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 | Economy More Resilient Than Expected But on Track for Soft Landing

The economy was more resilient in the second quarter than many expected. Gross domestic product growth adjusted for inflation rebounded at an annual rate of 2.8%, beating consensus expectations of 2% and doubling the pace of 1.4% recorded in the first quarter. An alternative measure – private final sales to domestic purchasers, which exclude inventories, imports and government spending and are a good indicator of underlying growth – were up 2.6%, matching the pace of the first quarter. Economic growth during the second quarter was fueled by consumer spending, inventory increases and nonresidential fixed investment. GDP has now grown at a healthy 2.1% year-over-year for the first six months of 2024.

The consumer environment has kept the expansion on a positive path toward a "soft landing" despite high interest rates. Consumer spending, a continued source of strength that accounts for nearly 70% of economic activity, grew 2.3% year over year adjusted for inflation in the second quarter. The increase reflected higher spending on both goods (up 2.5%) and services (up 2.2%). Overall consumer spending continues to be dominated by travel, entertainment and "experiences." Consumers' willingness and ability to spend has been buoyed by job and wage gains that have counterbalanced inflation. Second-quarter disposable personal income (income after taxes) rose 3.6% year over year, compared with 4.8% in the first quarter.

Retail sales data from the Census Bureau showed a sturdy and adaptable U.S. consumer willing to spend despite cost pressures during the second quarter. Total retail sales adjusted for seasonal variation and holiday and trading-day differences, but not for price changes, were up 2.5% year over year for the quarter and up 2.8% for the first six months of the year. Core retail sales as defined by NRF — based on the Census data but excluding automobile dealers, gasoline stations and restaurants – were up 3.2% year-over-year for the first six months. That is in line with NRF's forecast for 2024 retail sales to grow between 2.5% and 3.5% over 2023.

Meanwhile, inflation has not yet been fully tamed, but we are seeing progress. The price index for gross domestic purchases rose 2.3% year over year during the second quarter compared with a rise of 3.1% in the prior quarter. The Personal Consumption Expenditures Price Index – the Federal Reserve's preferred inflation measure – was up 2.6% year over year, down from 3.4% in the first quarter. The core PCE index, which excludes volatile food and energy prices, eased from 3.7% year-over-year growth in the first quarter to 2.9% in the second quarter. Inflation continues to be driven by prices for services and is near-zero for retail goods. Nonetheless, it is still well above the Fed's 2% target.

Job growth has been lumpy but has clearly moderated and is likely to keep the Federal Reserve on course to begin cutting interest rates later this year. The three-month average for payroll gains slowed to 177,000 in June from 267,000 in March. Demand for labor continues to ease with June's job openings declining to 8.18 million from 8.23 million in May, according to the Bureau of Labor Statistics' latest Job Openings and Labor Turnover Survey. Hiring fell from 5.7 million jobs in May to 5.3 million in June. At 1.5 million, layoffs were below the pre-pandemic level as many companies try to hold the line on costs but are reluctant to downsize should demand pick up.

The Federal Reserve Bank of New York's most recent quarterly Survey of Consumer Expectations shows that consumers think inflation will be at 3% a year from now, 2.9% three years from now and 2.8% five years from now. That's less inflation than previously expected at the one-year and five-year points but slightly higher at the three-year point. The survey also analyzed Americans' expectations about households' financial situations. The expected growth in household income a year from now is 3%, which is above the 12-month average of 2.8% and the highest reading since September 2023. Household spending is expected to be up 5.1%, well above the February 2020 pre-pandemic level of 3.1%.

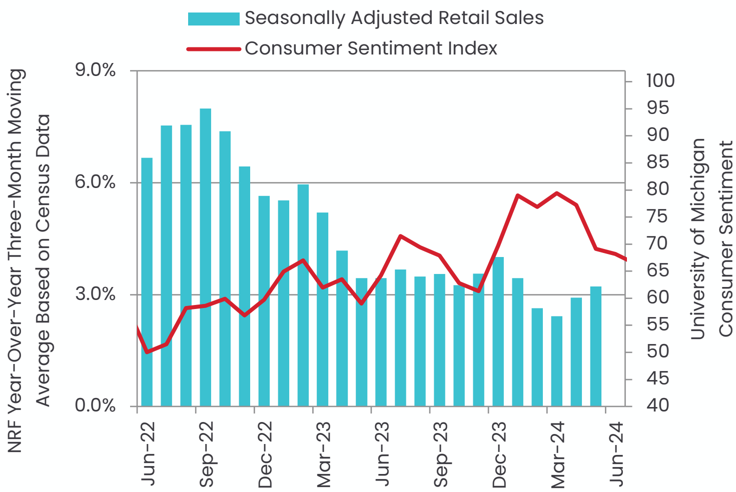
While the overall economy continued to display remarkable strength in the first half of 2024, consumer confidence remains weak, according to the University of Michigan's monthly survey. Consumers are wary as high prices for services remain a drag, with sentiment falling for the fourth month in a row to 66 in July from a recent high of 79 in March.

