MONTHLY Economic Review

November 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 | Economic Growth Continues to Point to a Successful Holiday Season Despite Mixed Signals

The economic data calendar was quite busy at the end October, but while there were contradictions and mixed signals, we continue to believe the U.S. economy remains in a good place. Most importantly, the new data doesn't change our 2024 holiday forecast or retail sales projections for the year.

The economy extended its 10-quarter string of solid growth, expanding at an annual rate of 2.8% in the third quarter, only slightly slower than the second quarter's 3%. Remarkably, the economy has been surprisingly strong despite the Federal Reserve's tight monetary policy of raising interest rates to slow economic activity and reduce inflation. The consumer sector continued to contribute a lot of horsepower to the economy in the third quarter, with growth rising to a 3.7% annual pace.

As expected, the labor market underperformed in October as hurricanes and strikes weighed on the data and just 12,000 jobs were added during the month. Even with downward revisions for August and September, job creation showed an average three-month gain of 104,000, and higher numbers should return next month. Job growth is anticipated to stay below recent trends, however, as the labor market continues to cool.

Consumers have demonstrated that they have the capacity to spend despite the cumulative effect of inflation and higher interest rates. Household balance sheets continue to be in a good place thanks to the rising stock market and housing prices and should support spending. Growing salaries and wages also continue to shape consumers' spending power. While the Employment Cost Index moderated to a 3.9% year-over-year increase as of September, its slowest growth since late 2021, it continued to rise faster than inflation. That's good news for households.

Inflation has been cooperating and the numbers are generally encouraging. The Personal Consumption Expenditures Price Index – the Fed's preferred inflation gauge – fell to a year-over-year increase of 2.1% in September, a tick above the Fed's 2% inflation target and the lowest figure since February 2021. Core inflation, which excludes volatile food and energy costs, continues to run faster and was at 2.7%. Inflation at this point is being driven almost entirely by services rather than goods.

SYNOPSIS | Economic Growth Continues to Point to a Successful Holiday Season Despite Mixed Signals

The economy looks as strong as ever and is still humming along with solid consumer spending even though confidence remains weak. The University of Michigan's Index of Consumer Sentiment increased to a reading of 70.5 in October, up from 70.1 in September. But that was far below pre-pandemic numbers around 100, and the index is tracking lower than expected given current economic conditions. While consumers are spending, their attitudes toward the economy are guarded as high prices and interest rates remain a drag.

I am optimistic about the pace of economic activity in the final quarter of the year. Given third-quarter spending performance and comprehensive upward revisions in late September for income, spending and the savings rate, I have increased confidence in the economy's strength and the near-term outlook.

NRF expects retail sales during the holiday season – defined as November 1 through December 31 – to increase between 2.5% and 3.5% over 2023 to a total of between $979.5 billion and $989 billion. By comparison, last year's holiday sales totaled $956.6 billion. The growth rate is expected to fall short of the pace of the last three years but is consistent with the average annual increase of 3.6% from 2010 to 2019. The projected total excludes spending at automobile dealers, gasoline stations and restaurants.

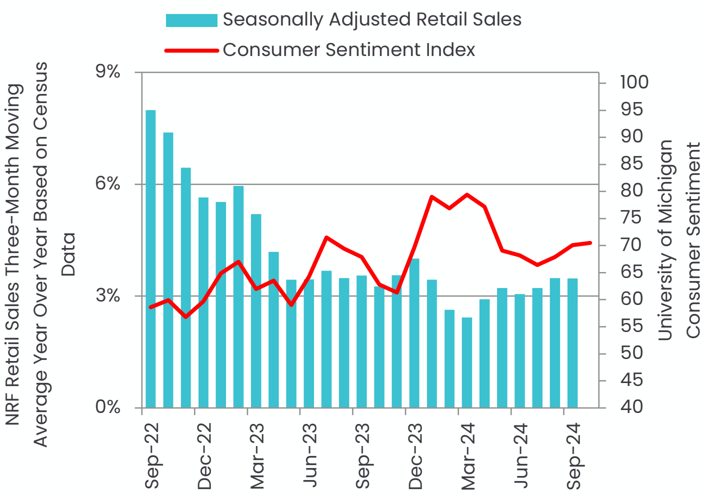
Online and other non-store sales, which are included in the total, are projected to increase between 8% and 9% to between $295.1 billion and $297.9 billion, up from $273.3 billion last year. Convenience is part of the calculus of a successful holiday season, and the increase in online shopping has been one of the biggest shifts that have resulted from the pandemic. By comparison, last year non-store sales rose 10.7% over 2022.

