Economics and Country Risk

US Economic Outlook

The US Retail Sales Outlook

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The US economy on a solid growth path

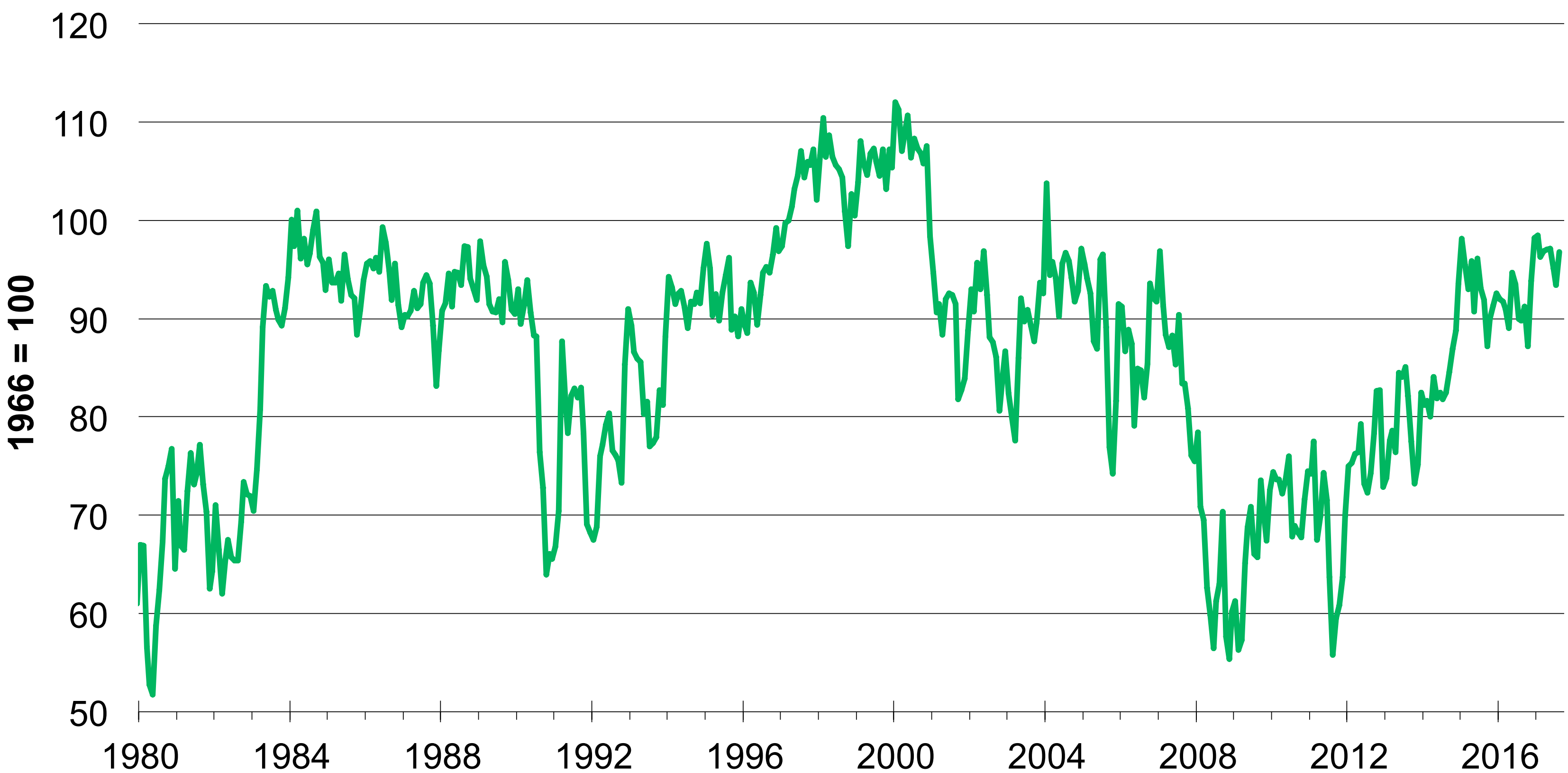
- Real GDP growth picked up from an annual rate of 1.2% in the first quarter to 3.0% in the second quarter as consumer spending accelerated.
- Hurricanes Harvey and Irma have disrupted economic activity in the third quarter, but recovery and rebuilding will boost growth in subsequent quarters.
- Consumer spending continues to drive US economic growth, supported by rising employment, real incomes, and household wealth.
- Business fixed investment will benefit from strengthening global markets and an easing of regulatory policies, although commercial building is slowing.
- Increasing demand, low inventories of homes for sale, and rising prices will encourage more homebuilding, even as interest rates rise.
- The Federal Reserve will gradually raise interest rates (taking the federal funds rate to 3% in late 2019) and reduce its asset holdings.
- The economy's long-term potential growth rate is near 2%.
- A recent rise of the softer numbers is noticeable after the presidential election.

Harvey and Irma will dampen GDP in the later half of 2017 and boost it in the first half of 2018

- Hurricanes Harvey and Irma have disrupted economic activity in the third quarter, but recovery and rebuilding will boost growth in subsequent quarters
- The extent of the reduction in GDP growth during the third and fourth quarters and the subsequent rebound during the first half of next year will depend on the extent of damage to key segments of the impacted economies and how quickly the reconstruction efforts can get under way
- Personal income will take a direct hit from Hurricane Harvey and Irma due to the lost wages of displaced workers as will real spending growth; real residential investment growth is expected to turn positive in the 3rd quarter

Consumer sentiment is upbeat, supported by improving household finances

University of Michigan Index of Consumer Sentiment



Source: University of Michigan Surveys of Consumers

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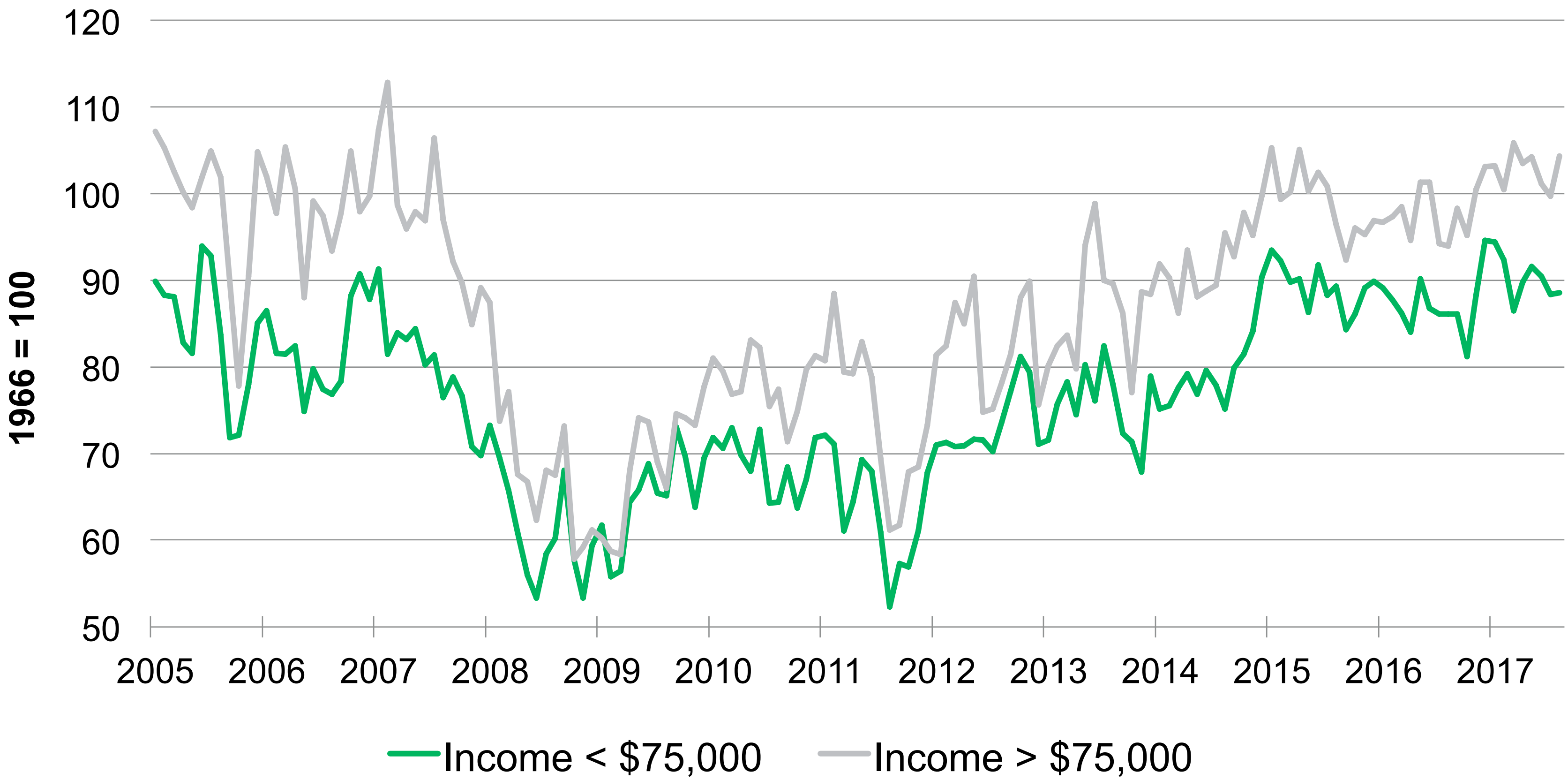
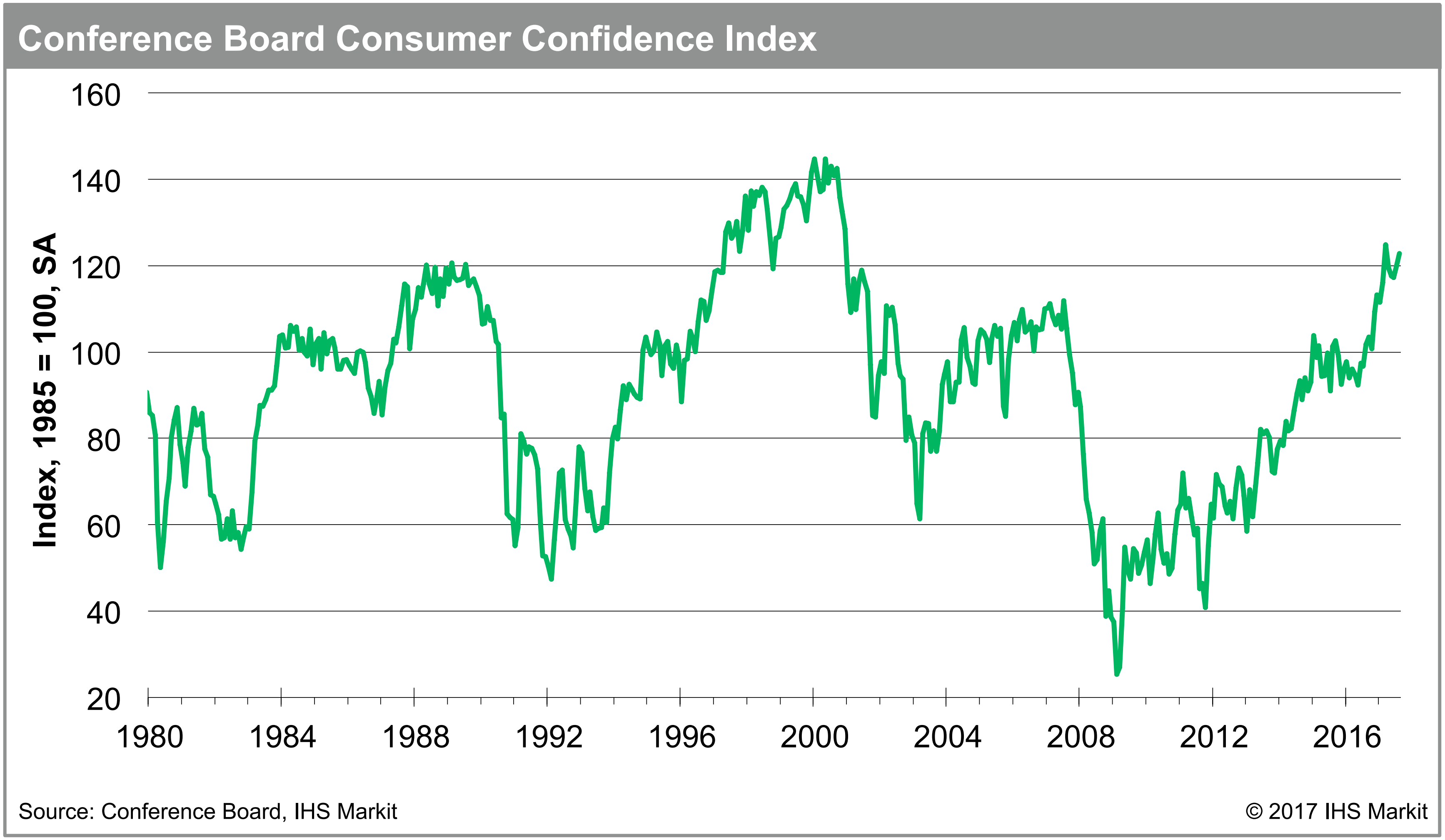
Consumer sentiment by household income

