MONTHLY ECONOMIC REVIEW

Economic Data & Trends for the Retail Industry

October 2019

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

2019 Holiday Shopping Outlook is Good Despite Uncertainty in the Economy

With the official holiday shopping season only a month away, it's a good time to take stock of the American consumer, the broader national economy and the factors shaping expectations around this holiday season.

Despite significant economic unease brought about by the trade war and other issues, current economic data and the recent momentum of the economy point to a better holiday season this year compared with last year. The National Retail Federation expects holiday retail sales during November and December to increase between 3.8 percent and 4.2 percent over 2018 to a total of between $727.9 billion and $730.7 billion. That compares with 2.1 percent in 2018, when holiday sales totaled $701.2 billion. The numbers, which exclude automobile dealers, gasoline stations and restaurants, compare with an average annual increase of 3.7 percent over the previous five years.

Final numbers show that second-quarter gross domestic product grew 2 percent, largely supported by consumer spending that shot up 4.6 percent. Government spending provided a positive contribution, but the weak housing market and business investment and net exports weighed on growth. Consumers are expected to do the heavy lifting for the remainder of 2019 as trade and investment will likely be facing speed bumps because of the trade war. Prospects for the U.S. economy are stable and consistent with the Conference Board's Leading Economic Index for August, which stood at 112.1 "driven by strong consumer spending and robust job growth." On balance, quarterly economic growth should be around 2 percent, slower than the 3 percent pace seen a year ago.

We believe strong consumer dynamics will make for a healthy holiday season. The labor market is tight, wage growth is rising, debt burdens are low, wealth is advancing, and confidence remains solid. U.S. household balance sheets are in fundamentally good shape thanks to rising equity and real estate prices. Consumer finances appear to be well-managed. While consumer use of credit picked up in July, income growth has picked up faster. The household financial obligations ratio, which tracks the ability of households to cover their monthly debt payments, remains at an historical low.

The economy has created an average 158,000 net new jobs each month so far this year, which compares with 181,000 per month during 2018. Only 130,000 new jobs were created in August but NRF expects an average monthly increase of 140,000 for the remainder of the year. While job growth is weaker, jobs are still being created. Unemployment remains at 3.7 percent, close to its 50-year low.

On a year-over-year basis, nominal U.S. disposable income has been stable and rose slightly in August to 4.5 percent from 4 percent in July. Consumer spending dipped to 3.7 percent from 4 percent. The personal savings rate for August rose to 8.1 percent from 7.8 percent in July, remaining high given fundamentals and well above its 20-year average of 6 percent. That suggests a more cautious consumer but also provides plenty of cushion for spending.

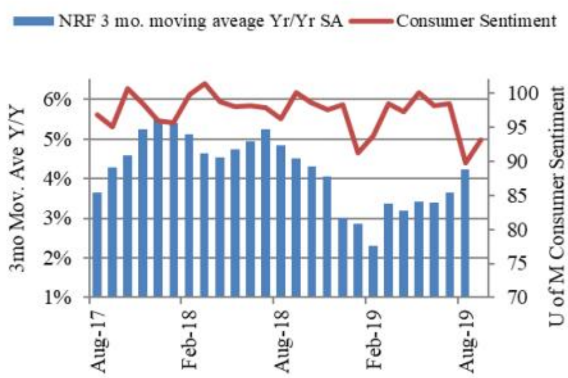
SYNOPSIS

Business and consumer confidence measures no doubt point to increased uncertainty but remain at optimistic levels despite recent volatility. The September University of Michigan Consumer Sentiment Index posted a score of 93.2, rising 1.2 points from the previous month, which had been the lowest level since the late 2016. However, the trajectory of the Conference Board's Consumer Confidence Index showed a big drop by 9.1 points, to a still relatively elevated 125.1. The two indicators have deviated recently, which makes it difficult to separate the true signal from the noise, so it is important not to read too much into the choppy monthly numbers. But the increased uncertainty is linked to trade tensions, and consumers can become easily scared away as evidenced with the pullback in spending seen last December and in January of this year.

The overall trend in inflation remains tame but inflation continues to edge up. Perhaps surprisingly, gasoline prices were nearly 20 cents a gallon lower in the middle of September compared with September 2018 despite the recent attack on Saudi oil fields. The headline Consumer Price Index was up 1.7 percent year over year in August compared with 1.8 percent in July. Excluding food and energy, core CPI rose 2.4 percent, compared with 2.2 percent in July. That was the highest year over year change in core CPI since July 2018, when it reached 2.4 percent before heading lower again. Prior to that, the core CPI year-over-year increase was last at 2.4 percent or above in September 2008. Price increases in general are showing up in the purchases of services but not in the goods sector, so holiday season prices should be either the same or down compared with a year ago despite tariffs – which retailers are working to mitigate.