Federal Reserve Board of Governors member Christopher Waller recently said inflation data is encouraging and that he believes "we are getting closer to cutting short-term interest rates." However, he still wants to see "a bit more evidence" that low inflation will be sustained and will be "looking for data over the next couple (of) months" to see whether a soft landing can be achieved. The Fed left rates unchanged in July, but Chairman Jerome Powell said a rate cut "could be on the table" at the next meeting of the Federal Open Market Committee in September.

According to the Fed's Beige Book, economic activity saw a "slight to modest" pace of growth in the reporting period that ended July 8 compared with the prior period. However, while seven Federal Reserve districts reported an increase in activity, five noted flat or declining activity – three more than in the prior period. The Federal Reserve Bank of Chicago's National Activity Index confirms the bumpy monthly path of economic growth in 2024. While the index was at 0.23 in May and 0.05 in June, it was in negative numbers in January, March and April. Readings above zero suggest economic activity grew ahead of its average historical trend.

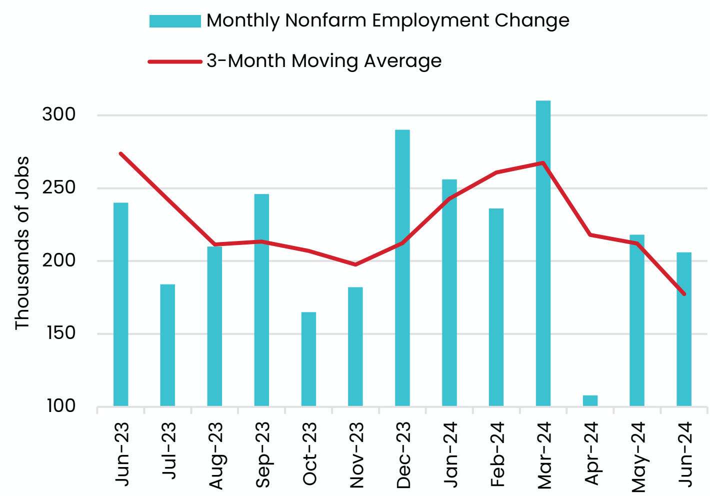
SALES & SENTIMENT

Census Bureau data showed modest retail sales gains in June amid an uneven pace of spending in recent months. Consumer attitudes toward the economy fell for the fourth month in a row.



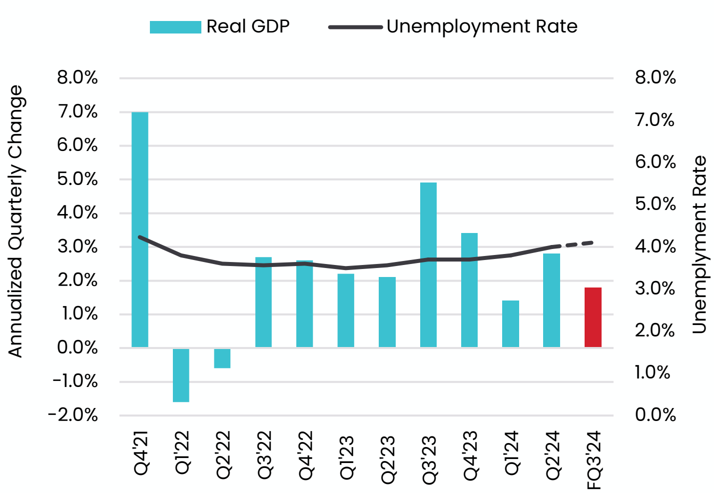
JOB GROWTH

While payroll employment rose by 206,000 jobs in June, the three-month average of 177,000 indicated a moderating labor market.



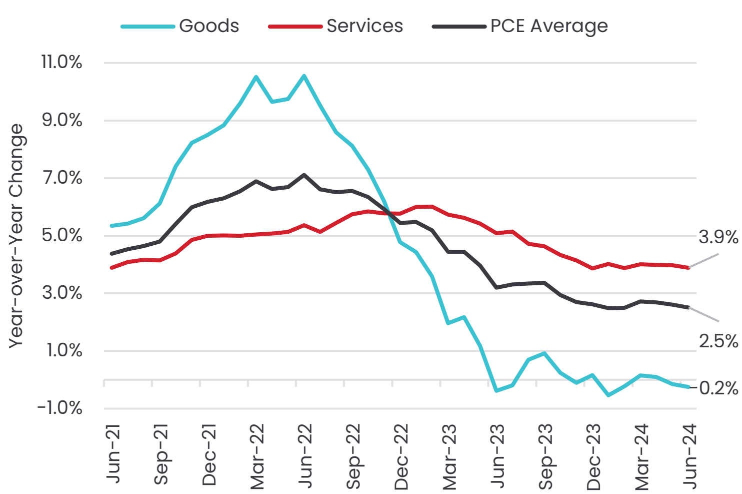
GDP & UNEMPLOYMENT

The economy picked up its pace more than expected in the second quarter to a rate of 2.8%, double the 1.4% growth in the prior quarter. However, the unemployment rate edged higher to 4%.