Consumer sentiment by household income



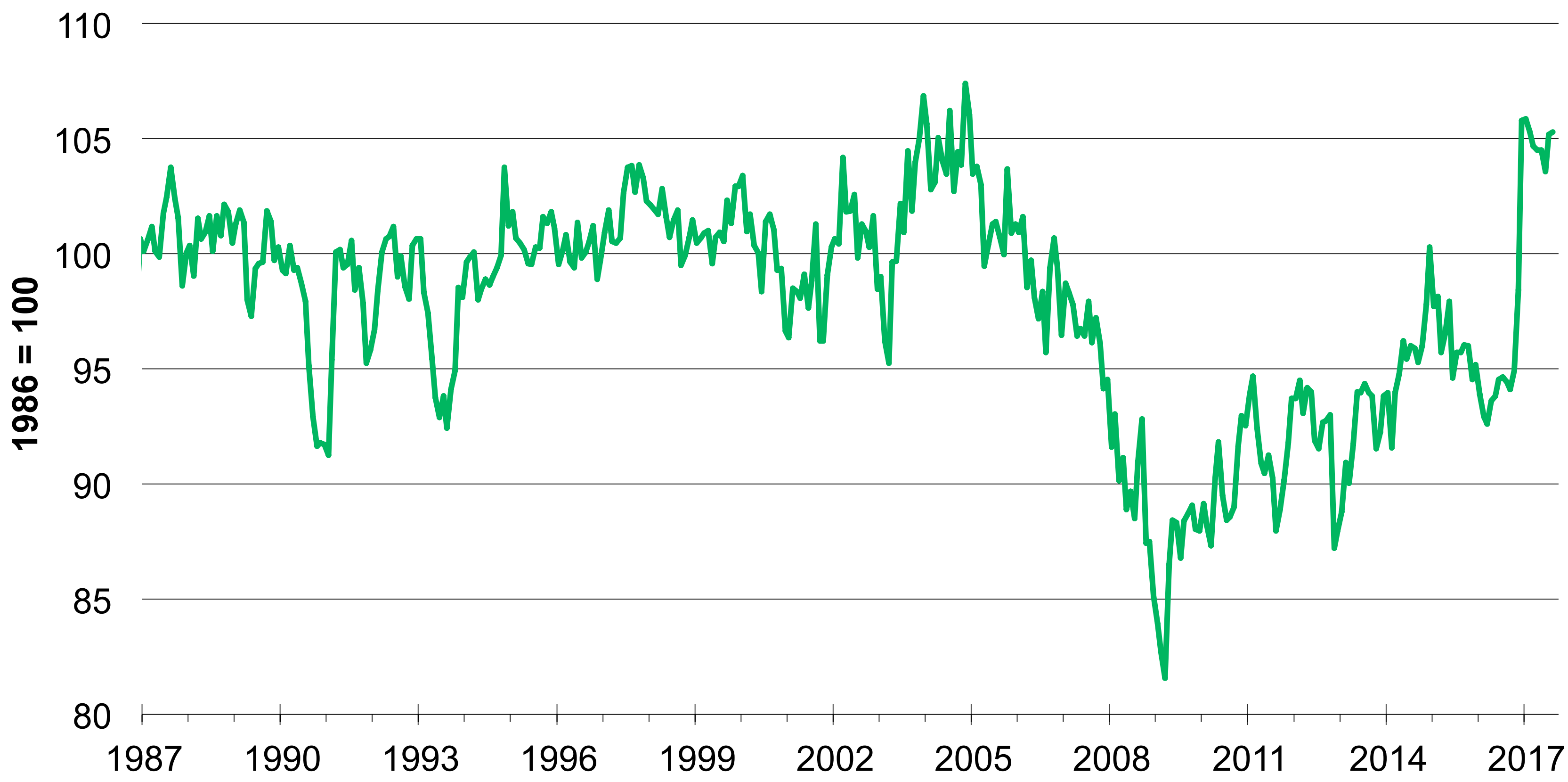
Source: University of Michigan, IHS Markit

Consumer confidence is riding high



US small business sentiment soared after the November 2016 election and remains high

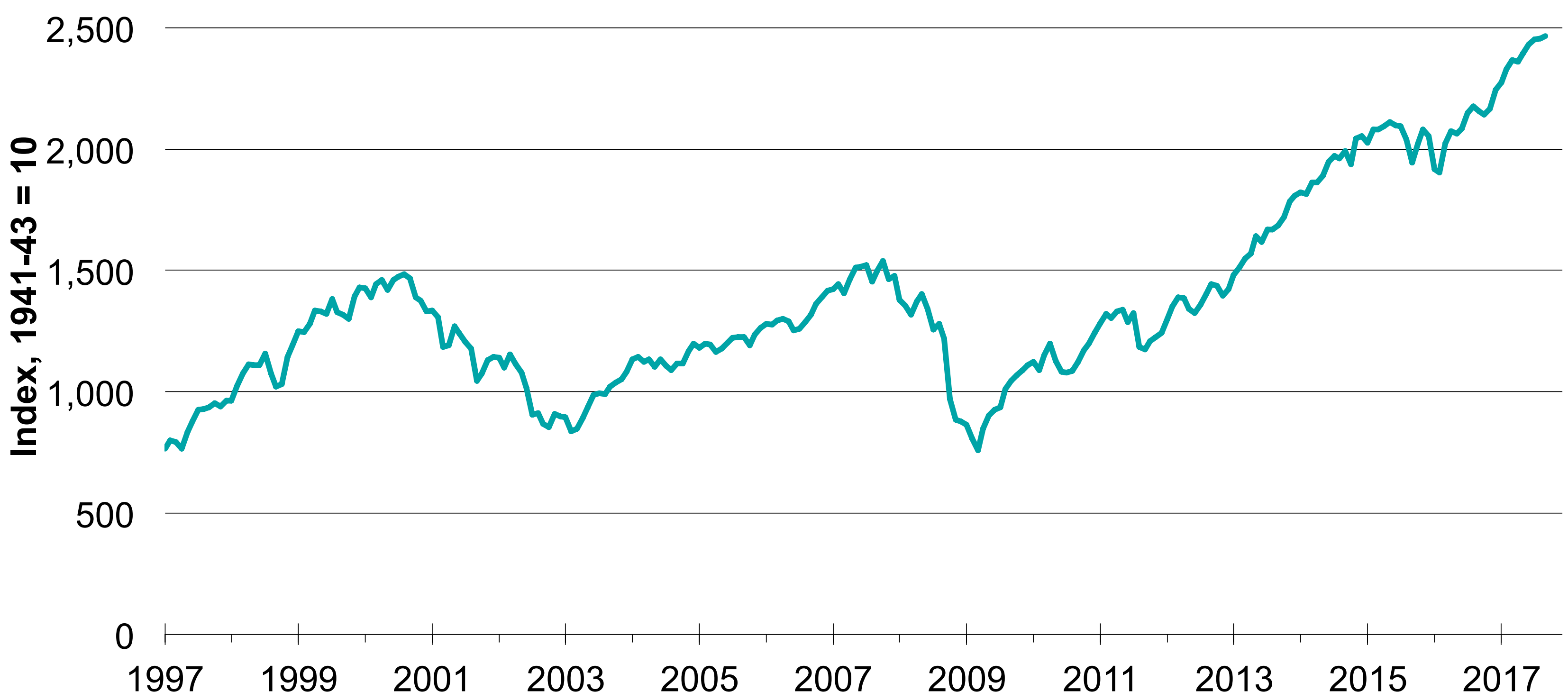
NFIB index of small business optimism



Source: National Federation of Independent Business

US stock prices have reached new highs in 2017

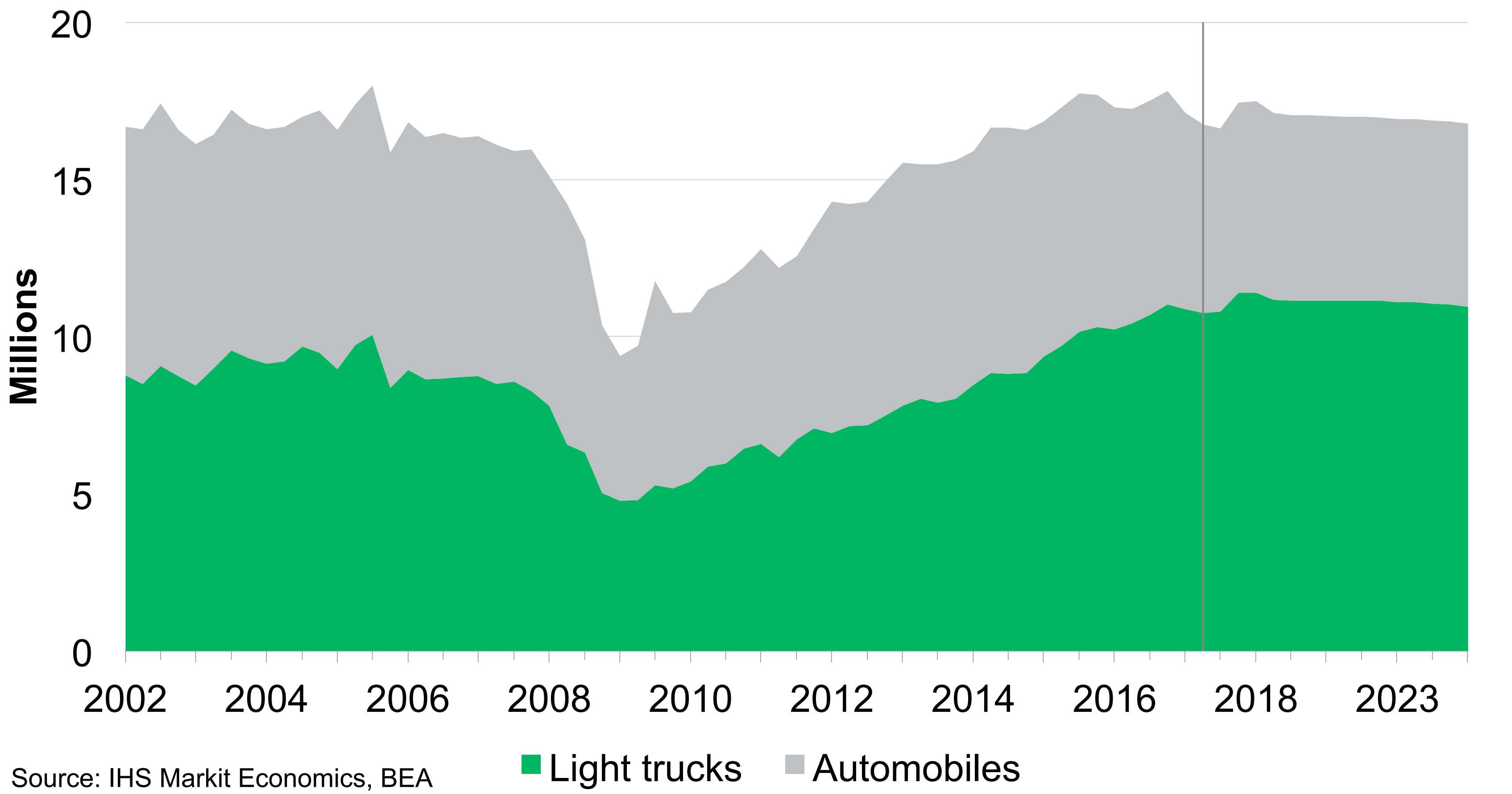
S&P 500 stock price index



Source: IHS Markit

US light-vehicle sales have reached their peak; light trucks will continue to outsell cars

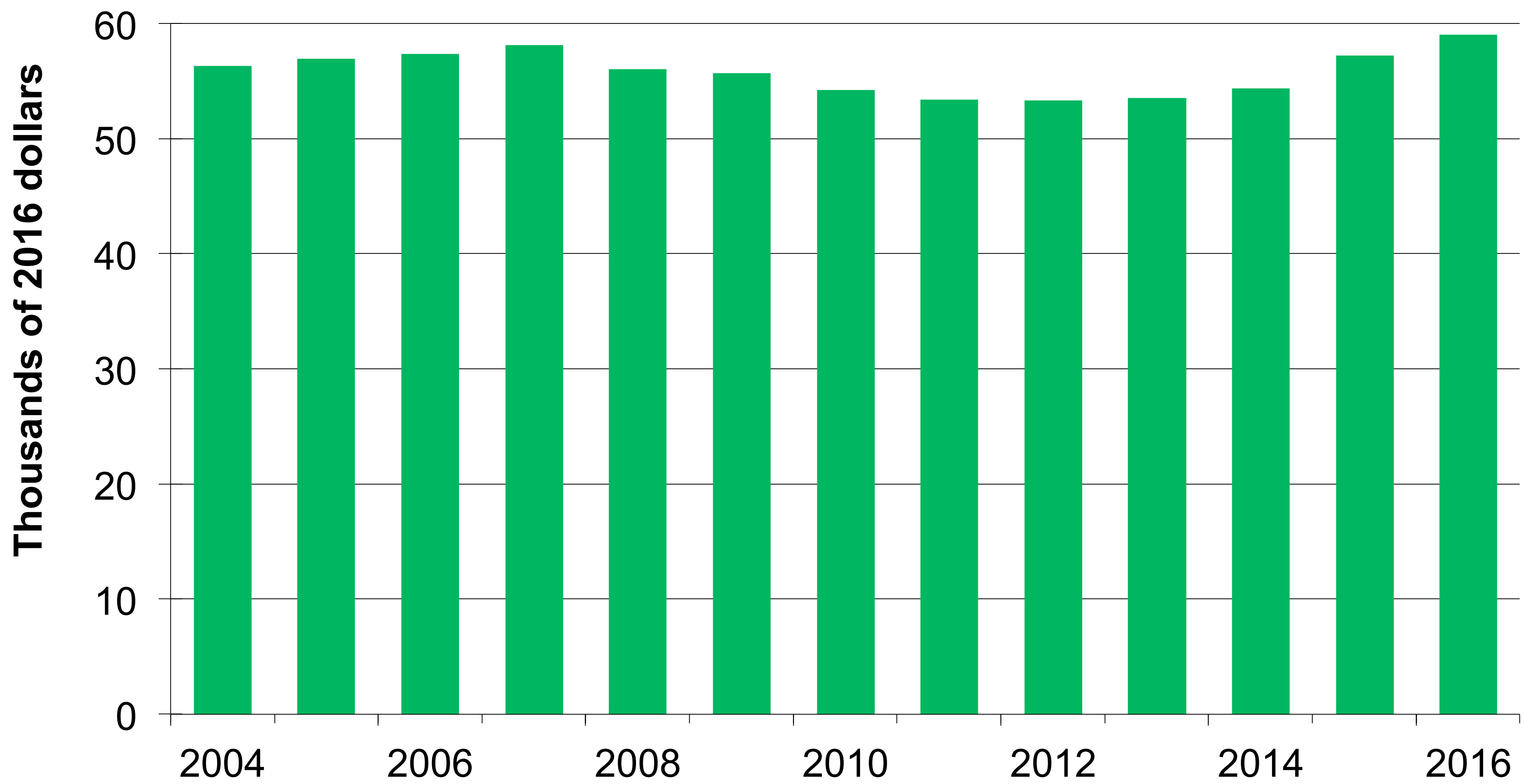
Total light vehicle (automobiles + light trucks) unit sales, SAAR



