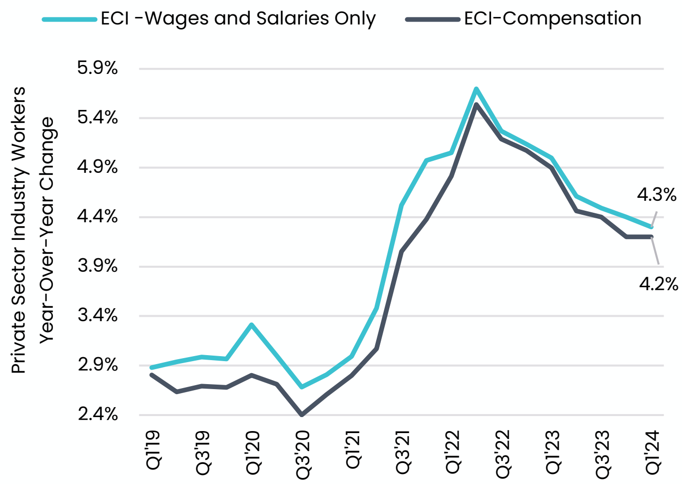
INCOME & EXPENDITURES

Income and spending rose notably in March, with nominal disposable personal income up 4.1% year over year and spending up faster at 5.8%.



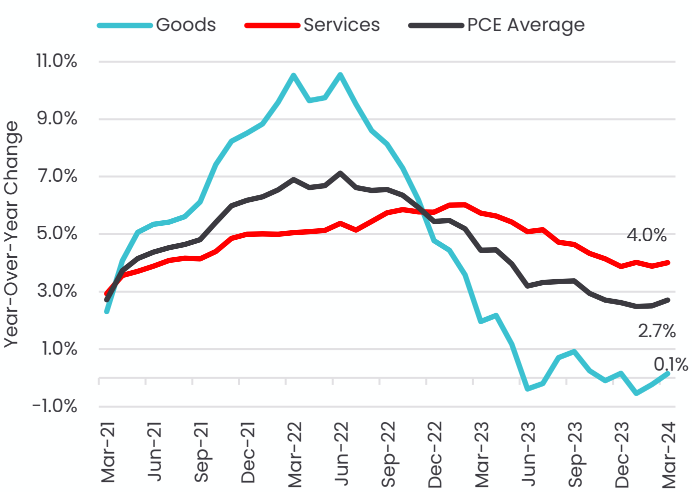
EMPLOYMENT COST INDEX

The Employment Cost Index, which provides an accurate picture of both wages and compensation, clearly shows elevated increases but rates are slowly declining.



PERSONAL CONSUMPTION EXPENDITURES PRICE INDEX

The latest Personal Consumption Expenditures Price Index showed year-over-year inflation at 2.7%, up from 2.5%. High service sector prices continue to create upward pressure.



GOODS & SERVICES SPENDING

Despite significant month-to-month volatility, consumers are maintaining a healthy spending trend. Growth for both goods and services was strong for the second straight month in March.

NRF National Retail Federation