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 | Tom Petty Was Right: Waiting is the Hardest Part

The insightful lyrics of Tom Petty's 1981 hit song "The Waiting" focus on how waiting can be difficult and uncertain. That's why I quoted them in the November 2017 Monthly Economic Review, when the economy was growing at 3% year over year, unemployment was at its lowest level in 17 years, and we were waiting to see when tightness in the labor market would translate into higher wages and inevitable inflation.

Today, we're waiting once again. Much like 2017, the economy is going strong and the labor market is still relatively tight. But this time we're waiting for inflation to come down — and also waiting for the Federal Reserve to decide on when to lower interest rates. Just as the song talks about the challenges of waiting, we're at a critical moment as consumers, businesses, investors and others wait to learn how they will need to adjust their plans for future economic conditions. It's a time of uncertainty, reminding us that former Fed Chairman Alan Greenspan once said uncertainty is not just a feature of monetary policy but the determining characteristic.

Unfortunately, no one ever knows with any certainty how fast the economy can grow without generating inflation or impacting inflation expectations. The challenge is that no one can forecast inflation, its momentum or the likely intersection of monetary policy and the economy with much accuracy. When measuring inflation, whose inflation matters — different people and businesses are impacted by inflation in different sectors of the economy — and how it is measured is open to research and analysis. This uncertainty is always an intricate and difficult problem for the Fed. If the Fed keeps the level of interest rates too high, it could slow the economy to the point of recession, causing household and business spending to plummet. Alternatively, if it lowers interest rates too much, it could overstimulate the economy and stoke inflation. We can send someone to the moon, but forecasting the economy remains a challenge due to the dynamic nature of economic factors and the unpredictability of human behavior.

Fortunately, the risks for monetary policy look balanced at the moment.

It is the general consensus of economists and policymakers that the U.S. economy and labor markets have continued to expand in a healthy fashion even though they are doing so with slower momentum. This conforms with the latest gross domestic product data, which shows the economy grew at a 1.4% annual pace in the first quarter. That was down from 3.4% in the fourth quarter of 2023 and was the slowest quarterly growth since the spring of 2022. A key contributor to the deceleration was slower consumer activity. One measure of inflation, the GDP Price Index, was at an annualized rate of 3.1% during the first quarter while the Personal Consumption Expenditures Price Index — the Fed's preferred inflation barometer — was at 3.4%.

The Fed likely welcomed data that showed household income, spending and saving were all healthy in May, demonstrating that the economy is growing at a slower-but-steady pace. Unadjusted for inflation, disposable personal income (income after taxes) rose 0.5% month over month in May and was up 3.7% year over year. Personal consumption rose 0.2% monthly and was up 5.1% compared with a year earlier. The savings rate rose to 3.9%, the highest in four months. Other data indicates that price pressures are easing. Year-over-year, the PCE index was up 2.6% in May. Over the same period, prices for goods decreased 0.1%, even though prices for services prices rose 3.9%. Food prices were up 1.2% and energy prices were up 4.8%.

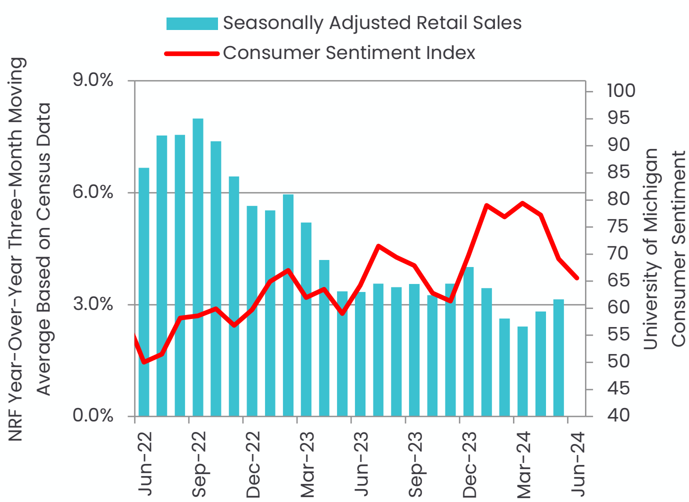
Meanwhile the labor market continues to display resilience and has propelled income growth ahead of inflation. Employment growth rebounded strongly with a gain of 272,000 jobs in May after an increase of 165,000 in April. Average monthly employment gains through May were 248,000, only a touch behind the 2023 average of 251,000.

According to the University of Michigan's June Consumer Sentiment Survey, consumers exhibited confidence that inflation will continue to moderate, but many expressed concerns about the effect of high prices and weakening income on their personal finances. Federal Reserve Board of Governors member Lisa Cook recently said current policy is putting downward pressure on demand, pointing to high mortgage rates and rising debt delinquency rates, which she said "are not yet concerning for the overall economy but bear watching." Many studies have reported that lower-income consumers are facing significant challenges, impacted by the high level of food, housing and transportation prices. Many consumer companies have noted weakness in spending given the cumulative impact of years of inflation on this demographic. It is uncertain whether economic stress among lower-income families could become larger and derail the current economic expansion.