Source: IHS Markit Economics, BEA

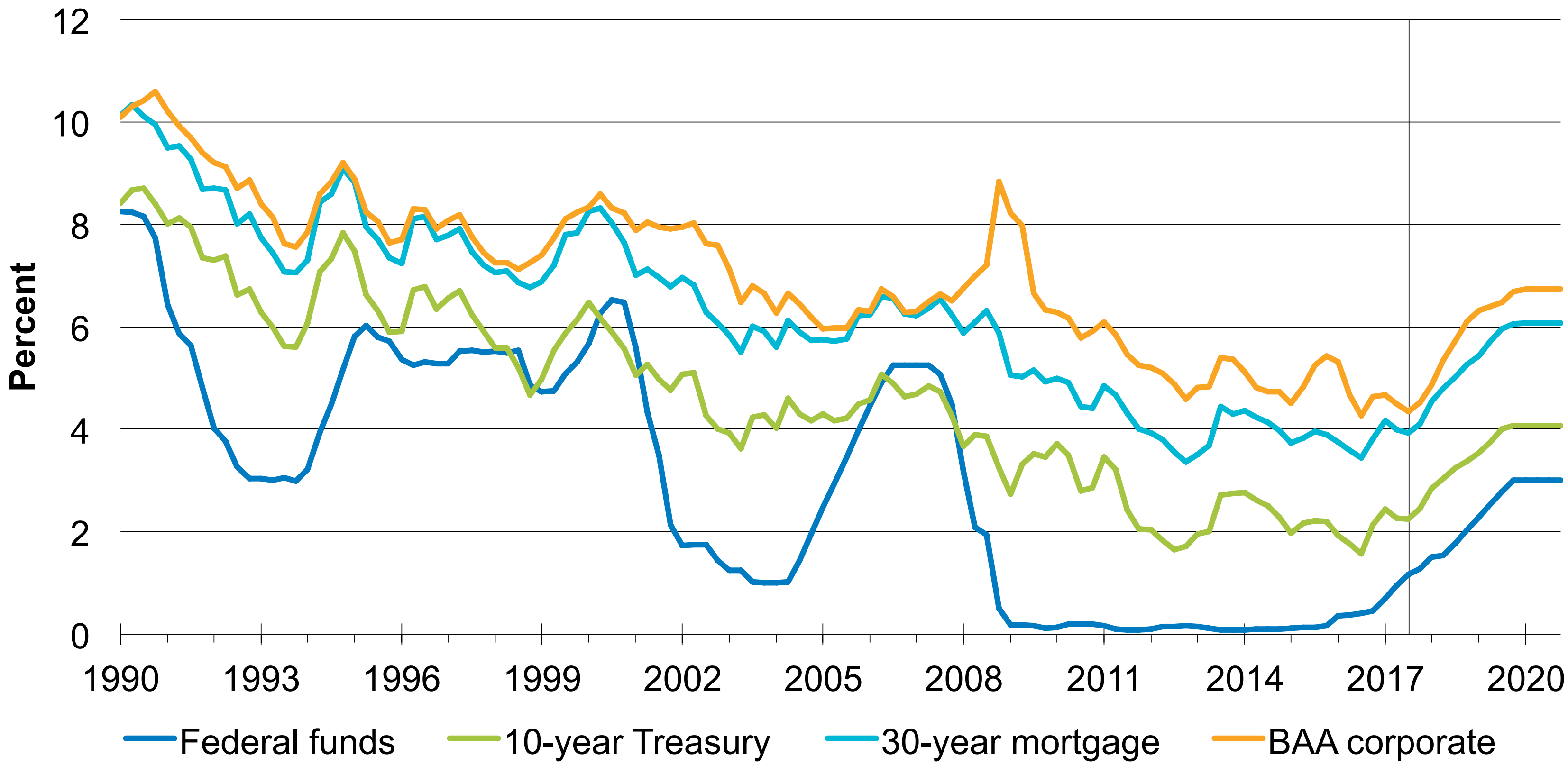
Real median household income made strides in 2015 and 2016

Real median household income



Interest rates will continue to rise as the Federal Reserve normalizes monetary policy

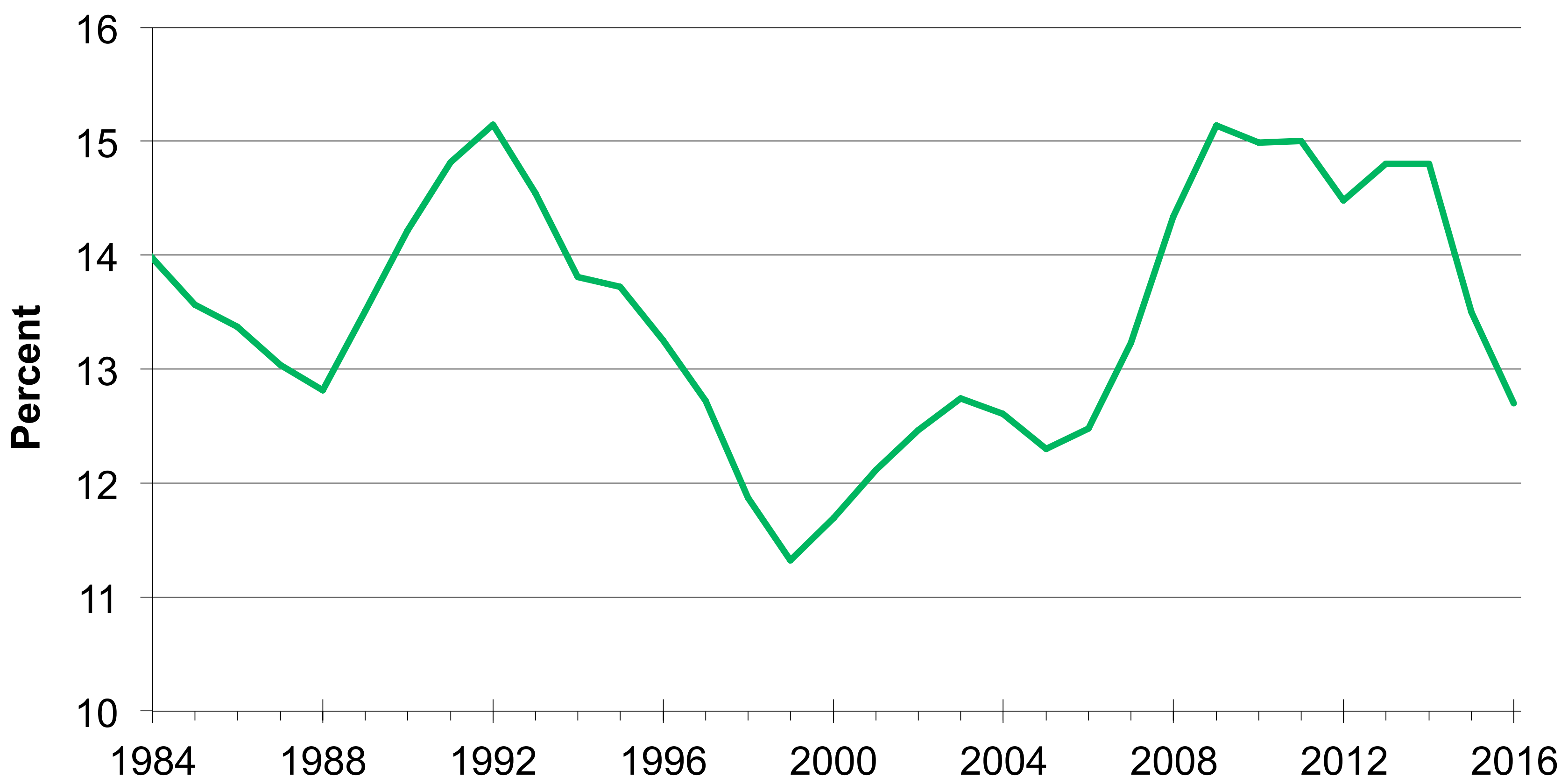
Interest rates



Source: IHS Markit

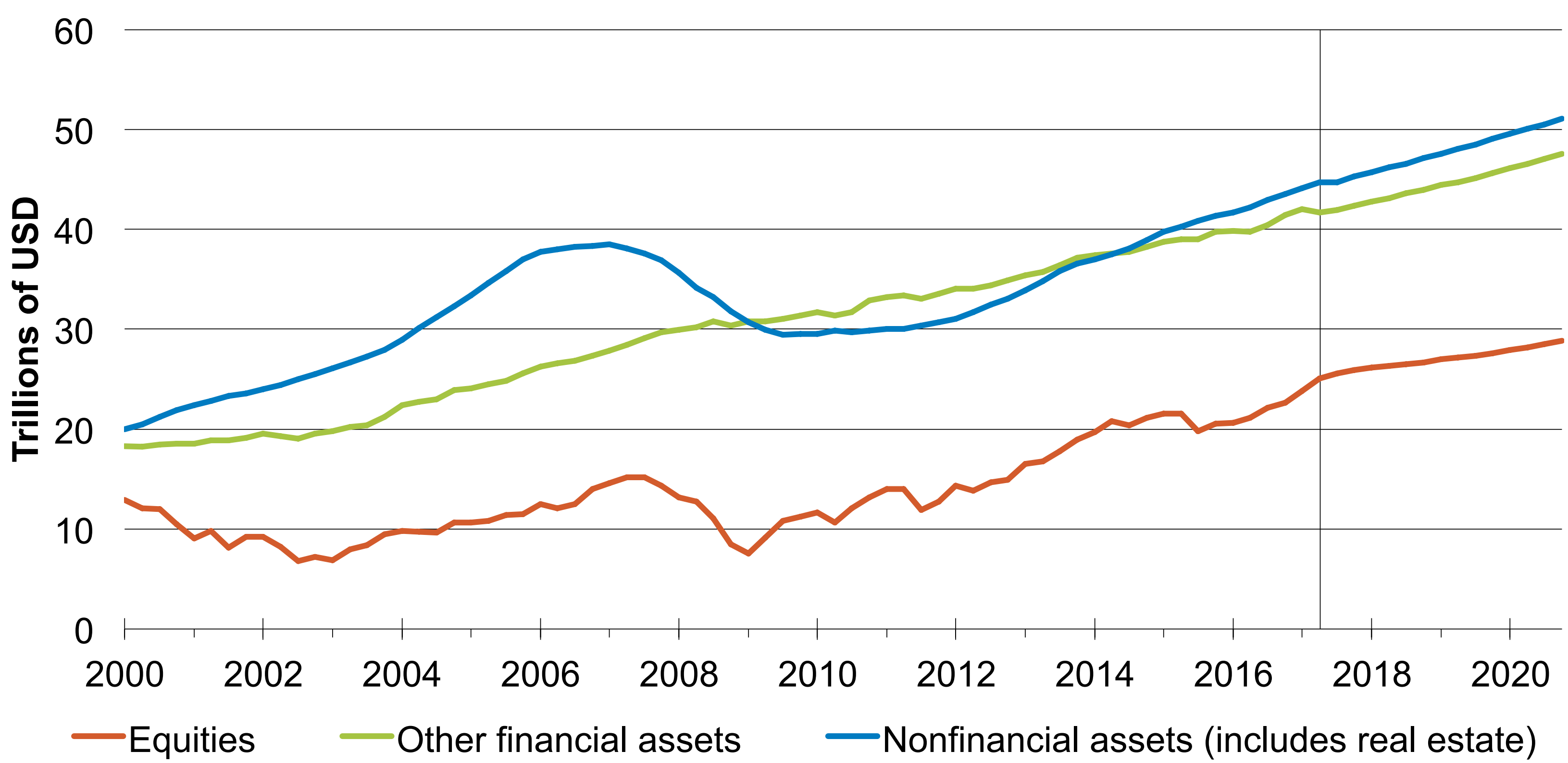
Poverty rate pushed lower in 2015 and 2016