PERSONAL CONSUMPTION EXPENDITURES PRICE INDEX

June's Personal Consumption Expenditures Price Index showed year-over-year inflation at 2.5%, edging down from 2.6% in May. Most inflation came from service-sector prices



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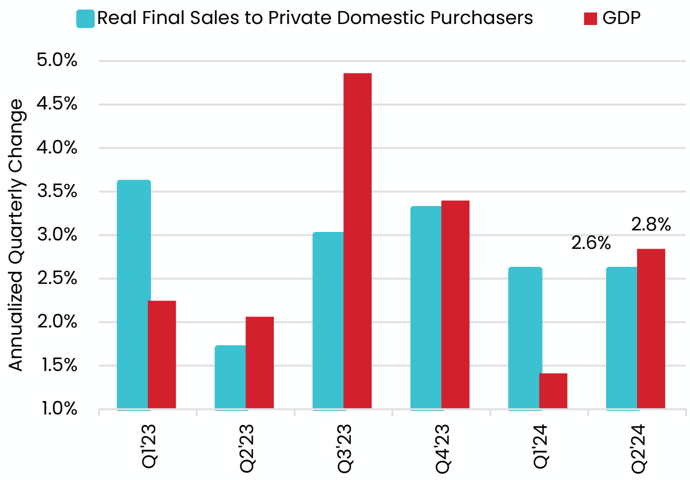
PRIVATE DOMESTIC DEMAND

In the second quarter there was a healthy pace of growth in private domestic demand (which excludes inventories, imports and government spending) at 2.6%, matching the first quarter and underpinning solid GDP growth of 2.8%.

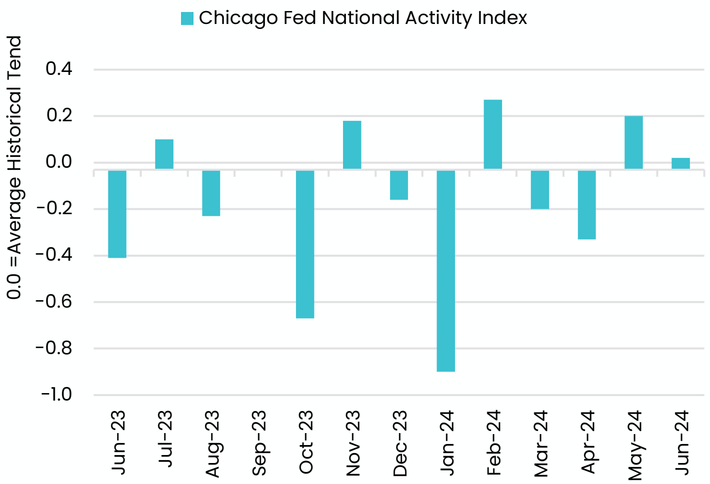


GOODS AND SERVICES SPENDING

Consumer spending in the second quarter showed gains for both goods and services rather than the pullback in goods spending that occurred in the first quarter.

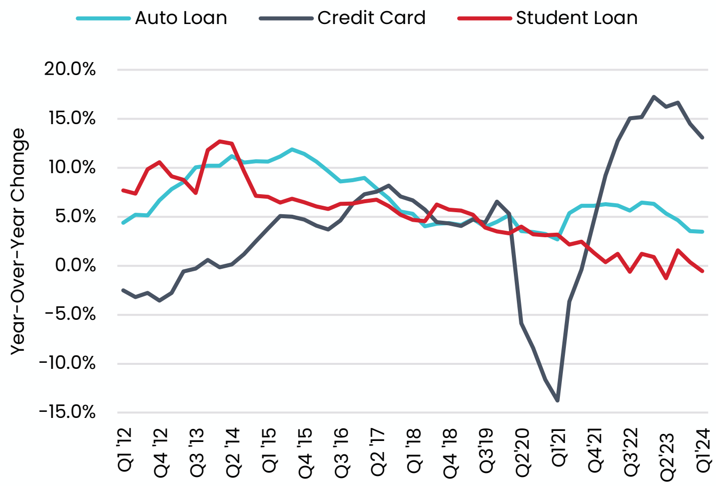
ECONOMIC ACTIVITY INDEX

The Chicago Fed's National Activity Index, which gauges overall economic activity, indicates an expanding but uneven economy.



CONSUMER CREDIT

Growth in the stock of consumer credit is firmly on a downward trend. Credit debt is retreating while auto loan growth is slowing, and student loan growth has gone negative.



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