NRF® MONTHLY ECONOMIC REVIEW

Economic Data & Trends for the Retail Industry

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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

Still-expanding economy expected to fuel retail growth in 2020

As the U.S. economy continues mid-way through its historic 11th year of uninterrupted growth, it remains in a good place and at a sustainable pace. That is the overall premise of the National Retail Federation's 2020 retail sales outlook. This year, retail sales excluding automobile dealers, gasoline stations and restaurants are expected to increase between 3.5 percent and 4.1 percent to a total between $3.93 trillion and $3.95 trillion, in line with the five-year average of 3.7 percent. The spending forecast includes online and other non-store sales, which are expected to increase between 12 percent and 15 percent to between $870.6 billion and $893.9 billion.

During 2019, retail sales increased 3.7 percent to $3.79 trillion. That was just short of NRF's forecast of at least 3.8 percent growth. But it was very close considering the forecast was based on incomplete data because of last year's government shutdown. The 2019 growth rate compared with 4.2 percent in 2018. Online sales during 2019 increased 12.9 percent to $777.3 billion, beating NRF's forecast of at least 12 percent growth.

While growth will be more slow than 2019, the economy is still expected to grow in 2020. Gross domestic product grew only 2.1 percent in the fourth quarter of 2019, down from 3.2 percent in the third quarter, and came in at 2.3 percent for the year, according to preliminary data. GDP is expected to grow 1.9 percent in 2020, a bit off from its average expansion pace over more than a decade of 2.3 percent.

The consumer remains the key driver of the economy, thanks to steady wage and job gains. The underlying fundamentals are positive, and the financial health of the household has improved during the current economic expansion. Consumers have healthy balance sheets and have been more pragmatic about the use of credit, not letting themselves become overly leveraged by purchases made on credit. Consumer confidence is being supported by unemployment at a 50-year low, record gains in income and wealth, and near-record lows in inflation and interest rates.

Perhaps the most telling information about the economy is the strength of the job market. Job growth is expected to moderate during 2020 but will continue to show the staying power of the economy. Average monthly payroll gains of 175,000 in 2019 should slow to between 150,000 and 170,000 during 2020 but that is still a strong level. We expect unemployment to stay around 3.5 percent. Wage growth is moving higher, with average hourly earnings up 3.1 percent year-over-year as of January. The fourth-quarter Employment Cost Index, which includes wages and salaries, was up 3 percent from the same period a year ago.

While confidence has had a disorderly upward pattern since 2009, it currently remains at an elevated level. The strength in both the labor market and financial markets underpins the current assessment. Looking forward, consumer attitudes could be influenced by how the coronavirus plays out, but as of this writing confidence does not appear to have been impacted.

SYNOPSIS

The resilient and confident consumer has provided staying power for U.S. economic growth, yet the business sector continues to weigh significant uncertainties. Corporate CEOs remain cautious given uncertainty over trade policy and the associated slowdown in global growth and U.S. manufacturing. The Business Roundtable's most recent CEO outlook was down 2.5 points from its previous quarterly reading, representing the seventh consecutive quarterly decline. Small business confidence has bounced around recently but remains elevated. The Small Business Optimism Index from the National Federation of Independent Business was at 104.3 in January, up from 102.7 in December, reversing a trend of declines in three of the previous five months.

As always, there are various wildcards that play into the economic outlook. The push and pull of forces both external and internal to the economy continues, of course, and is expected to be an ongoing challenge in 2020. We are monitoring all of these closely. Precise details of the Phase One trade deal between the United States and China are minimal and there is apprehension as a result. If the deal is followed by additional phases, the economy may find a higher gear in 2020. Alternatively, if the trade talks turn in the opposite direction, businesses will scrunch on spending plans and possibly hiring.

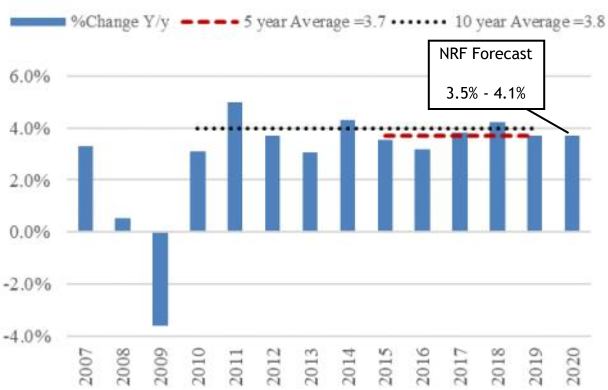
The coronavirus situation is very fluid along with being very complex. It has already taken a toll on human life, but it is still too soon to speculate on the full scope and persistence of the contagion. However, the longer it persists, the more likely it will impact retailers in their merchandise sourcing and delivery, and the key question is the potential effect on the important back-to-school and holiday seasons. There will be supply chain disruptions, setbacks for travel, tourism and transportation, and commodity demand and price effects.

Finally, uncertainties related to the upcoming 2020 elections exist considering the wide range of potential policy outcomes and could be a cause for consumers and business to be more cautious in their outlook and spending in the latter half of the year.

Nonetheless, the bottom line is that the economy is in a good place despite the ongoing trade war, coronavirus and the uncertainty of an election year. Growth is slower but remains solid.