Percent of people below poverty level



Household financial and real estate assets are rising

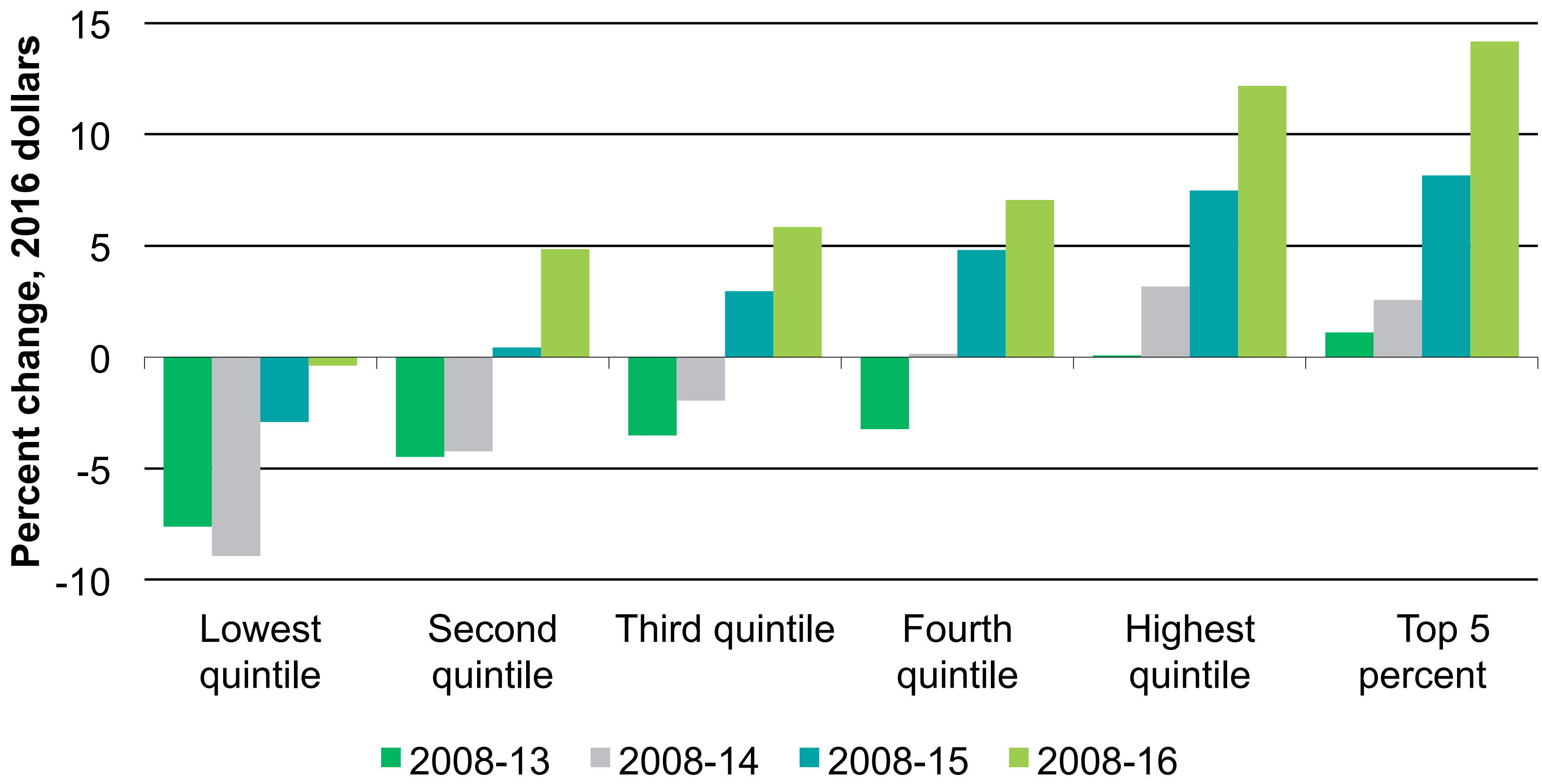
Household asset holdings



Source: IHS Markit

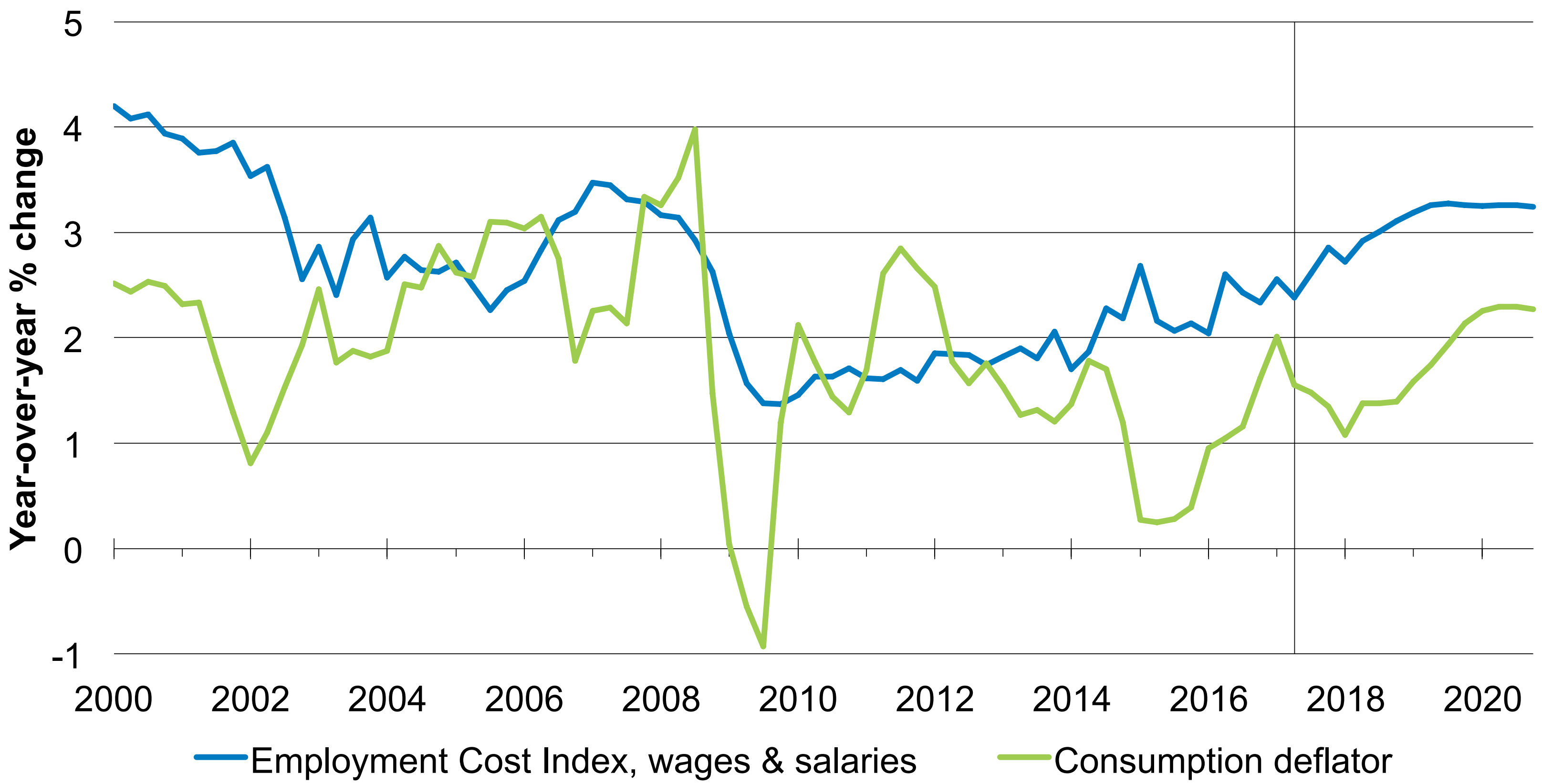
Incomes pushed past prerecession levels for most households

Real mean household income by quintile



Wage gains will continue to outpace inflation

Wages and prices



Source: IHS Markit

Forces affecting consumer spending

Positive forces	Negative forces
• Employment growth	• High student debt burdens
• Wage acceleration	• Saving for retirement
• Rising asset values	• Asset and income inequality raises aggregate saving
• Income tax cuts in 2018	
• Expansion of e-commerce	
↑	↓

The consumer market environment is favorable

Consumer market indicators

Percent change	**2016**	**2017**	**2018**	**2019**
Real consumption	2.7	2.7	2.8	2.6
Real disposable income	1.4	1.5	3.5	3.2
Real household net worth	4.6	4.3	2.5	1.9
Payroll employment	1.8	1.5	1.5	1.2
Real wage rate	1.1	1.0	1.6	1.4
Consumption price deflator	1.2	1.6	1.3	1.9
Light-vehicle sales (Millions)	17.5	17.0	17.2	17.0
Single-family home sales (Millions)	5.39	5.58	5.71	5.65

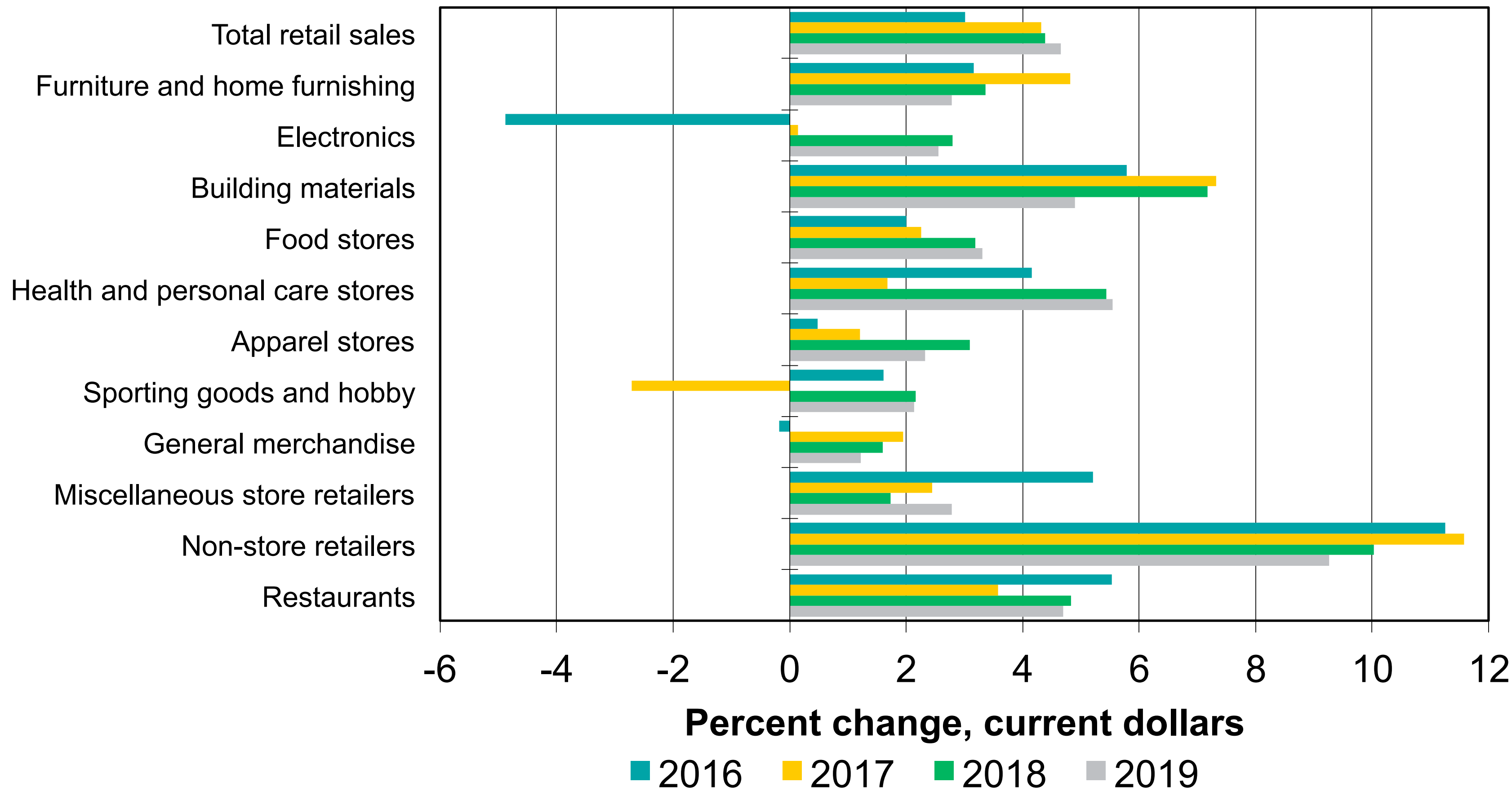
Source: IHS Markit

The retail sales outlook

- Retail sales rose 0.6% in July. Sales excluding autos and gasoline were up 0.5, and there were upward revisions to May and June.
- Retail sales gains were broad-based. Major gainers were autos, auto parts, furniture, building materials, grocery, health, sporting goods, general merchandise, department, nonstore (mostly online), and restaurants.
- Major losers were gasoline stations, electronic stores, and clothing outlets.
- Department stores grew a whopping 1.0% in July after taking hard hits in May and June. Online sales did extremely well, partially thanks to Amazon Prime Day (mid-July).
- There were upward revisions to retail sales used to estimate consumer spending in May and June, and July came in stronger than expected.
- Our forecast calls for growth of 4.3% in back-to-school retail sales this year compared to last year, which would be the strongest growth since 2014. We define back-to-school sales as not-seasonally-adjusted retail sales excluding motor vehicles, gasoline, and food services for July through August.