It is too soon to predict the impact of this week's election results on the economy for the remainder of the year or the effect they will have going forward.

Putting all considerations together, this holiday season looks very good. Households are starting the season in decent financial shape and are managing the constraints of their paychecks, with growth in wages and salaries still supportive of a steady pace of spending. The economy remains on solid footing and is growing faster than many expected.

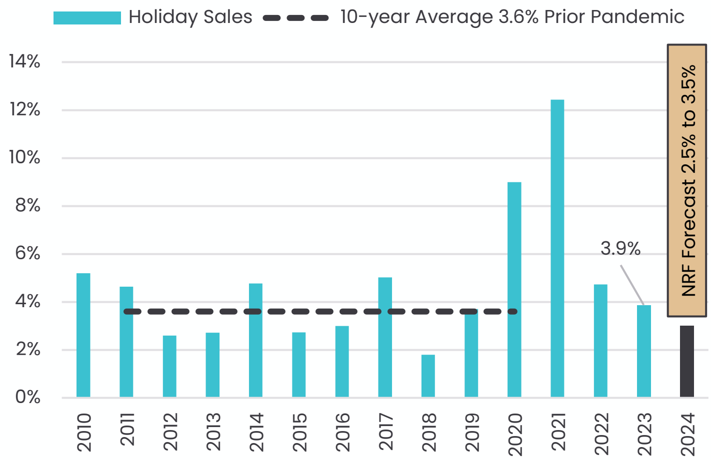
SALES & SENTIMENT

Consumer spending finished the third quarter on a solid note as retail sales showed steady growth. Nonetheless, confidence remains weak as high prices and interest rates remain a drag for consumers.



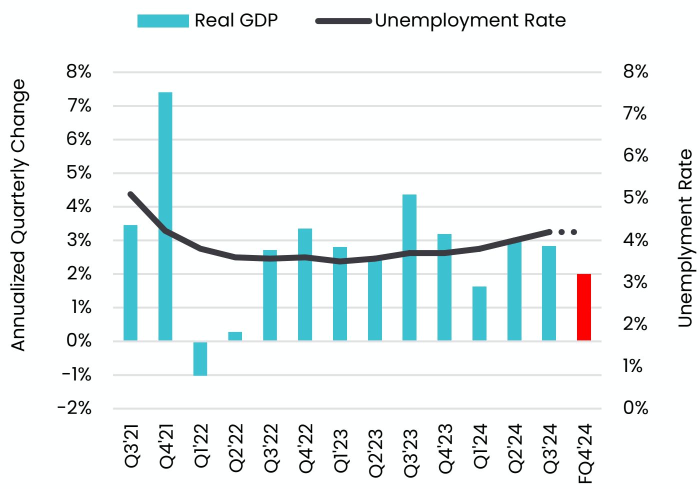
HOLIDAY SALES FORECAST

NRF forecasts holiday spending to increase between 2.5% and 3.5% over 2023, which is consistent with the 10-year average of 3.6% posted prior to the pandemic.



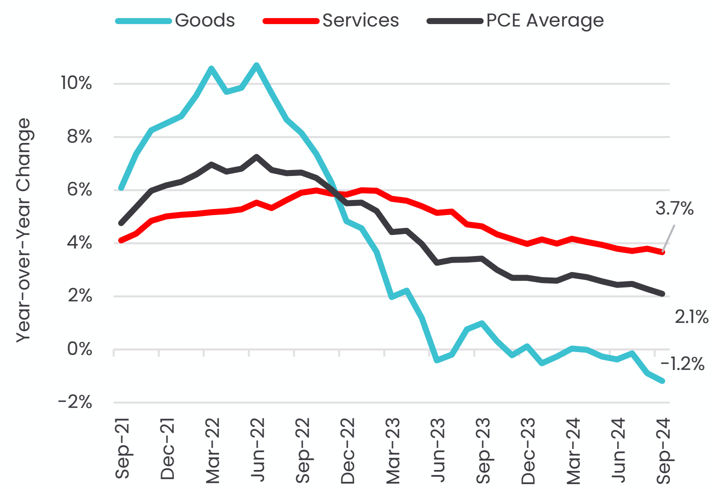
GDP & UNEMPLOYMENT

The economy grew at a solid 2.8% annual rate in the third quarter, a slightly slower pace than the 3% growth in the second quarter. Growth in GDP for the fourth quarter is expected to be in the low 2% range.