The U.S. economy looks resilient enough for the Fed to wait and has afforded the Fed time to do so at this key time. The Fed left interest rates unchanged in June and predicted the rate will change just once before the end of 2024. Chairman Jerome Powell said officials were taking a careful and conservative approach. I wonder if he is singing Petty's refrain — "You take it on faith, you take it to the heart, the waiting is the hardest part."

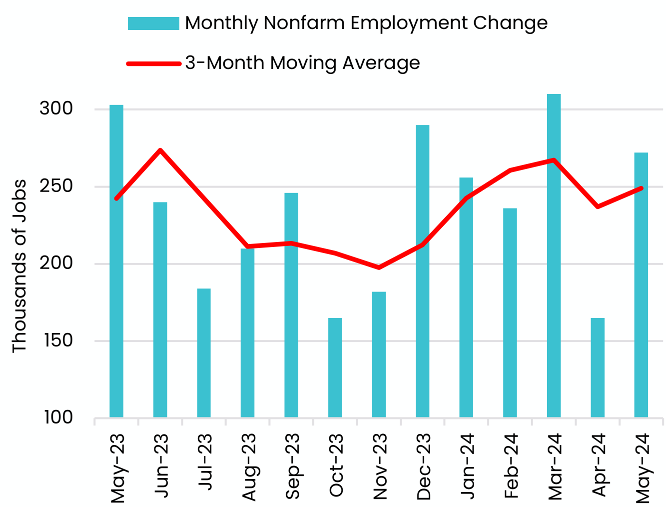
SALES & SENTIMENT

Retail sales grew in May and were reasonably healthy even though spending has been fluctuating. The jump in sentiment in early 2024 has not been maintained and June's reading was at a seven-month low.



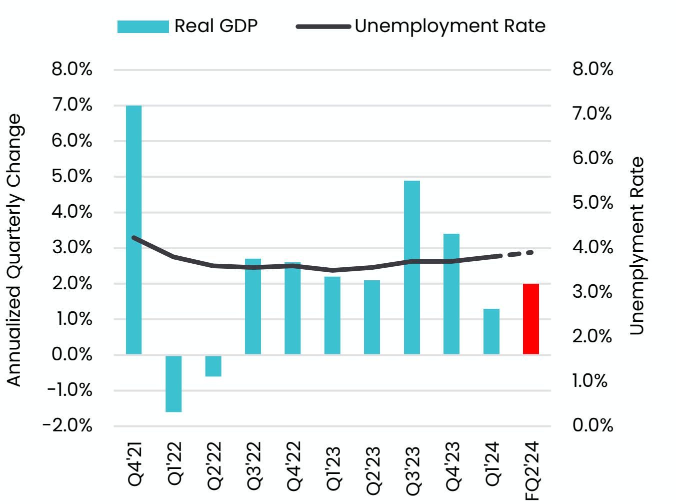
JOB GROWTH

Job growth exceeded expectations in May, as it did throughout the first quarter. Jobs surged by 272,000 in May, topping the three-month average of 249,000 and the 12-month average of 232,000.



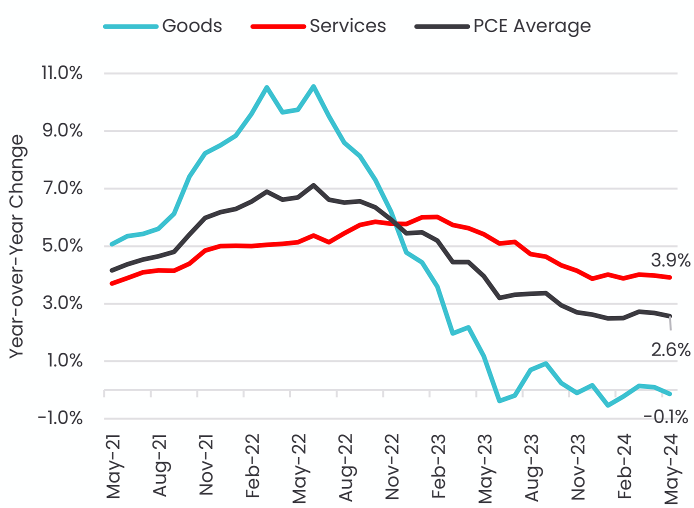
GDP & UNEMPLOYMENT

Revised GDP data shows the U.S. economy grew just 1.3% in the first quarter as consumer spending slowed. Data isn't in yet, but GDP growth may have bounced back in the second quarter.



PERSONAL CONSUMPTION EXPENDITURES PRICE INDEX

May's Personal Consumption Expenditures Price Index showed year-over-year inflation at 2.6%, a touch lower than the 2.7% in April. Service sector prices continue to create upward pressure.



