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

Federal Reserve interest hike not a major threat to consumers

The Federal Reserve recently reported that the net worth of U.S. households and nonprofits – the value of stocks, bonds bank accounts and other assets minus mortgages, credit cards and other debts – increased by $2.1 trillion to $98.7 trillion in the fourth quarter of 2017. The 7.8 percent annual growth in wealth is directly tied to the pickup in the stock market and housing prices. At the same time, household liabilities increased $209 billion. Consumer credit rose $86 billion while mortgage debt rose $67 billion. The data suggests that the household balance sheet in the aggregate is in good shape and is in a far better condition than at the same time late in previous expansions. Moreover, households are significantly underleveraged relative to recent prior expansions.

Besides personal income and drawing down savings, consumers use credit to achieve higher spending. Personal consumption has exceeded disposable personal income since late 2015. A reduction in saving and increased use of credit has filled that gap. In 2017 outstanding revolving credit (mostly credit cards) advanced on a monthly pace of 5.9 percent. That was nearly twice the 3.1 average monthly growth in 2016. Besides a higher level of spending, households frequently use credit to smooth out consumption during the year, such as with holiday shopping.

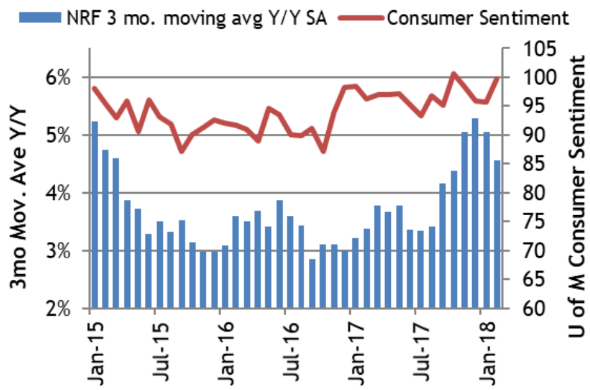
In the wake of the Great Recession, households reduced their debt levels. The low interest environment between 2008 and 2016 helped keep debt service costs low and supported household borrowing and, in turn, spending. While borrowing increased over the last 17 consecutive quarters, the debt service ratio reveals consumers have kept their borrowing manageable and delinquencies low. The ratio measures the amount of disposable income households need to cover principal and interest. It is currently 10.29 and remains near 30-year historical lows. Although the low figure is due in part to tighter credit standards following the Great Recession, it is also due to lower interest rates. A measure of debt payment behavior covered in the Fed's recent Survey of Consumer Finances is whether a family uses credit cards for convenience only or carries a balance. In 2016, 58 percent used credit cards for convenience only (not carrying a balance), down from 64 percent in 2013 and 63 percent in 2010.

In March, the Fed increased its benchmark rate to a range between 1.5 percent and 1.75 percent. This quarter-point increase was designed to manage inflation and inflation expectations and signal that the economy is on track for future growth. With outstanding consumer credit near all-time highs, how worrisome is the increase for household borrowing and spending? Higher rates will impact a portion of consumer loans that have floating rates (personal, autos, home equity) but fortunately, 70 percent of U.S. household debt is in mortgage balances that are at fixed rates, so a gradual increase should not necessarily be a significant concern.

There has been some tightening of consumer loan credit standards by lenders. This is not surprising given that historically underwriting standards tend to tighten pre-emptively to reduce risk of losses as rates go up. Higher rates have translated into households straining to make payments. Looking ahead, planned gradual rate increases by the Fed and relatively modest tightening in credit standards should be more than offset by healthy pace of spending coming from faster growth in the economy and increased income.

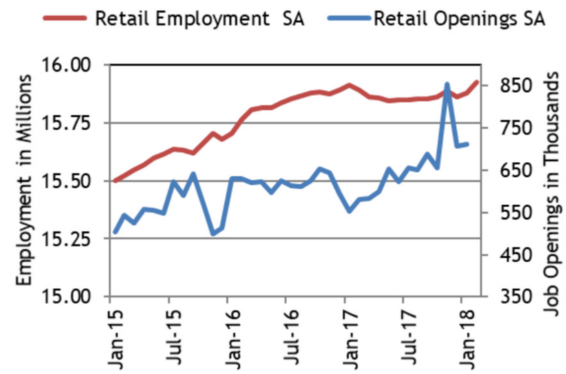
CONSUMER SENTIMENT

February's three-month retail sales average was 4.4 percent above a year earlier. The results are on track with NRF's 2018 forecast for between 3.8 percent and 4.4 percent growth over 2017.