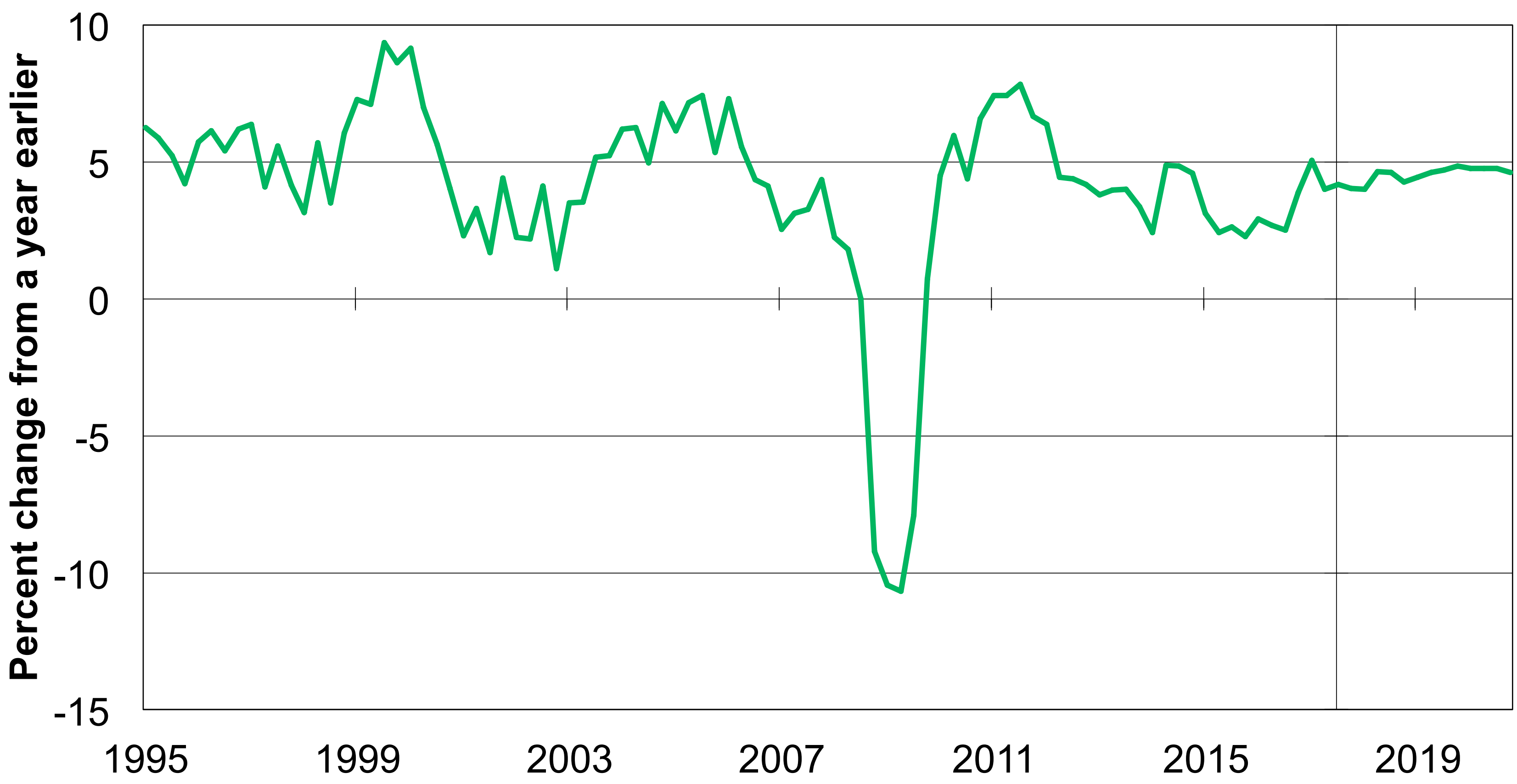
Retail sales outlook

Retail sales outlook



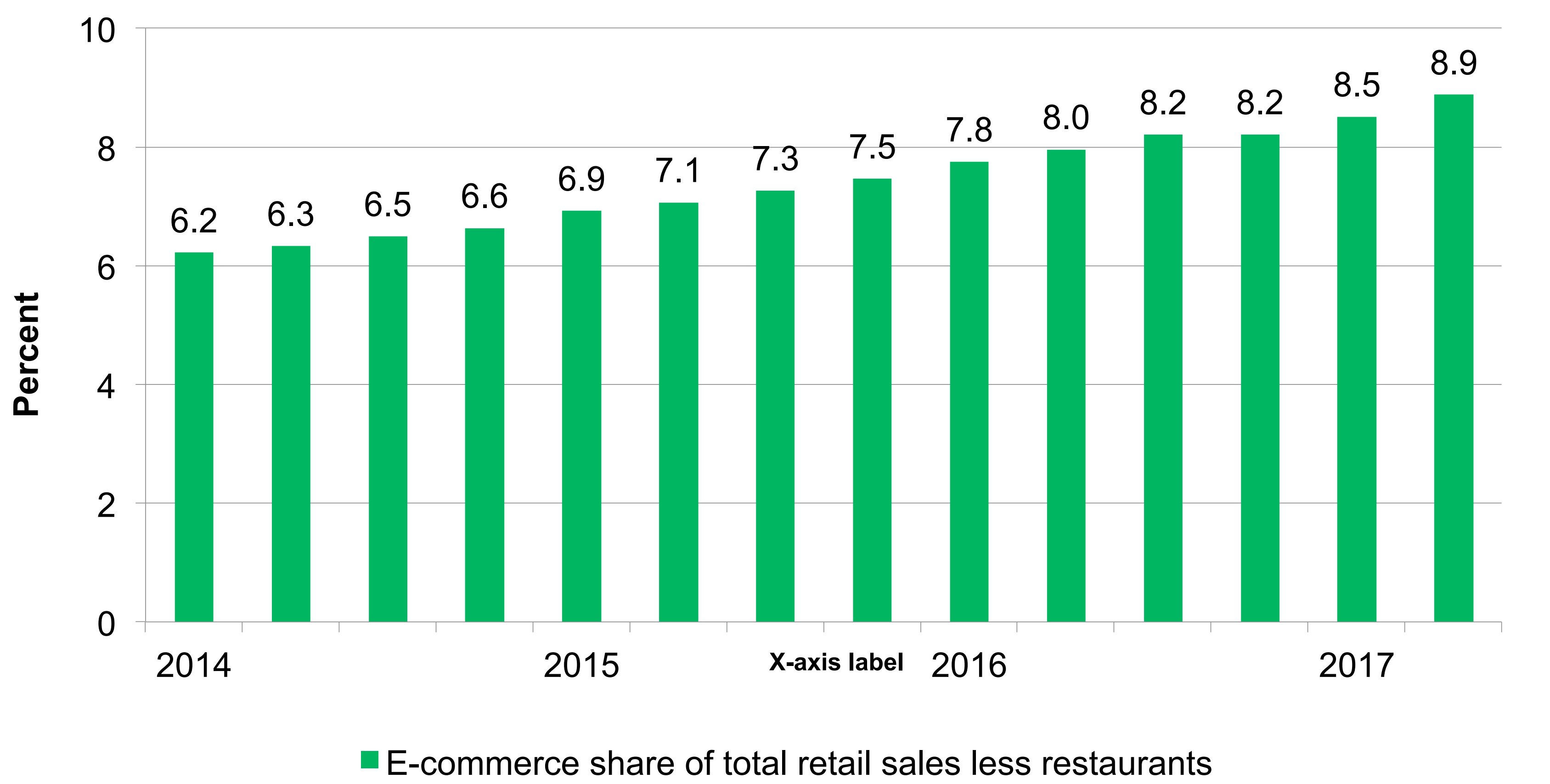
Total retail sales

Total retail sales



E-commerce share of retail trade jumps in second quarter

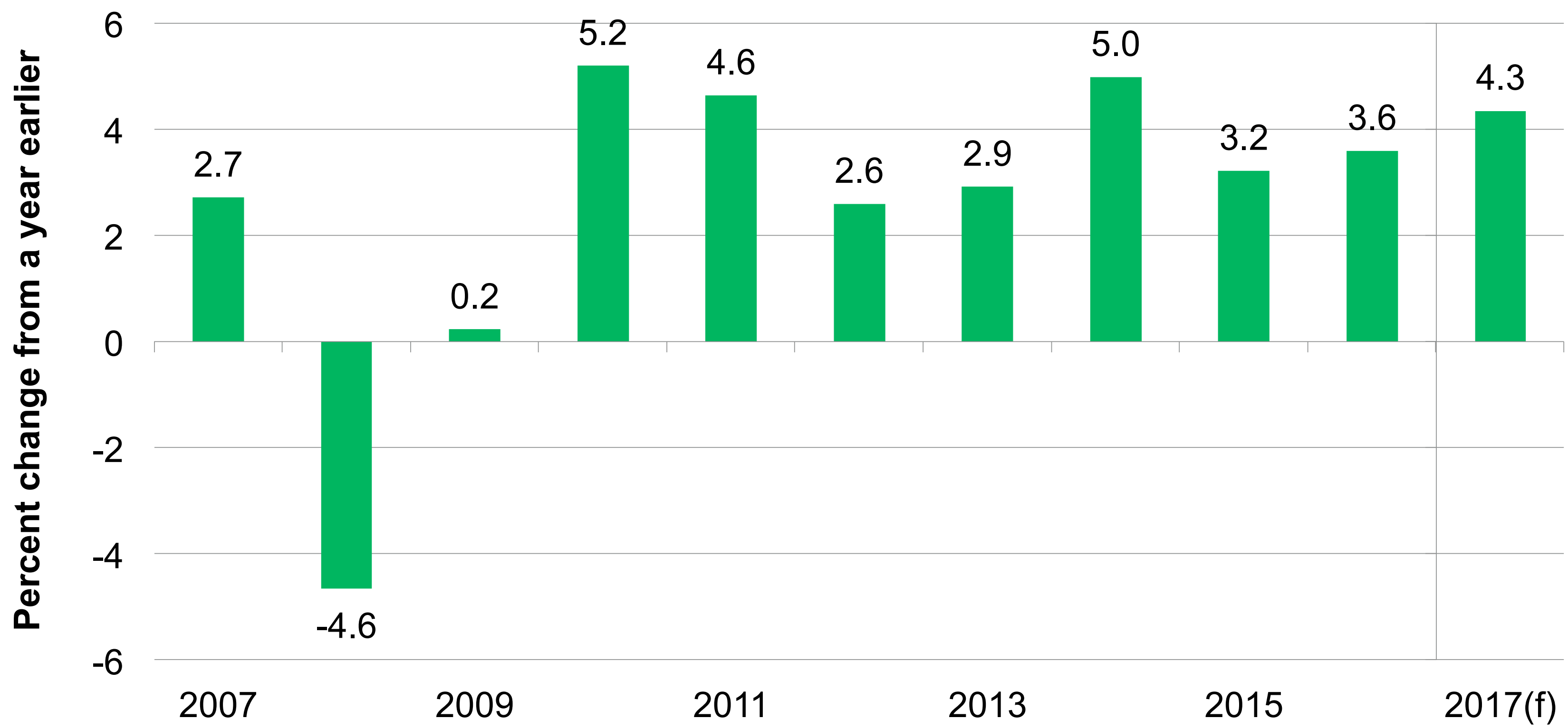
E-commerce share of retail sales jumps in second quarter



Source: IHS Markit

Holiday retail sales growth to see best year since 2014

Holiday retail sales

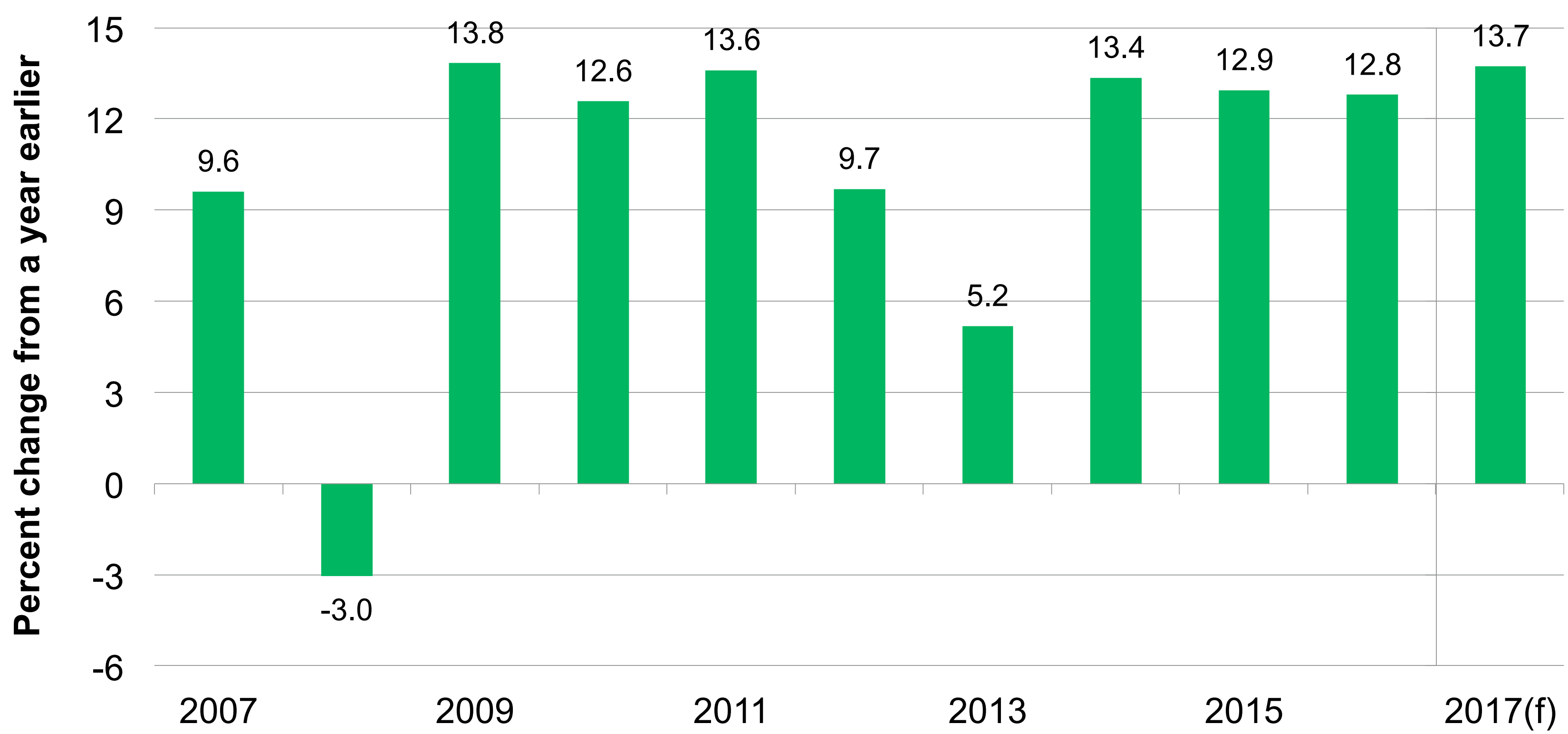


Notes: NSA November and December total retail sales less auto dealerships, gasoline, and food services