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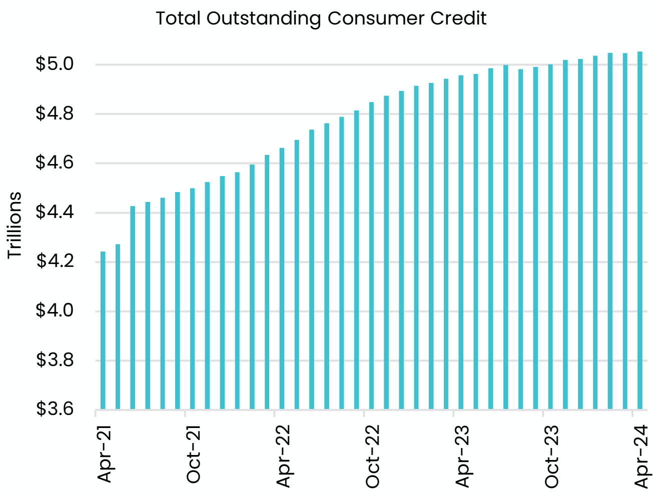
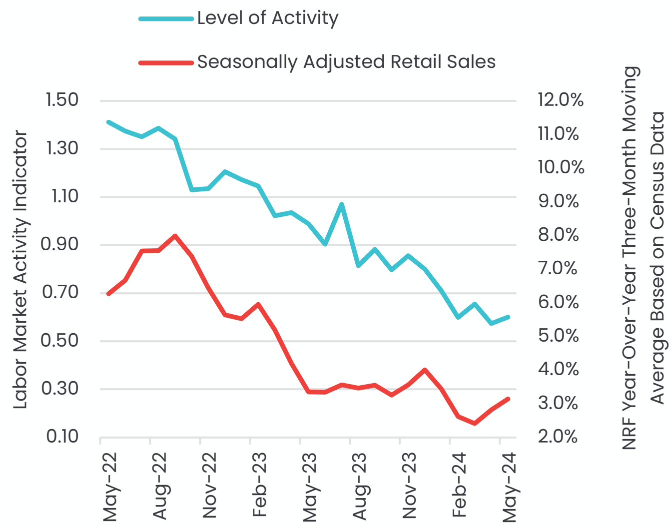
OUTSTANDING CONSUMER CREDIT

Consumer credit in April was at the slowest pace in recent years with year-over-year growth of 1.9%. Lenders have tightened standards and more households have become delinquent, causing less demand.



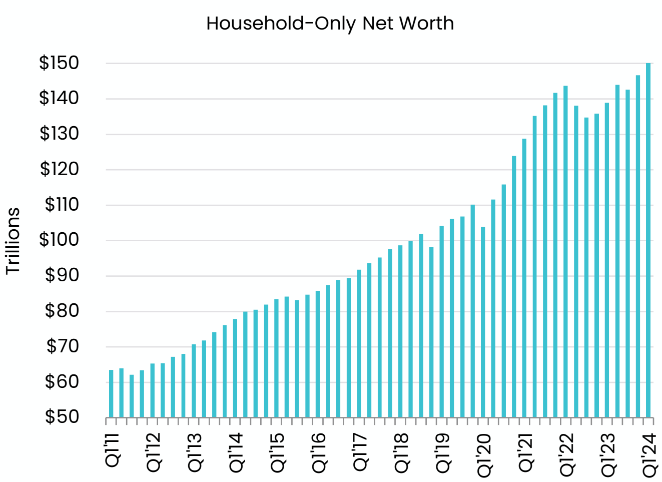
LABOR MARKET CONDITIONS INDICATOR & RETAIL SALES

The Kansas City Fed's Labor Market Conditions Indicator suggests that activity picked up in May, consistent with the recent upturn in retail spending.



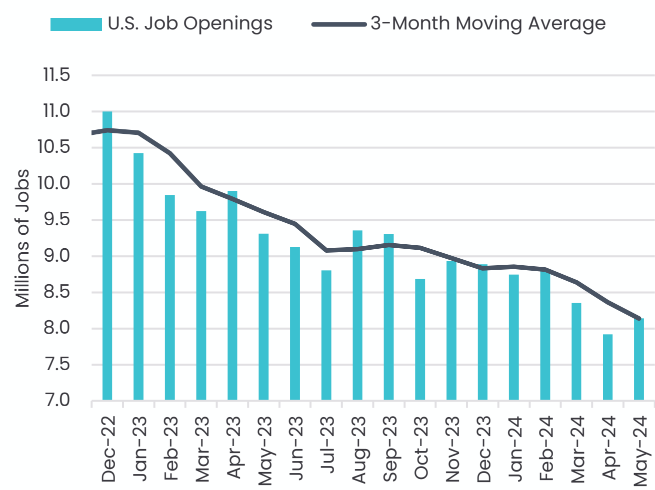
HOUSEHOLD WEALTH

US household wealth reached an all-time high of over $147 trillion in the first quarter. Year-over-year growth in net worth accelerated to 8.8% in the first quarter after growth of 7.6% in the prior quarter.



JOB OPENINGS

Job openings in May marked the lowest level since 2021, showing the continued resilience in the nation's labor market. Openings are trending down but are above pre-pandemic levels.



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