PERSONAL CONSUMPTION EXPENDITURES PRICE INDEX

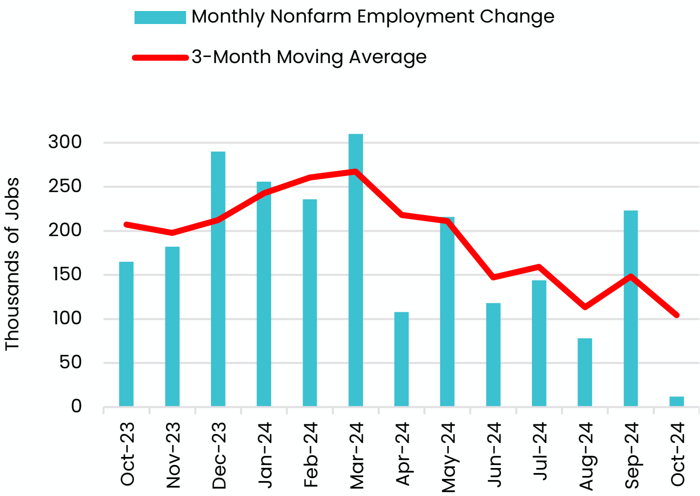
The Personal Consumption Expenditures Price Index for September showed year-over-year inflation at 2.1%. Inflation came from service-sector prices rather than goods.



NRF National Retail Federation

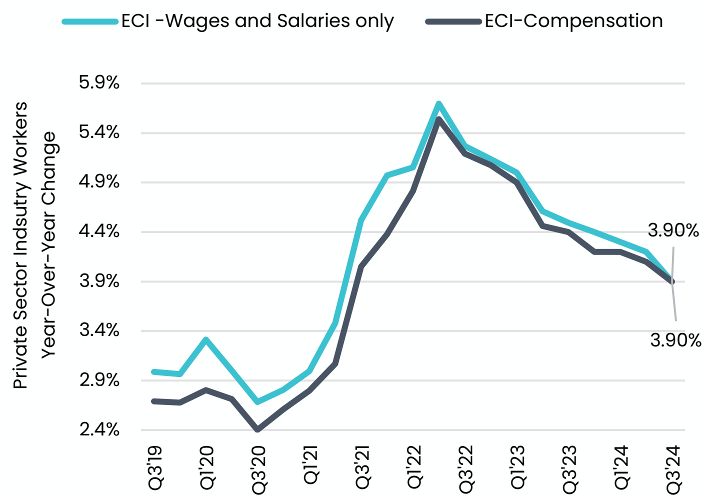
JOB GROWTH

The job market weakened considerably in October as payrolls rose by just 12,000 jobs. Major hurricanes and strikes weighed on the data. Despite disruptions, the unemployment rate held steady at 4.1%.



EMPLOYMENT COST INDEX

The Employment Cost Index for the third quarter indicates that wage gains are moderating as the labor market cools.

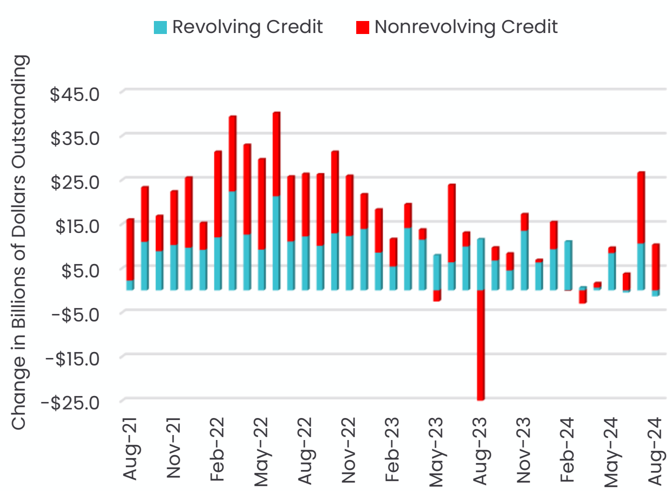


NATIONAL ECONOMIC ACTIVITY INDEX

The Chicago Fed's National Economic Activity Index gauges overall economic activity. The recent negative values indicate that growth is below the historical average growth.

CONSUMER CREDIT

The stock of outstanding consumer credit grew by $8.9 billion in August. Despite recent volatility, the pace remains on a downward trend due to higher interest rates and tight lending standards.



NRF National Retail Federation