Source: IHS Markit

Online holiday retail sales growth to be fastest since 2009

Online holiday retail sales

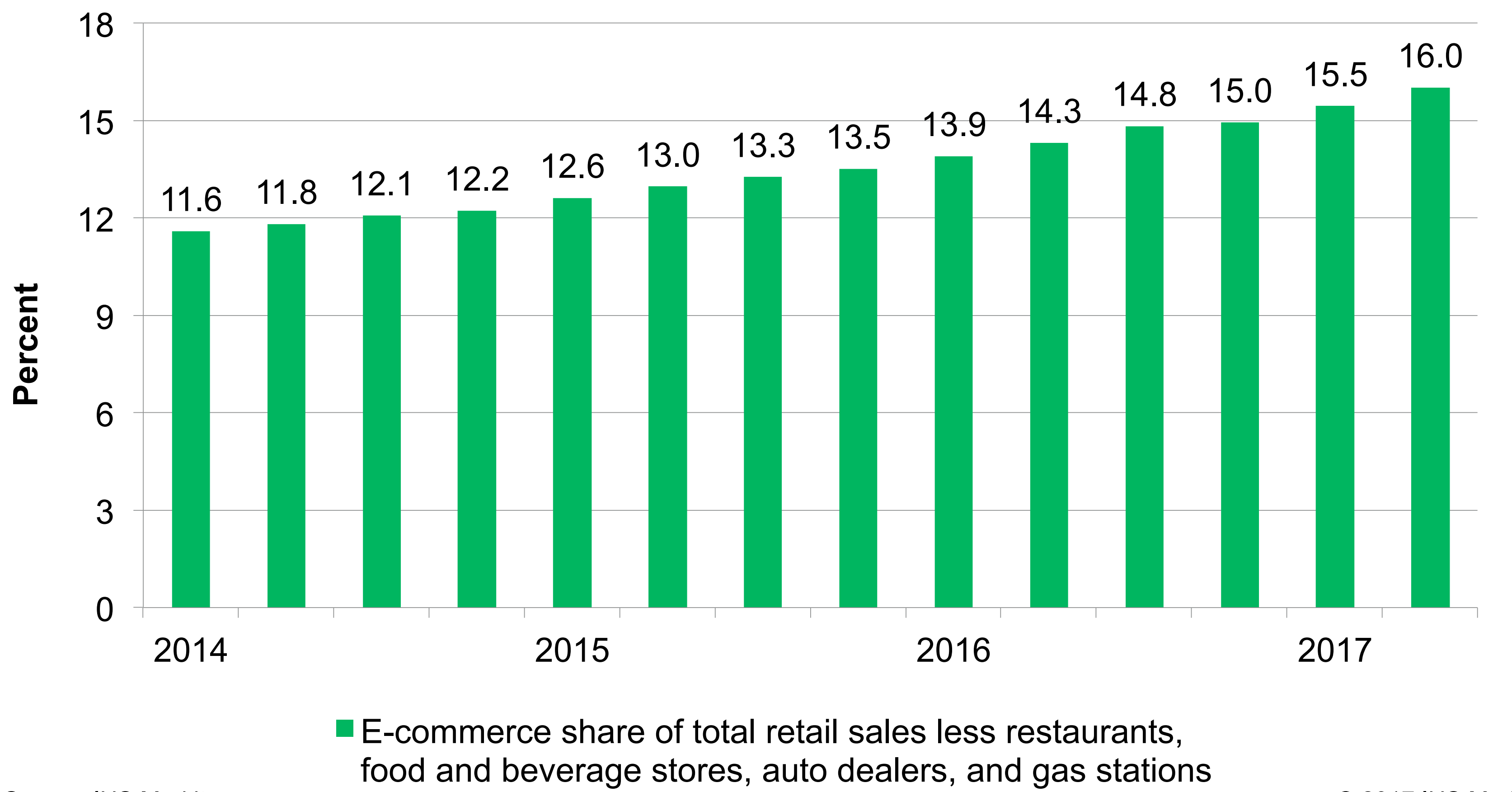


Notes: NSA November and December electronic shopping and mail order retail sales

Source: IHS Markit

Ecommerce takes a bigger bite out of retail sales

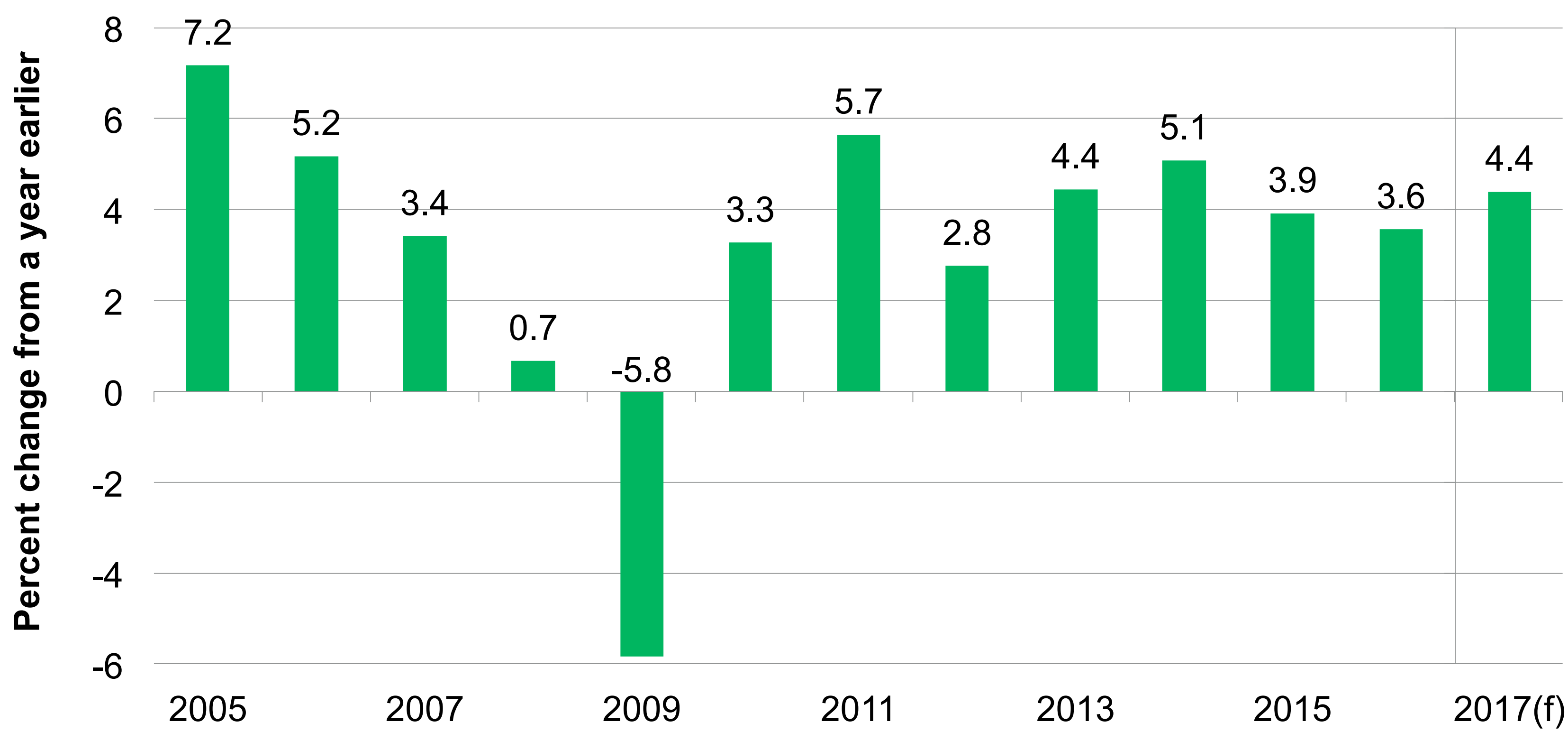
E-commerce share of retail sales



Source: IHS Markit

Back-to-school retail sales growth

Back-to-school retail sales

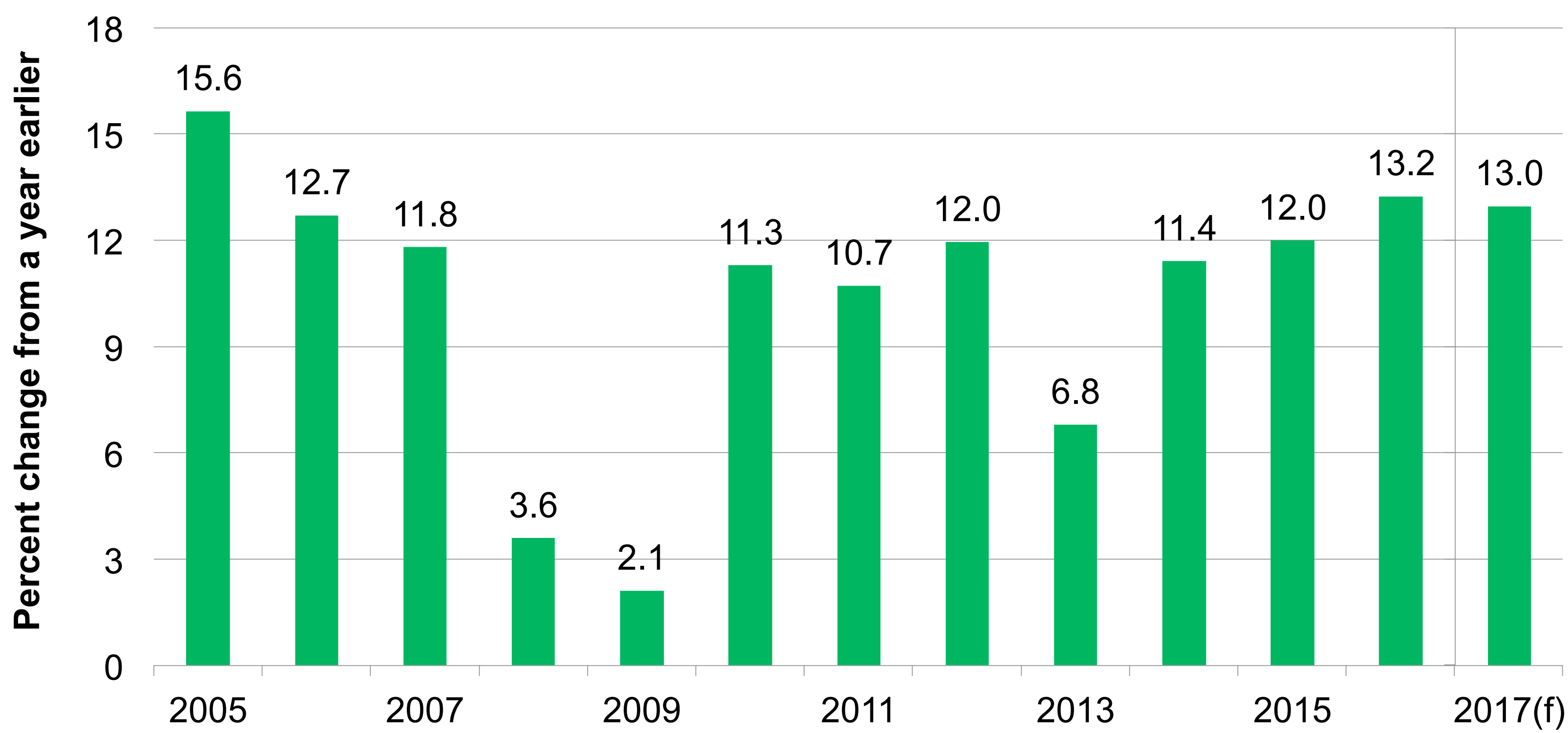


Notes: NSA July, August, and September retail sales excluding motor vehicles, gasoline, and food services

Source: IHS Markit

Online back-to-school retail sales growth

Online back-to-school retail sales

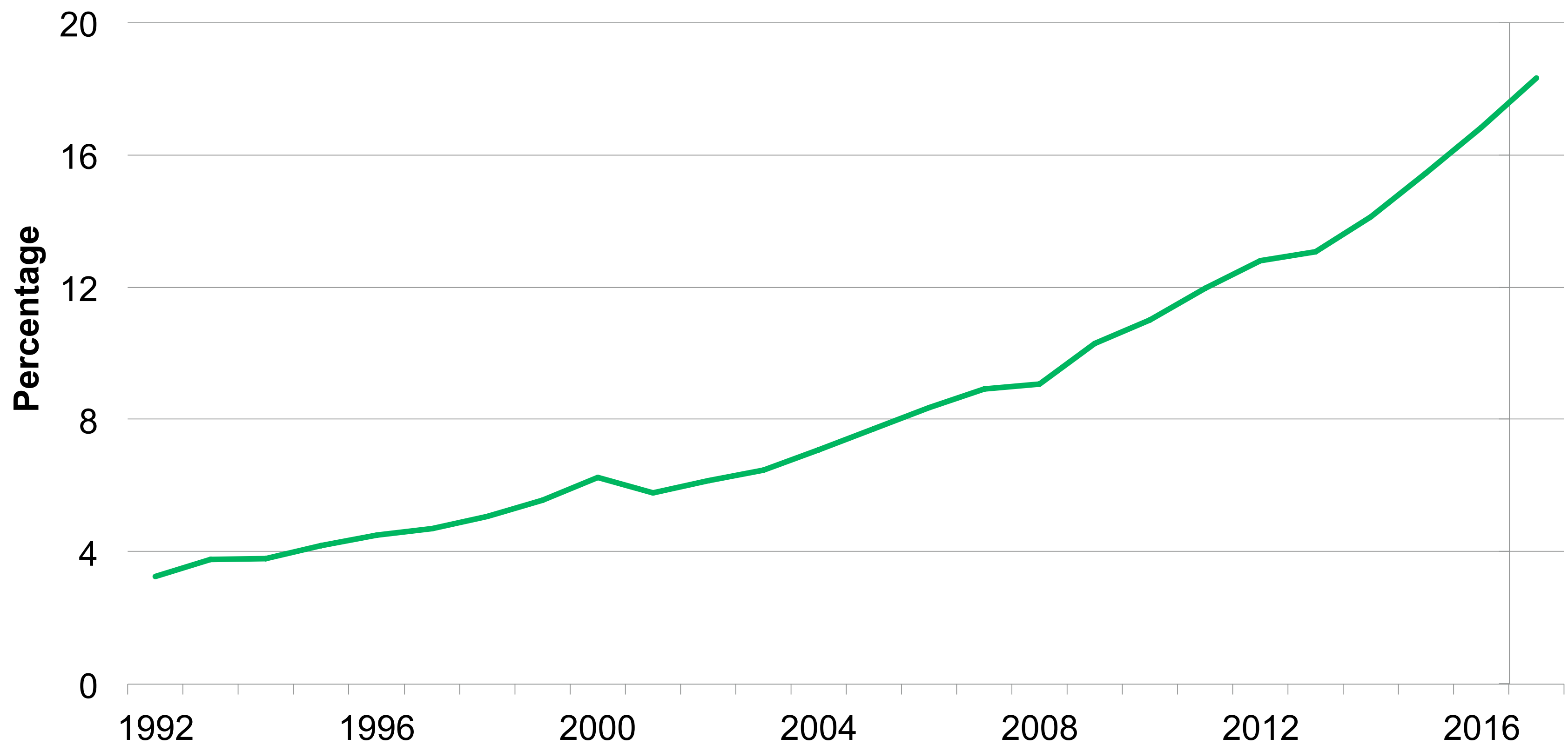


Notes: NSA July, August, and September electronic shopping and mail order retail sales

