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 | Year Ahead Depends on Jobs, Inflation and the Fed

U.S. economic growth for the remainder of this year will depend on several factors but particularly the pace of job growth, inflation and what actions will be taken by the Federal Reserve. The good news is that the economy is growing, inflation is moderating, and overall fundamentals look fine as increased consumer spending supports underlying momentum.

Our existing base-case for gross domestic product growth over 2023 has not materially changed, with GDP still expected to grow in the neighborhood of 2.3% adjusted for inflation. While we have experienced higher-than-expected inflation at the start of 2024, it is believed to be short-lived and has been seen mostly in services. We expect year-over-year inflation as measured by the Personal Consumption Expenditures Price Index to steadily move down, reaching approximately 2.2% in December – very close to the Fed's target of 2%. The labor market is still expected to soften over the course of 2024 but our outlook for average monthly job growth is around 180,000, about 50,000 higher than expected earlier, following stronger employment growth in the first quarter and new estimates for immigration.

The biggest change in the economic outlook since our initial projections is that immigration has been much stronger. The Congressional Budget Office now estimates that net immigration last year was 3.3 million, more than triple the previous estimate of 1 million. New immigrants have increased the supply of workers, raising production capacity, closing some shortages in the labor market and allowing the economy to generate jobs without overheating and accelerating inflation. The availability of more workers, particularly in low-wage jobs, can help limit wage-driven inflation, and increased immigration explains some of the surprising strength in consumer spending since 2022.

While I had thought the Fed's first interest rate cut would come in July, conditions for an easing of monetary policy won't arrive until later in the year. The Fed has reinforced its belief in being data-dependent and that means inflation needs to go down for several consecutive months before the central bank is going to cut rates. The Fed has managed to restrain the economy and bring down inflation, and a delay in easing should further cool the economy and keep our initial GDP growth projection intact. The broader trend of lower inflation has not shifted, and the mix of inflation rates should become more favorable, with slower price growth in the service sector and less deflation of prices for goods.

As expected, the growth rate of consumer spending has begun to ease, owing to slower job and wage gains, elevated borrowing rates and tight lending standards. Nonetheless, consumers clearly remain willing to spend on both goods and services despite ongoing cost pressures. Core retail sales as defined by NRF – based on Census Bureau data but excluding automobile dealers, gasoline stations and restaurants – were up 3.8% unadjusted year-over-year for the first four months of the year, in line with NRF's forecast for 2024 retail sales to grow between 2.5% and 3.5% over 2023.

As we have previously pointed out, households reduced spending on in-person services during the pandemic and the share of consumer spending on goods increased considerably. Since then, the pandemic-related pent-up demand for goods has been met and spending on goods has been gradually declining. In 2023, that share fell markedly. Meanwhile, prices for goods have gone down significantly, helping shift wallet share further toward services.

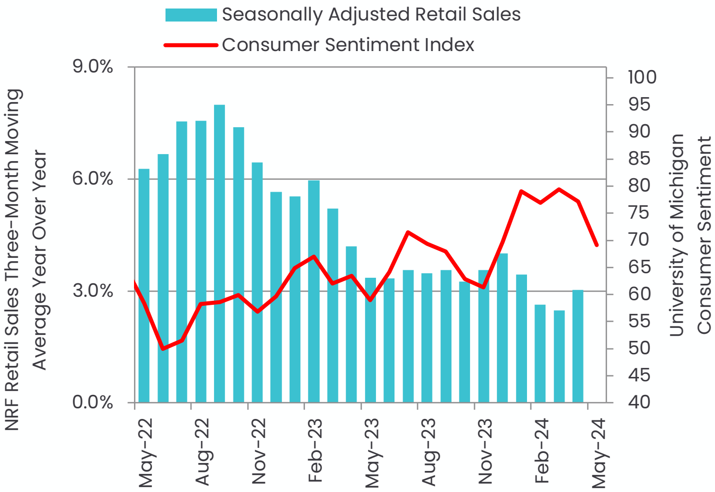
The combined PCE index for goods and services showed year-over-year inflation at 2.7% in March, but that hid the fact that service sector prices increased 4% while goods prices were unchanged. Retail sales, which make up a large portion of consumer goods spending, have reflected lower prices than a year ago for several months.

The Census Bureau's latest Quarterly Services Survey (the only source of service industry performance providing timely estimates of revenue and expenses) showed continued strength in consumer spending on services. Total revenue for the first quarter was up 6.7% year over year, unadjusted for inflation. Service sector inflation remains high, with most of the price pressures coming from housing and utilities along with finance, healthcare and recreation.