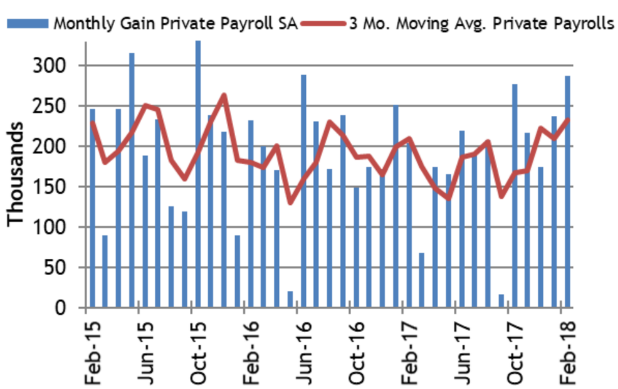
RETAIL JOBS

January retail employment totaled 15.9 million, an all-time high, up by over 50,000 from December. Retail openings remain at record monthly highs.



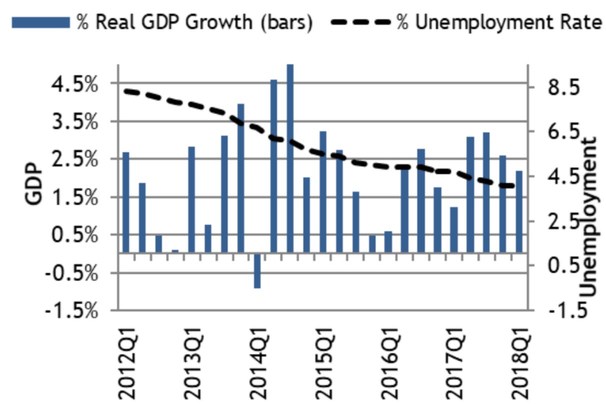
PAYROLL

Jobs grew at a very strong pace in January and February, suggesting there is still slack in the labor market and consistent with modest wage increases.



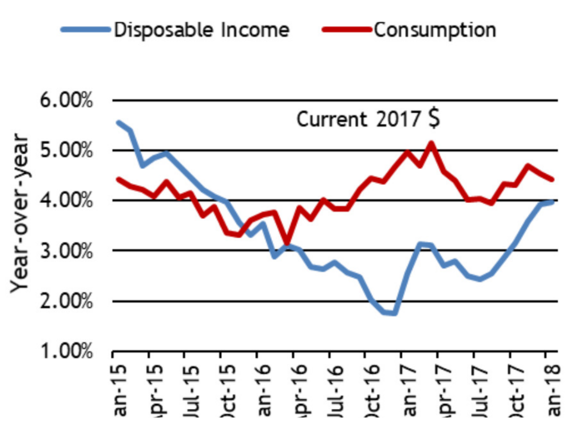
GDP

Real GDP grew at a 2.5 percent annualized rate in the fourth quarter and 2.3 percent for all of 2017. At approximately 2.8 percent, growth in 2018 is expected to be even better.



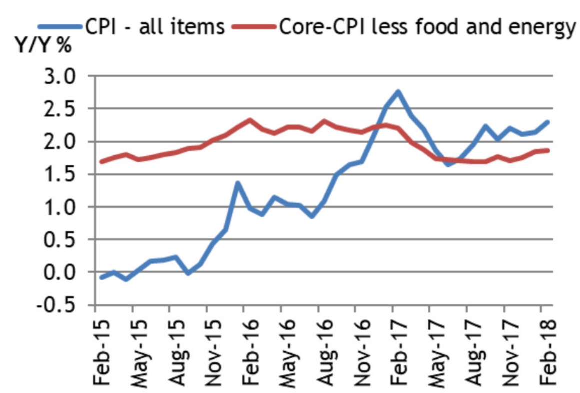
CONSUMER SPENDING AND INCOME

While spending fell off, disposable income in January accelerated due to tax reform, Social Security increases and wage and salary gains. Households saved the increase, elevating the savings



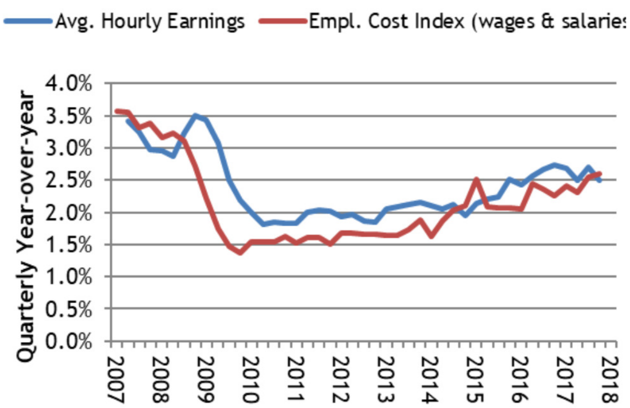
CONSUMER PRICE INDEX

Over the past 12 months, the CPI is up 2.2 percent and, excluding food and energy, core CPI is up 1.8 percent. The increases presumably entered into the Fed's decision to hike interest.



WAGES

Despite a lower year-over-year pace of 2.6 percent, growth in average hourly earnings in February was in line with the Fed's preferred measure, the Employment Cost Index.



CONSUMER CREDIT

Consumer credit continues to climb, but its growth has slowed. Revolving credit, primarily credit cards, increased just $701,000 in January, the smallest gain since February 2015.