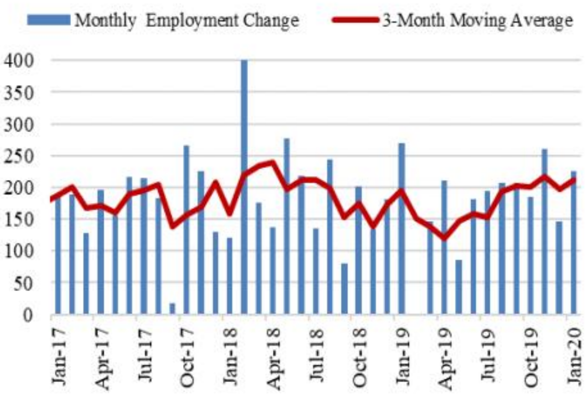
RETAIL SALES

Retail sales are expected to grow at least 3.5 percent in 2020. The underlying fundamentals for household spending remain in place but the economy is growing at a more modest pace.



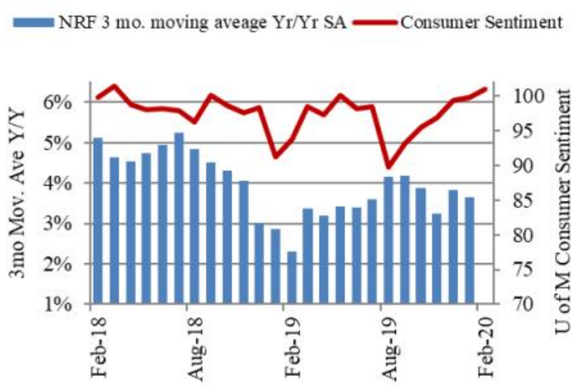
EMPLOYMENT

The labor market began 2020 on very strong footing, adding 225,000 jobs. January's unemployment rate increased to 3.6 percent as labor force participation rose to a cyclical high of 63.4 percent.



CONSUMER SENTIMENT

January's retail sales reflected a confident consumer. The preliminary February consumer sentiment index, supported by solid wage growth and job gains, was 100.9, the highest since March 2018.

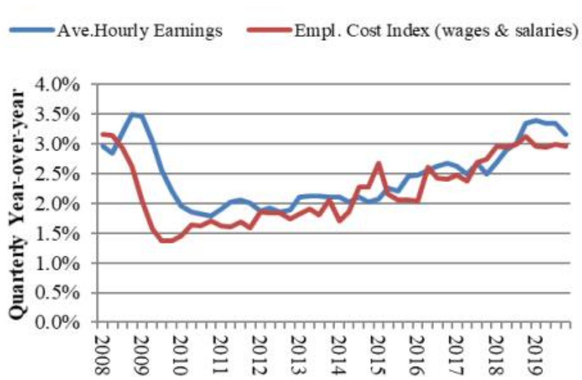


JOB OPENINGS AND HIRES

The retail job market continues on its dynamic path. There were 698,000 openings and 767,000 hires in December. December's retail unemployment rate of 3.9 percent was near its historic low.

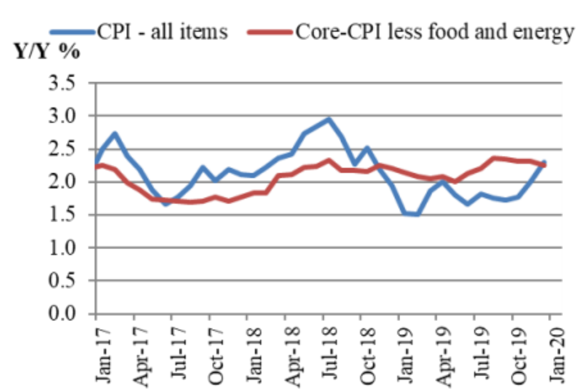
WAGE GROWTH

Both average hourly earnings and Employment Cost Index wages and salaries are stalled in the low 3 percent range. Despite the tight labor market, there is no major acceleration in wage growth.



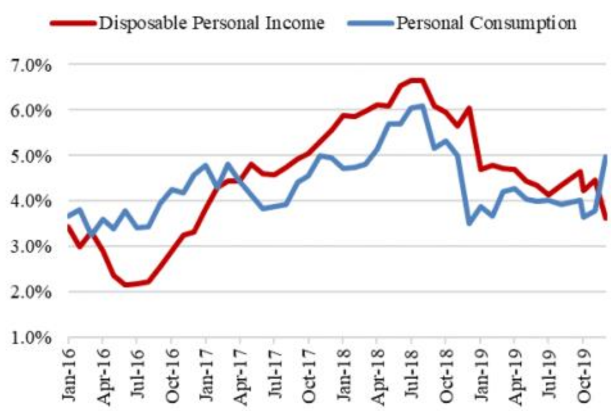
INFLATION

Inflationary pressures remain tame. The Consumer Price Index rose 2.5 percent year-over-year in January, up from 2.3 percent in December. That was the strongest annual pace since October 2018 but was high due to low prices in early 2019.



INCOME AND CONSUMPTION

While spending growth has lagged income growth for most of the recent expansion, with the divergence between income and consumption in December, households had to save less and used their credit cards more.



LEADING ECONOMIC INDEX

The Conference Board's Leading Economic Index rebounded in January. It points to the ongoing strength of the economy and implies that the expansion will continue at least another six months.