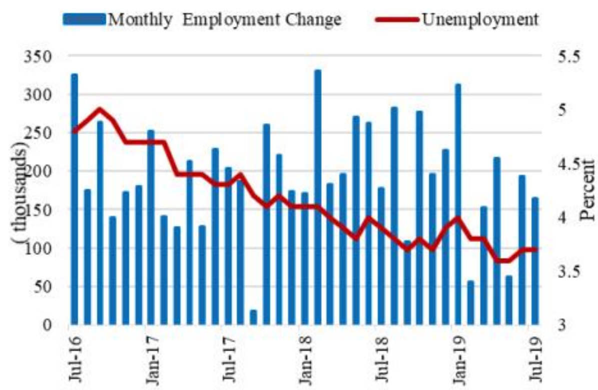
CONSUMER SENTIMENT

While August retail sales showed a resilient consumer delivering strength to the economy, uneasiness is apparent as only moderate improvement was evident in September's consumer sentiment results.



EMPLOYMENT

The labor market grew slowly in August. Payrolls increased by 130,000 jobs, bringing average growth in 2019 to 158,000 per month, well below the 2018 pace. The unemployment rate held steady at 3.7 percent.

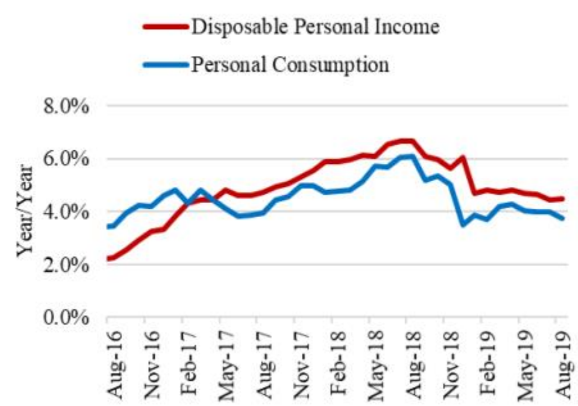


HOLIDAY SALES

NRF expects holiday spending to increase between 3.8 and 4.2 percent exceeding last year's 2.1 percent performance and the five-year average of 3.7 percent.

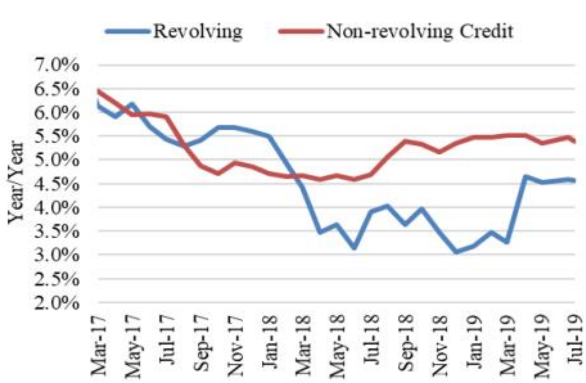
INCOME AND CONSUMPTION

On a year-over-year basis, nominal U.S. disposable income has been stable and rose slightly in August to 4.5 percent from 4 percent in July. Consumer spending growth dipped to 3.7 percent from 4 percent.



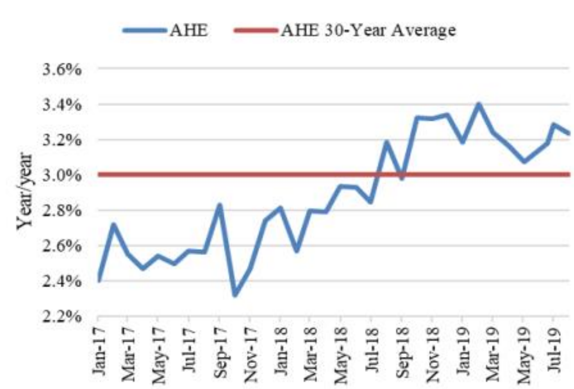
CONSUMER CREDIT

While credit balances have risen compared with a year ago, the pace of household use is aligned with increased income. However, lenders are keeping a lid on access with reported increased lending standards.



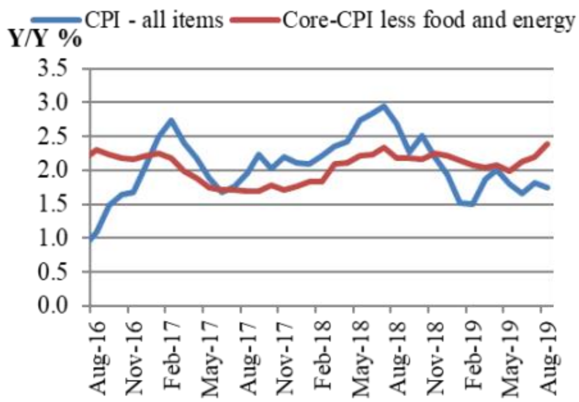
AVERAGE HOURLY EARNINGS

Since mid-2018, average hourly earnings have floated near the 3 percent year-over-year growth range and above the 30-year average, suggesting the economy is within normal labor market conditions.



CONSUMER PRICE INDEX

August was the third month of strong core inflation. Increases in costs for shelter and medical care were the major contributing factors. Lower transportation costs reduced the headline Consumer Price Index.



LEADING ECONOMIC INDEX

August's Conference Board Leading Economic Index suggested a steady course for the U.S. economy but at a slower pace.