Source: IHS Markit

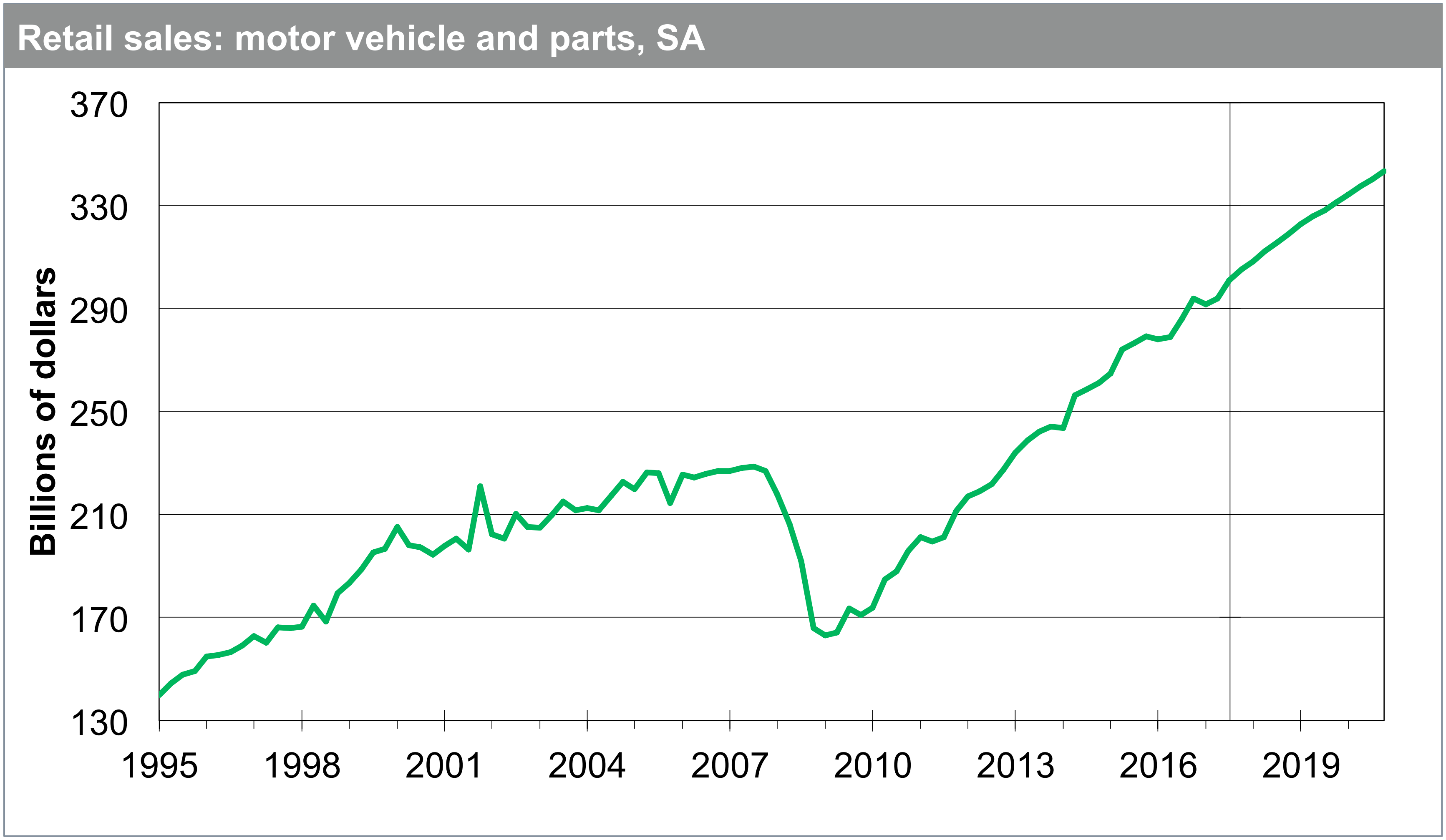
Online share of holiday retail sales

E-commerce share of holiday retail sales



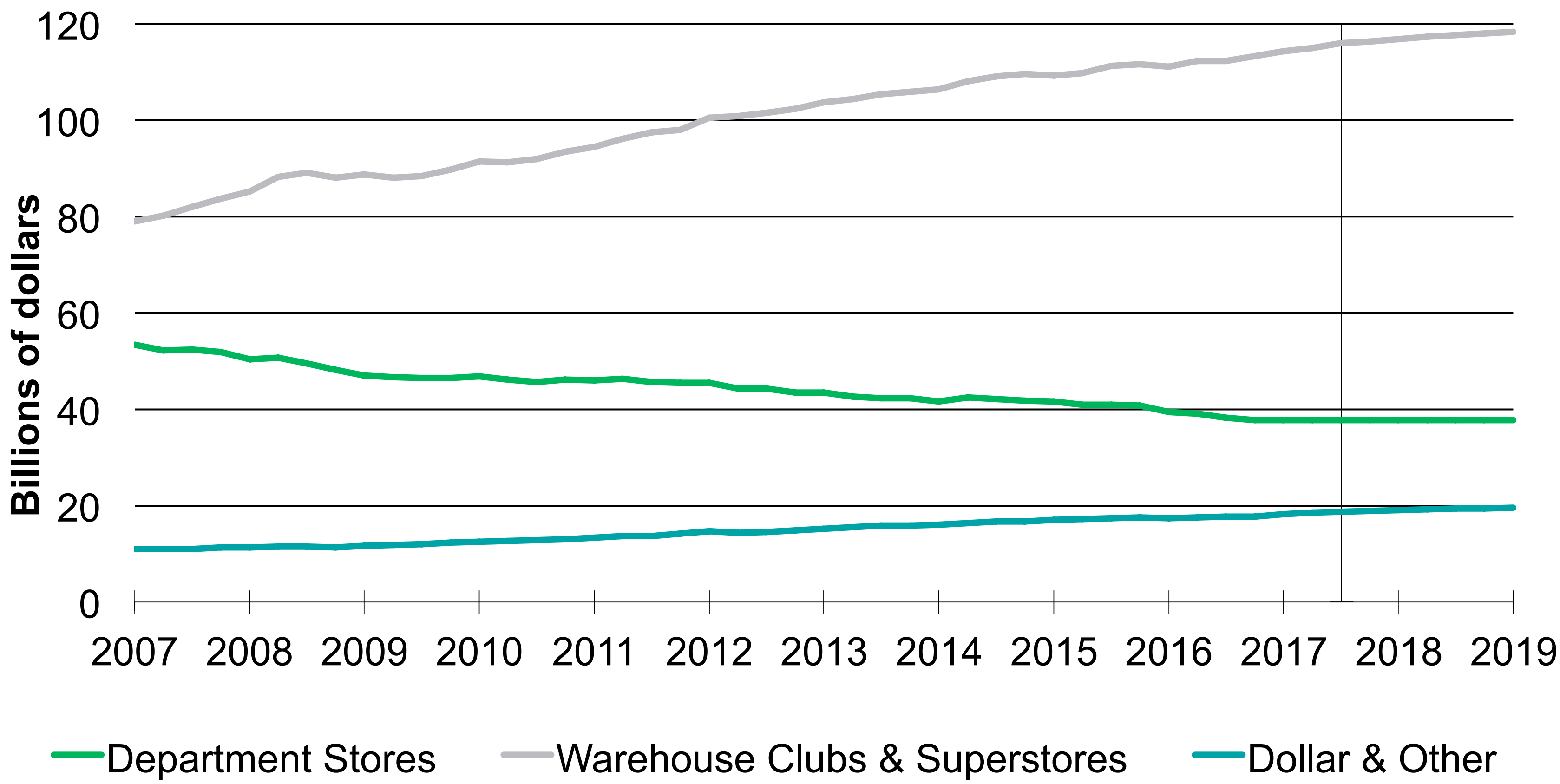
Source: IHS Markit

Retail sales: motor vehicle and parts

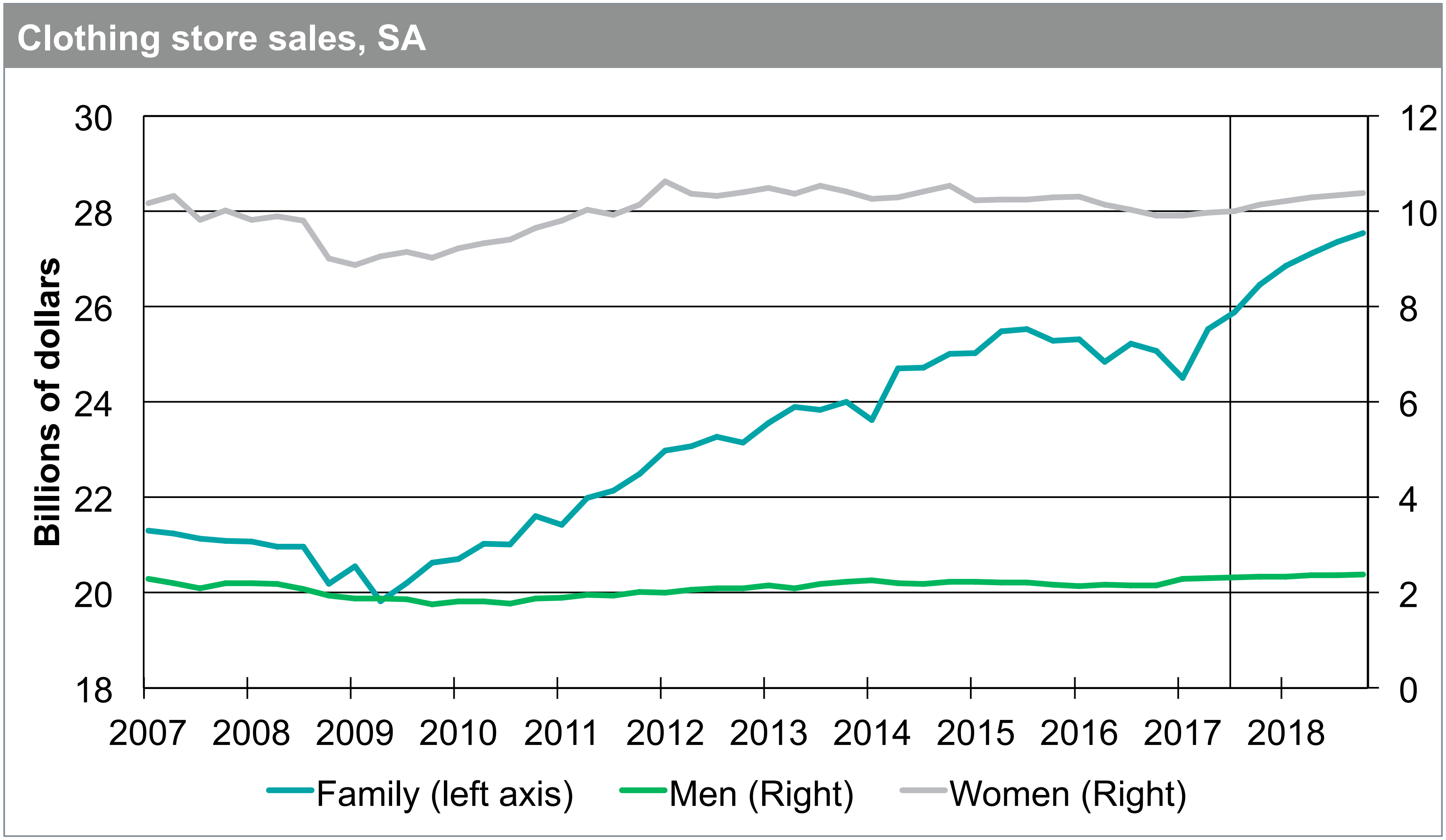


General merchandise subcategory sales

Retail sales: general merchandise by subcategory, SA

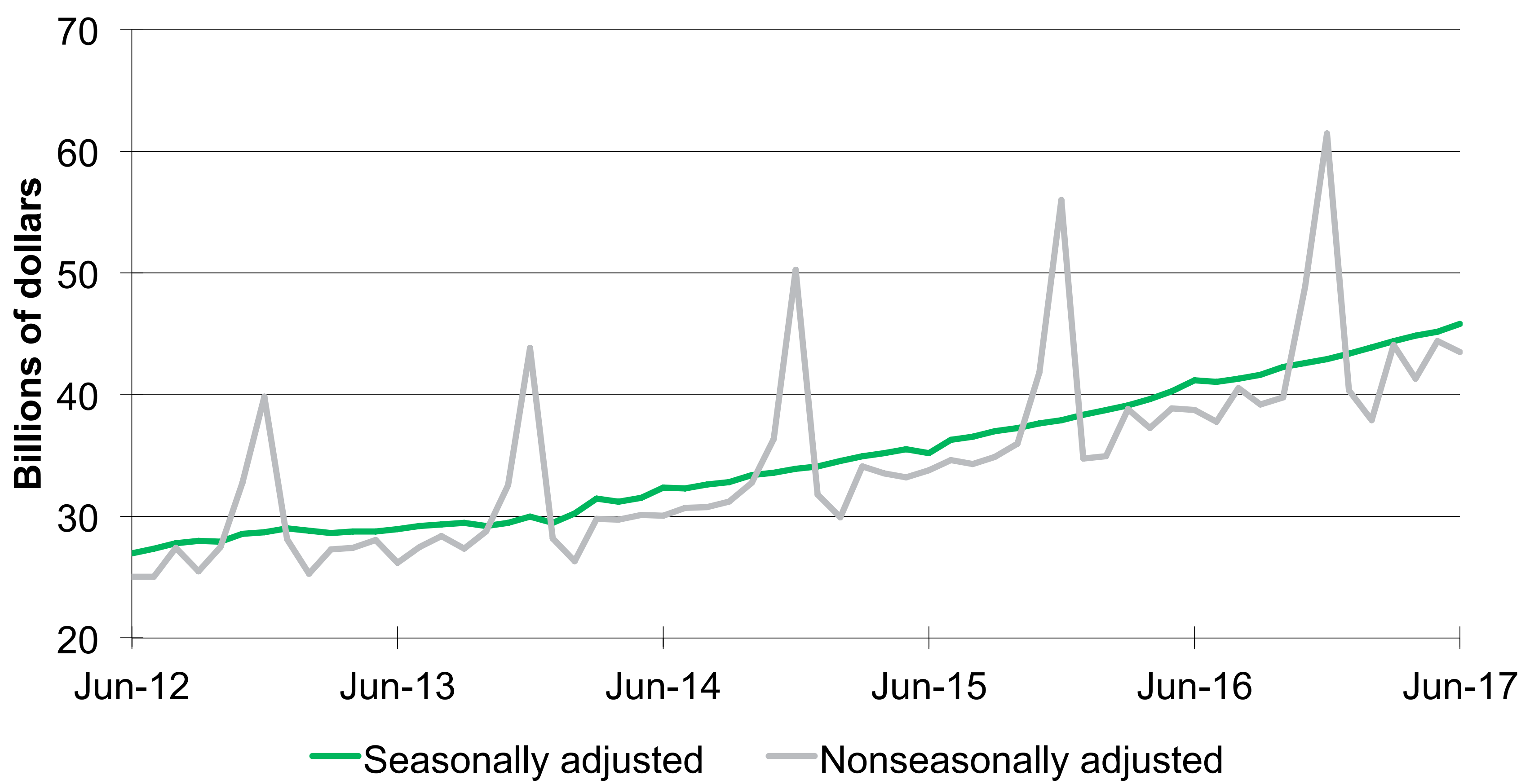


Clothing store subcategory sales

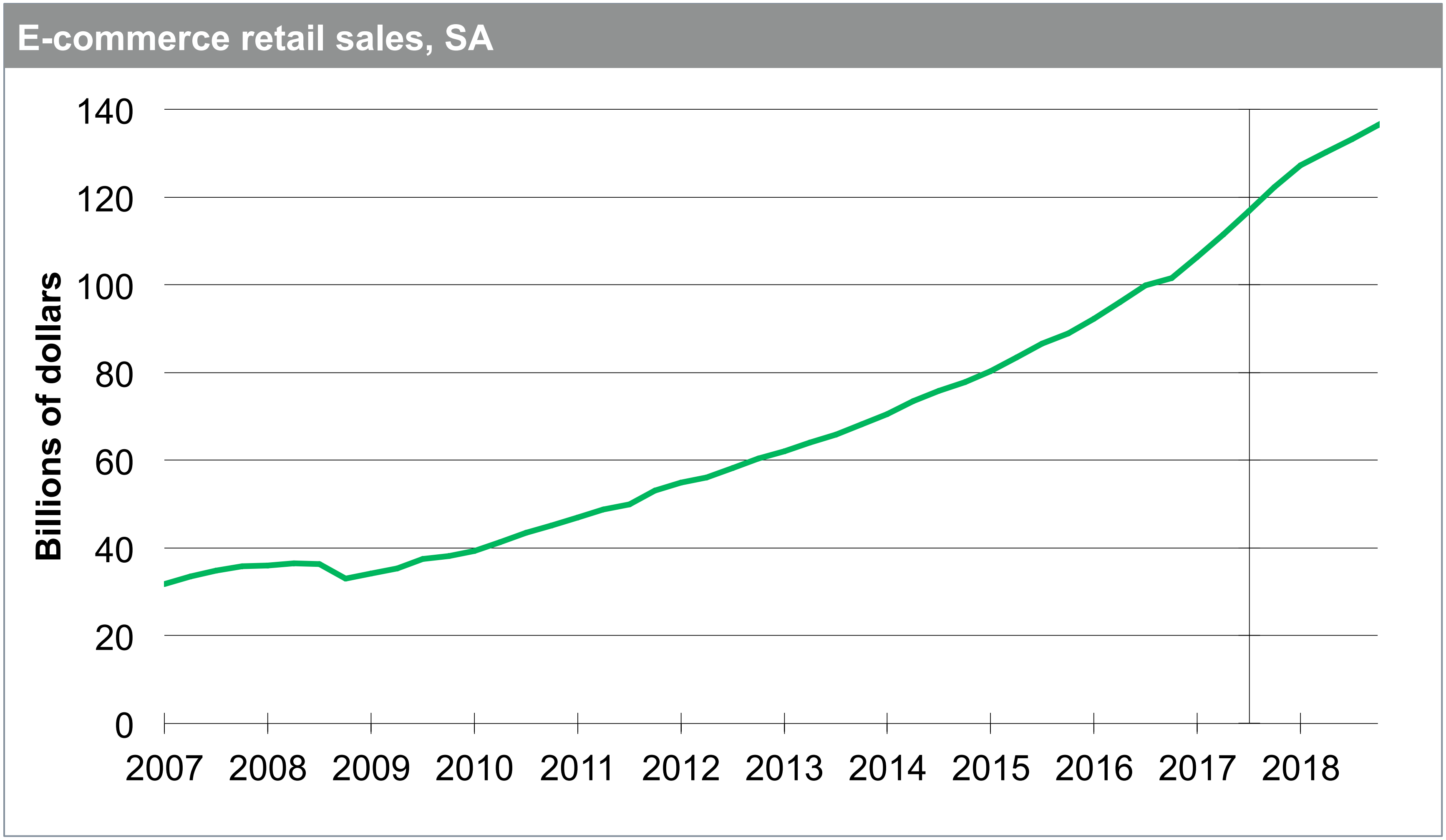


Online shopping retail sales

