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Markets Cool

What happens with the economy in 2024 could depend largely on the labor market and what the Federal Reserve does with interest rates, National Retail Federation Chief Economist Jack Kleinhenz said today.

Isaac M. O'Bannon • Feb. 08, 2024

After a better-than-expected performance in 2023, what happens with the economy in 2024 could depend largely on the labor market and what the Federal Reserve does

with interest rates, National Retail Federation Chief Economist Jack Kleinhenz said

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slightly below overall GDP growth," Kleinhenz said. "Consumers were in decent shape heading into the holiday season, but the labor markets, while unlikely to unravel, do look likely to cool, which would impact consumer expectations and, in turn, affect spending decisions."

Kleinhenz's comments came in the February issue of NRF's Monthly Economic Review, which said the economy "has been more resilient than expected" and shows "no sign of a recession," citing the 3.3% annual growth in gross domestic product for the fourth quarter and 2.5% for the year. Disposable personal income was up 6.9% year over year in December and retail sales as defined by NRF – excluding automobiles, gasoline stations and restaurants to focus on core retail – were up 3.3%. November-December holiday sales were up 3.8% over 2022, easily meeting NRF's forecast for 3-4% growth.

The Personal Consumption Expenditures Price Index – the Fed's preferred measure of inflation – was at 2.6% year over year in December, down "meaningfully" from 5.5% at the beginning of the year. January retail sales haven't been reported yet, but consumer sentiment was at its highest level in nearly three years as shoppers appeared to be more upbeat about the economy, income and employment.

Kleinhenz said part of the recent pace of economic growth and lower inflation may be explained by a sharp acceleration in productivity. Nonfarm productivity, which measures hourly output by worker, increased at an annual rate of 5.2% in the third quarter, its fastest growth in three years. Gains in productivity help mitigate inflation fueled by supply issues in particular because producing more goods and services in a shorter time reduces unit costs and raises supply.

Kleinhenz noted that the Bureau of Labor Statistics recently introduced experimental measurements of retail output and labor productivity intended to provide a fuller understanding of the industry given significant changes such as many retailers

developing their own e-commerce platforms, fulfillment centers and distribution

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Kleinhenz said. As Fed Governor Christopher Waller recently noted, productivity growth has averaged 4% over the past two quarters – double the long-term rate – but the average annual rate of 1.4% each quarter since the beginning of the pandemic is about the same as for the past 15 years.

While the Fed left interest rates unchanged this week, the central bank has said consistent and cumulative evidence of inflation easing is necessary before rate cuts will be considered.

"Weaker job and wage growth would provide part of that evidence and support shifting toward rate cuts to support the economy," Kleinhenz said. "On the other hand, if hiring slows too much it could challenge the economy and strain many households further given how long they have been dealing with high inflation. Striking the right balance remains the challenge."

As the leading authority and voice for the retail industry, NRF analyzes economic conditions affecting the industry through reports such as the Monthly Economic Review.

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