NRF National Retail Federation

MONTHLY Economic Review

September 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 | With Economy on the Cusp of a Soft Landing, It's Time for a Fed Rate Cut

We had an eventful August, with weak July job growth reported, unemployment rising to its highest level in three years and manufacturing showing a contraction for a fourth straight month. There were also global factors like the Bank of Japan raising interest rates while other central banks were cutting or planning to cut rates. This combination of developments led to a major selloff in the stock market and fears that a long-awaited recession had arrived.

Fortunately, by mid-August new data had calmed fears of a deteriorating U.S. economy. Weekly jobless claims stabilized, inflation came in close to expectations and remained on its downward path, sales in the service sector bounced back and retail sales rose, exceeding expectations and showing consumers are still spending. Concerns are now focused on the direction of the labor market and the possibility of a job market slowdown, but a recession is far less likely.

The Bureau of Labor Statistics said in late August that the economy had created 818,000 fewer jobs than originally reported during the 12 months ending in March. That left the average monthly gain at about 174,000 jobs rather than 242,000. While the revision was looking backward, it added evidence that the job market has been steadily slowing and reinforced the need for the Federal Reserve to ease its restrictive monetary policy by lowering interest rates.

Perhaps the keynote event in August was Fed Chairman Jerome Powell definitively stating that “the time has come” for lower rates. While he said “the timing and pace of rate cuts will depend on incoming data, the evolving outlook and the balance of risks,” a reduction is widely expected to happen when the Fed meets on interest rates this month. All things considered, it is the Fed's desire to achieve a balance in the economy as inflation comes down, and cuts will now hinge more on what is happening in the labor market than on inflation data. A further cooling in the labor market is not welcome.

Now the guessing game begins on the magnitude and frequency of rate cuts and how far the federal funds rate will be reduced.

While the labor market is not terribly weak, it is showing signs of tottering. The July jobs report was weaker than expected as employers added 114,000 positions to nonfarm payrolls and the unemployment rate rose to 4.3% from 4.1% in June. Despite the increase, the unemployment rate is at a normal level, but August's labor market data will be critical in determining whether a reduction in interest rates occurs this month.

While lowering interest rates would be good news, it takes time for rate reductions to work their way through the various credit channels and the economy as a whole. Consequently, a reduction is not expected to provide an immediate uplift to the economy but would stabilize current conditions. Going forward, lower interest rates should benefit households that are under financial pressure from loans they have taken on to meet everyday needs. Lower rates will also make it more affordable for consumers to borrow money through mortgages, home improvement loans, car loans and credit cards, which can encourage spending and increase demand for goods and services. The housing market in particular is poised to benefit from lower interest rates since it is probably the most rate-sensitive sector and lower rates should encourage people to take out mortgages. Similarly, many small businesses that rely on bank loans tied to the federal funds rate should benefit by being able to lower financing costs on existing loans or take out new loans to invest in new equipment, plants or hiring more workers.

In the final week of August, the Bureau of Economic Analysis put a positive spotlight on the economy, showing that it continues to chug along decidedly by revising second-quarter annualized gross domestic product growth upward to 3% from 2.8%. The revision reflected increases in consumer spending, private inventory investment and business investment based on additional data. The economy's main power source — consumer spending — was revised to 2.9% growth from the prior estimate of 2.3%. Spending has moderated this year after accelerating in the second half of 2023, but the American consumer has been resilient.

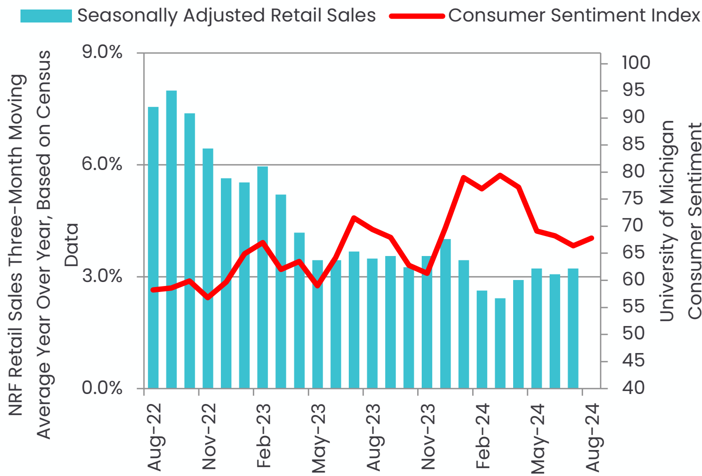
As part of the GDP revisions, the BEA also provided the first look at gross domestic income for the second quarter. In theory, GDI and GDP should be nearly identical, but GDI has run somewhat softer, increasing 1.3% in the second quarter, the same as in the first quarter. While GDP conceptually measures the value of everything produced, GDI measures the value of everything earned during production, including wages, rent, interest and corporate profits. The GDI data adds to the argument that the economy is in decent shape, slowing a bit but not halting.

To close out the month, the BEA released data showing that growth in consumer spending outpaced income growth in July. Overall consumer spending was up 5.3% year over year while disposable personal income (income after taxes) was up 3.6%. Wages and salaries were up 4.4% year over year.