While credit conditions such as interest rates and lending standards are restricting consumer spending, consumer balance sheets and debt service levels remain in good condition. According to recent data, households are carrying an increasing amount of debt, but incomes are rising and saving rates are elevated from recent low levels This suggests that while consumer debt reached $17.7 trillion in the first quarter, according to the latest report by Federal Reserve Bank of New York, the level of debt looks to be manageable. The most recent debt payment-to-income ratio is 9.8% and remains historically low. The report also found, however, that many borrowers are running into stress. Aggregate delinquency rates increased in the first quarter, with 3.2% of outstanding debt in some stage of delinquency as of March, up from 3.1% in the fourth quarter of 2023. Still, overall delinquency rates are below the 4.7% registered during the pre-pandemic fourth quarter of 2019.

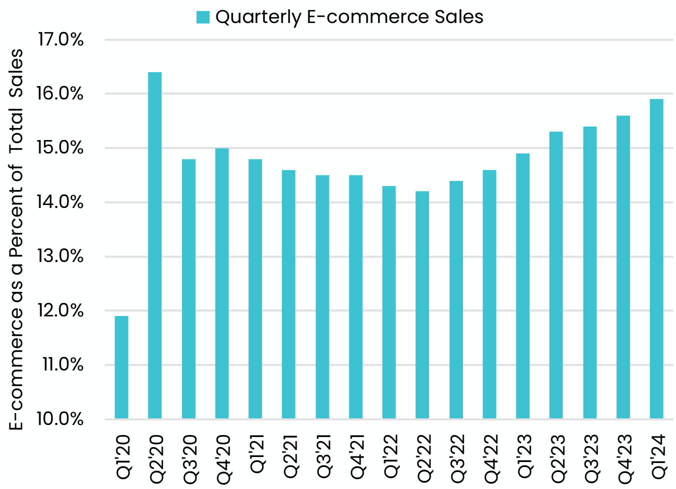
SALES & SENTIMENT

Retail sales grew in April even though consumer sentiment has fallen sharply. Consumers appear to still be concerned about the high level of prices and high interest rates.



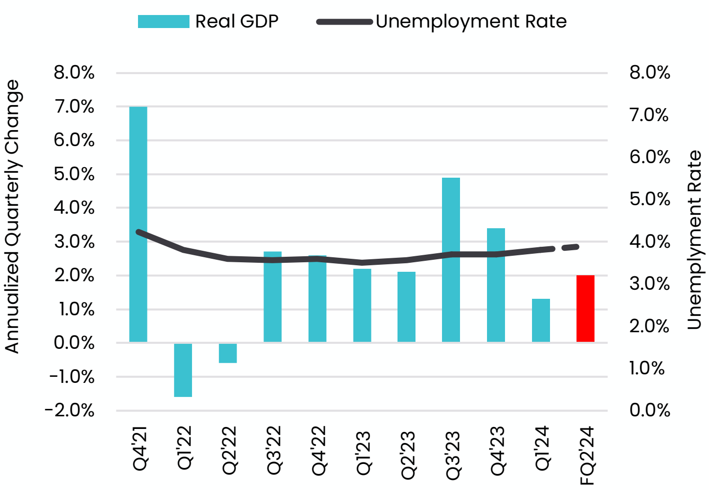
E-COMMERCE SALES

E-commerce sales accounted for 15.9% of total retail sales in the first quarter, the highest share since early 2020, when many shoppers were forced to shop online during the pandemic.



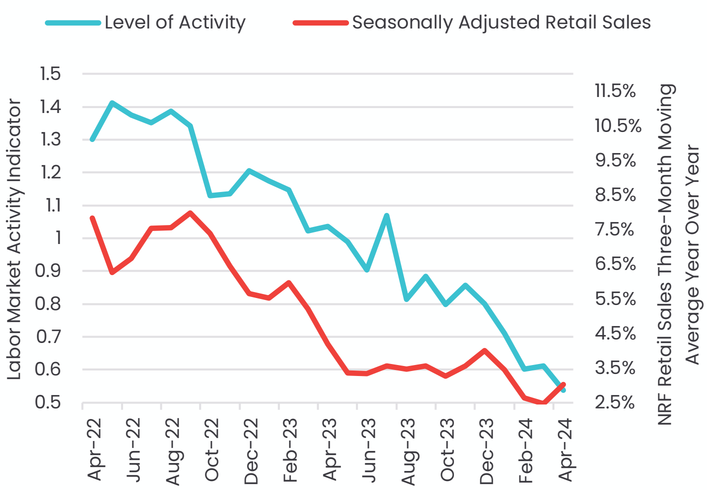
GDP & UNEMPLOYMENT

Revised GDP data shows the U.S. economy grew just 1.3% in the first quarter as consumer spending slowed. Looking forward, GDP could bounce back in the second quarter.