Electronic shopping and mail order sales

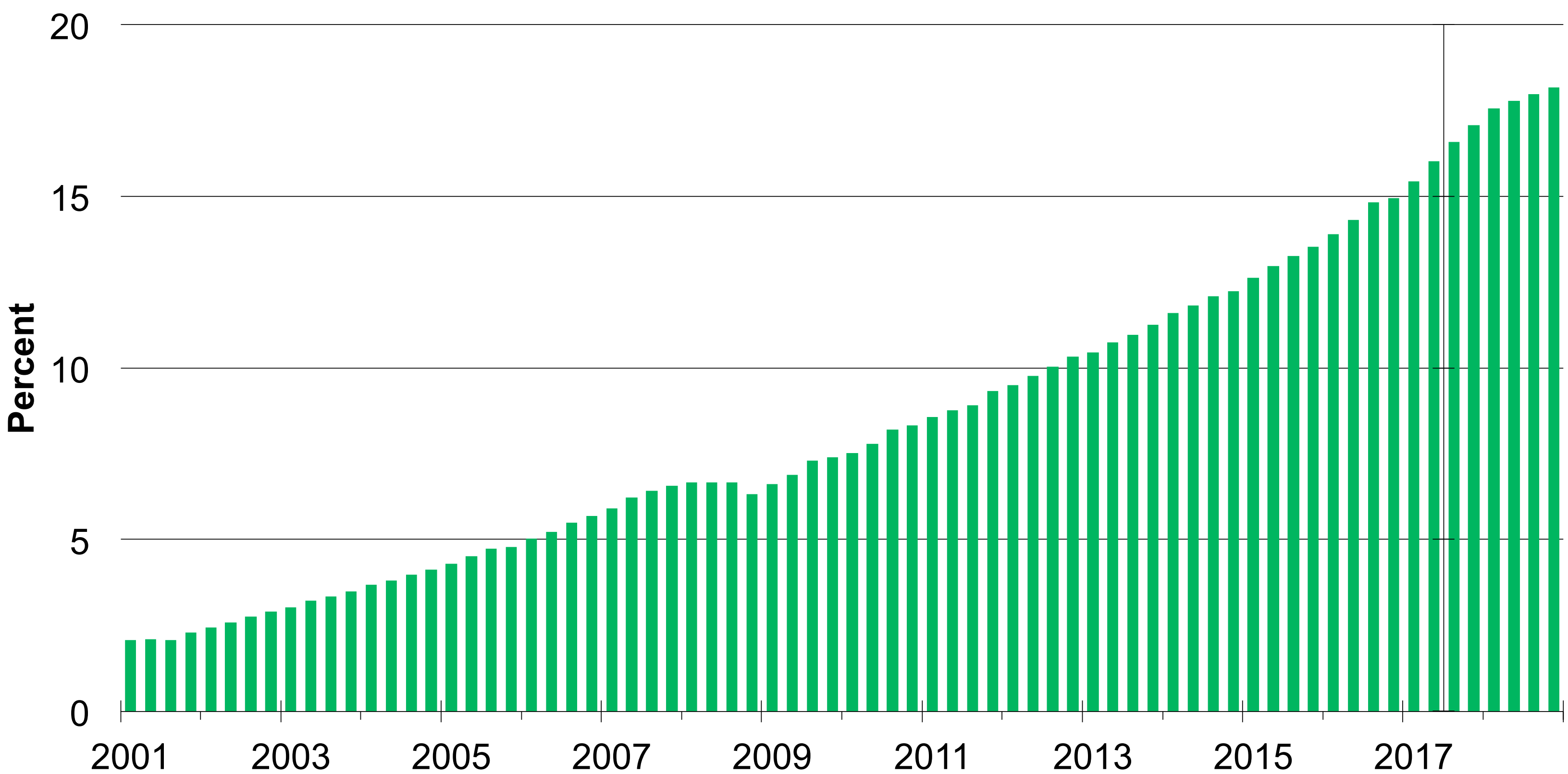


Retail sales: e-commerce retail



E-commerce retail share expanding

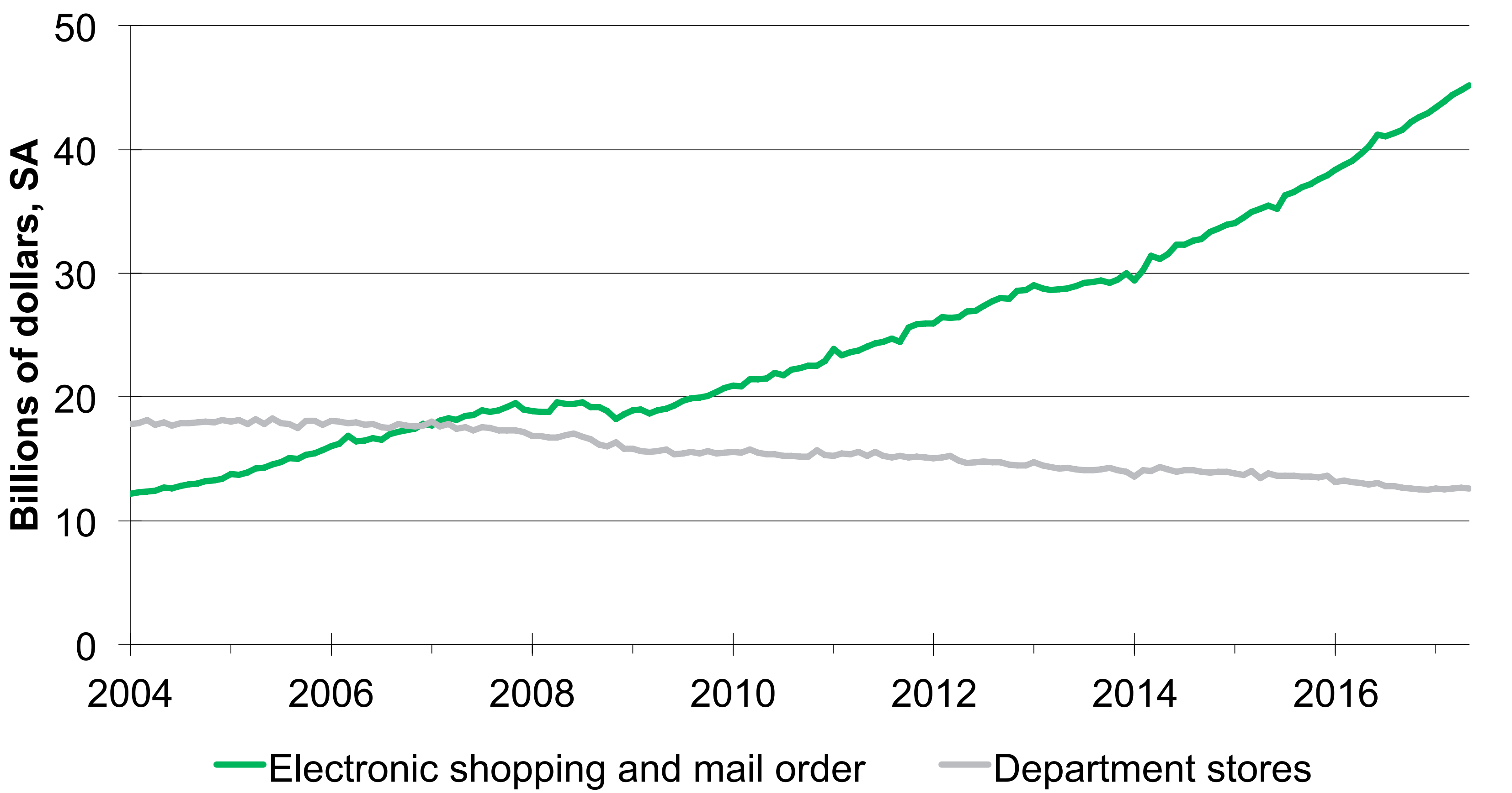
E-commerce retail share of total retail sales excluding food, gas, and autos, SA



Source: IHS Markit

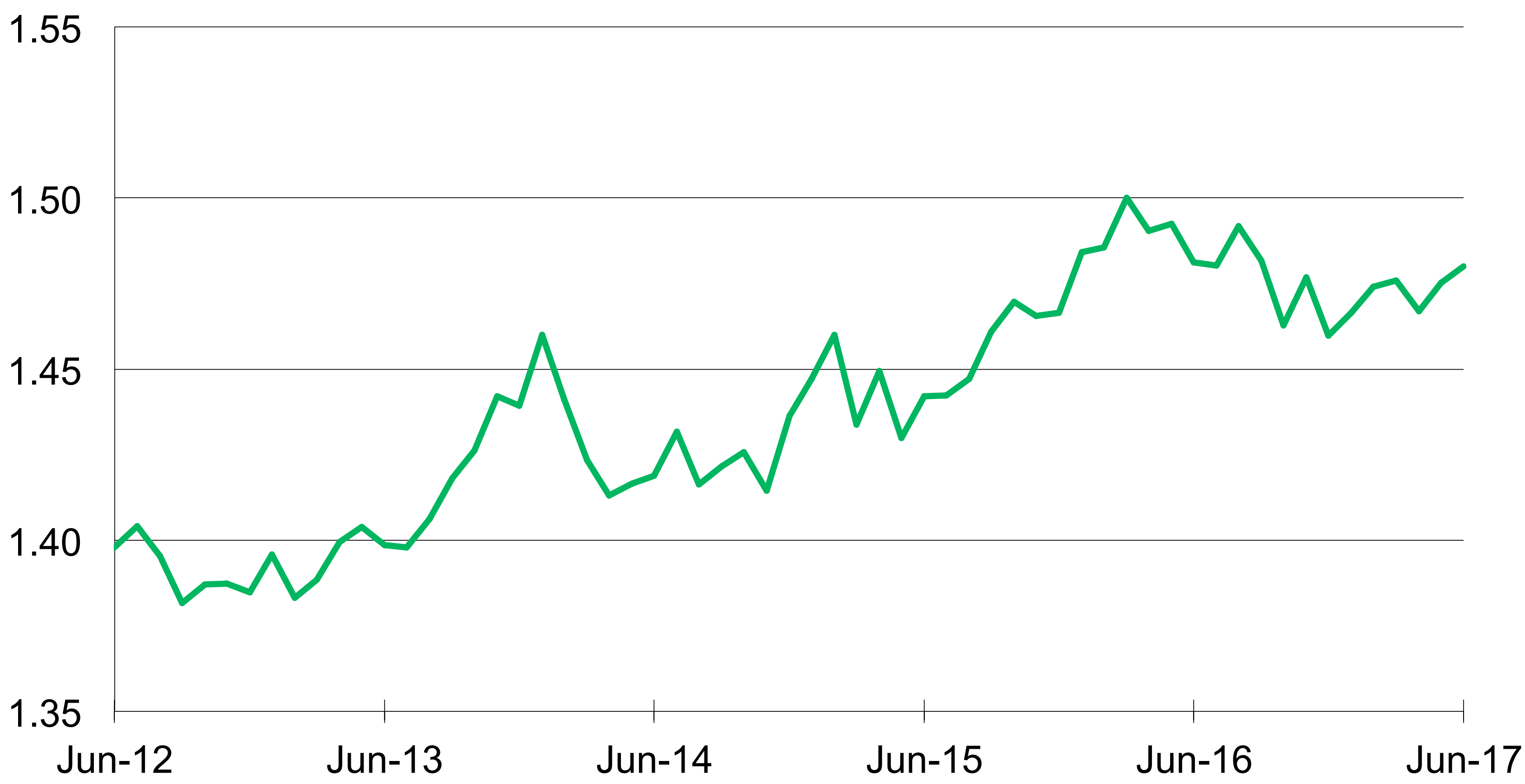
Clicks outpacing the bricks

Department and online stores retail sales



Retailer inventories still fairly high

Inventory/sales ratio



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