The U.S. economy is clearly not in a recession nor is it likely to head into a recession in the home stretch of 2024. Instead, it appears that the economy is on the cusp of nailing a long-awaited soft landing with a simultaneous cooling of growth and inflation. There are plenty of reasons to expect this soft landing. American employers should keep adding jobs but at a much slower pace than earlier this year. Price increases seem to be coming under control for both goods and services and hopefully will continue to head down. Unemployment is near historically low levels. The Fed is widely expected to cut rates at least twice this year, and the easing of interest rates should provide support to interest-sensitive sectors going into the fall and winter. That, in turn, should improve the outlook for many financially constrained households. While consumers will continue to be savvy about their purchases, these factors are a welcome development and should support their propensity to spend.

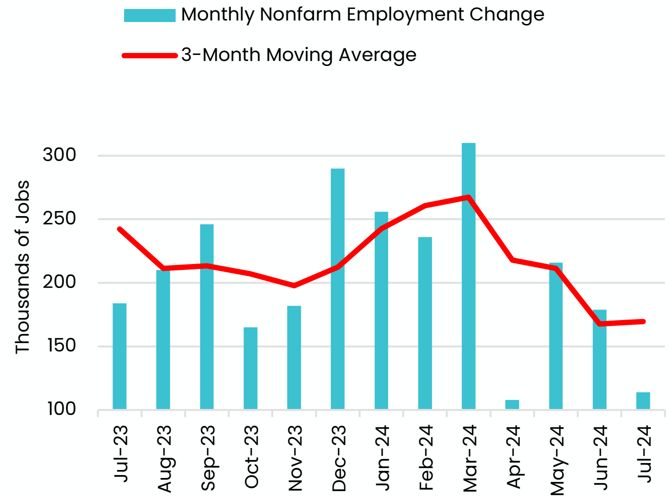
SALES & SENTIMENT

The Census Bureau's July retail sales data showed a strong start to third-quarter consumer spending. Nonetheless, confidence remains weak as consumers appear to remain unhappy with high prices.



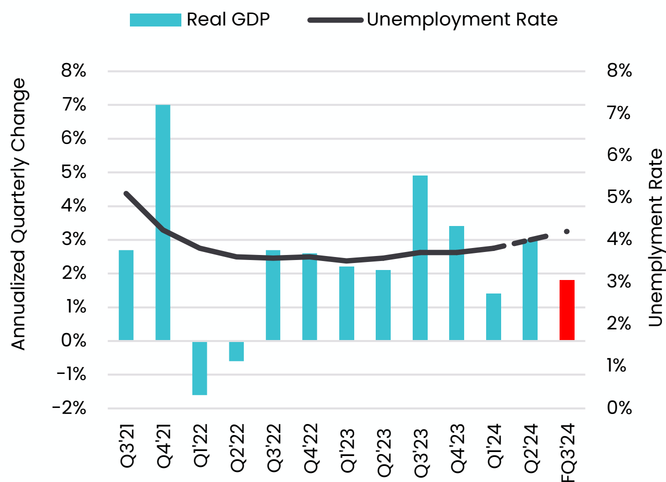
JOB GROWTH

July's payroll data provided further evidence that the labor market is cooling. July gains came in at 114,000, the smallest since April's 108,000 and the second smallest since December 2020.



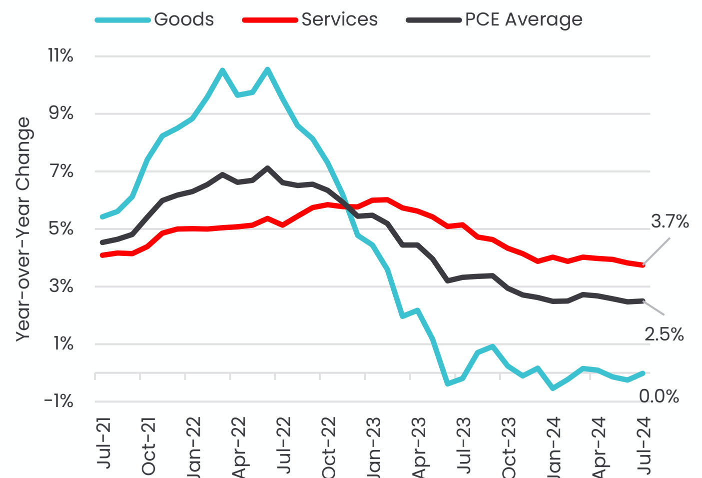
GDP & UNEMPLOYMENT

The economy grew at a slightly stronger pace than initially reported in the second quarter, fueled by an upward revision to consumer spending. Growth in third-quarter GDP is expected to be in the 2% range.