LABOR MARKET ACTIVITY & RETAIL SALES

The Kansas City Fed's Labor Market Conditions Indicator suggests that the level of activity declined modestly, confirming the recent slower pace of retail sales growth.



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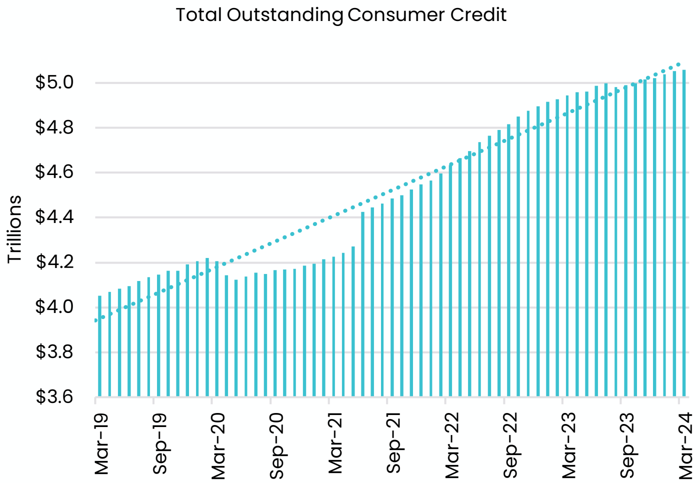
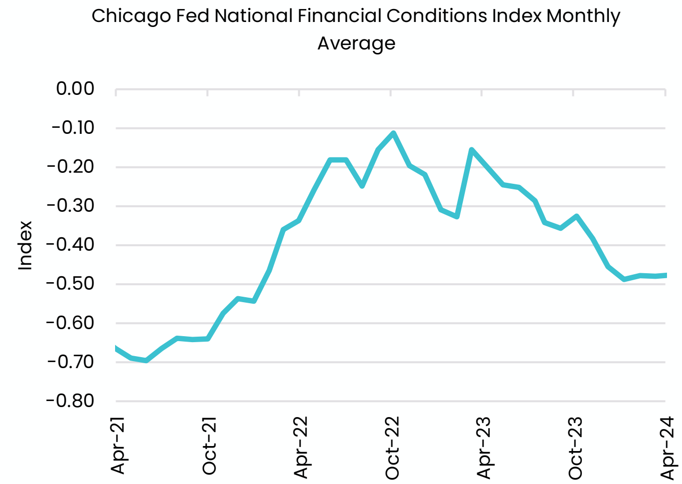
OUTSTANDING CONSUMER CREDIT

Outstanding consumer credit grew at a year-over-year pace of 2.3% in March, decelerating considerably from last year's trend. Reliance on credit has helped to support consumer spending.



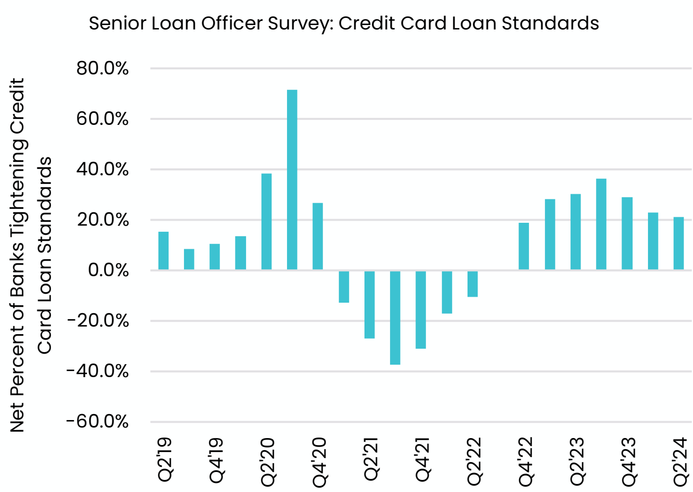
FINANCIAL CONDITIONS INDEX

The Chicago Fed's National Financial Conditions Index, which measures risk and the availability of funding, suggests that financial conditions have eased to levels comparable with March 2022.



CREDIT CARD LOAN STANDARDS

Lending standards have moved in a roller coaster fashion. Bank lending standards are still restrictive, according to the Federal Reserve's second-quarter Senior Loan Officer Opinion Survey.



RETAIL HIRES & OPENINGS

Retail job openings and hires have moderated in fits and starts. Yet both recorded gains during the first quarter, reflecting a still-healthy retail industry labor market.