PERSONAL CONSUMPTION EXPENDITURES PRICE INDEX

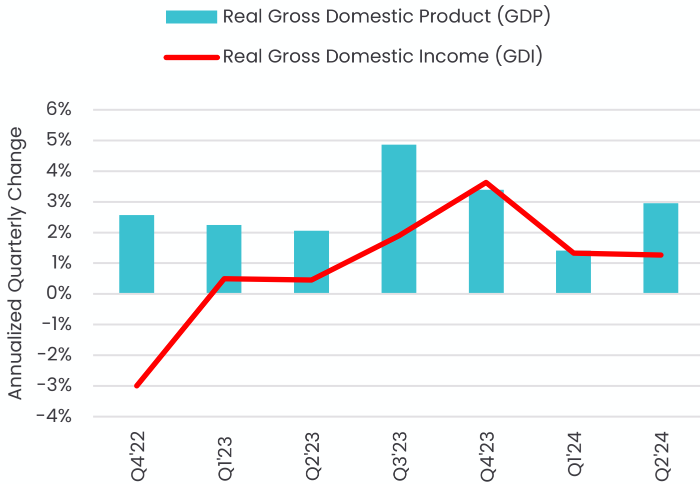
July's Personal Consumption Expenditures Price Index showed year-over-year inflation at 2.5%, unchanged from June. Most inflation came from service-sector prices rather than goods.



NRF National Retail Federation

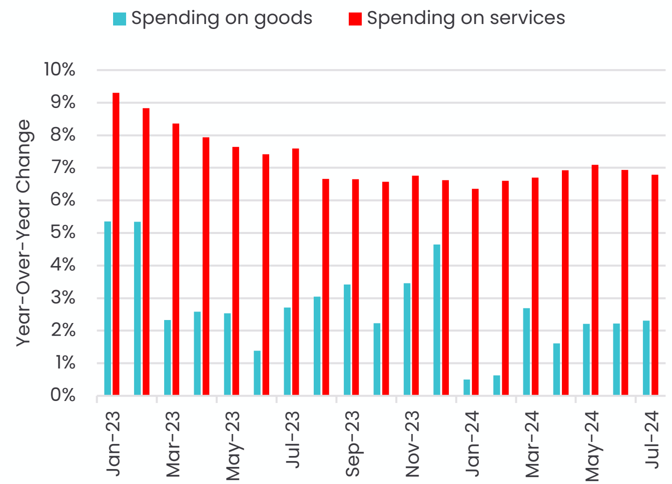
GDP & GROSS DOMESTIC INCOME

Gross domestic income adjusted for inflation rose at a 1.3% annual rate in the second quarter, implying that the 3% pace of GDP is likely overstated.



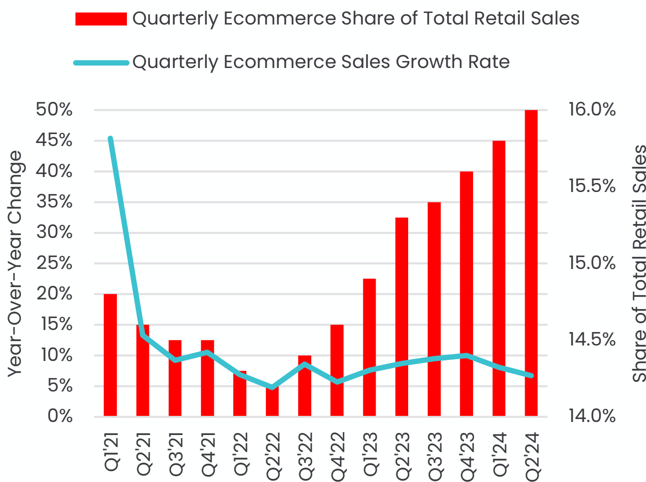
GOODS & SERVICES SPENDING

Consumer spending in the last four months showed gains for both goods and services rather than the pullback in goods spending that occurred earlier this year.



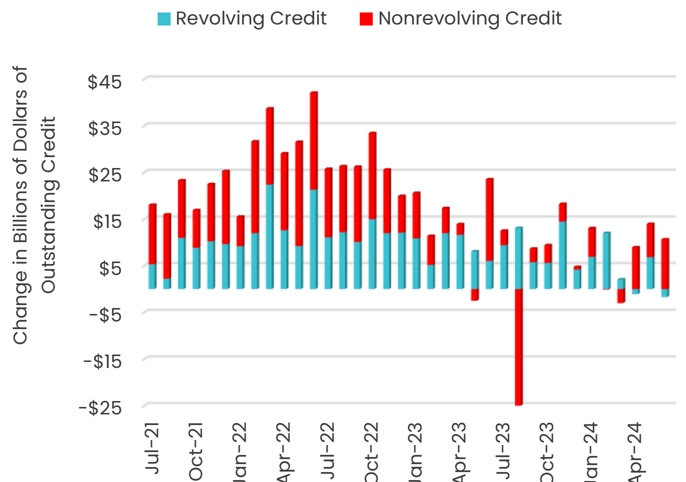
ECOMMERCE

Ecommerce has slowly regained its share of total retail sales, now accounting for around 16%. Its year-over-year sales rise has decelerated to just under 7%, which suggests some pullback in household spending.



CONSUMER CREDIT

The stock of outstanding consumer credit expanded by $8.9 billion in June. The increase was driven by growth in nonrevolving credit but partially offset by a reduction in revolving credit.



NRF National Retail Federation