

MONTHLY Economic Review

March 2025

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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 | U.S. Economy Has Performed Well, But Uncertainties Are Ahead

As we head further into 2025, the strong performance seen in 2024 is expected to carry over and positively influence economic growth in the months ahead. However, there is a wide range of uncertainty as the White House and Congress make decisions that will impact the economy.

Adjusted for inflation, gross domestic product grew 2.3% in the fourth quarter of 2024. That was down from a 3.1% gain in the third quarter but still brought the year as a whole to 2.8% growth, only a slight drop from the 2.9% recorded in 2023. The fourth quarter was driven primarily by increases in consumer spending and government spending, although those were partially offset by weaker fixed investments by businesses. Spending on domestically produced goods as measured by inflation-adjusted private final sales to domestic purchasers rose 3% in the fourth quarter, signaling that the economy finished the year on solid footing. The number matches the quarterly average over the last two years and shows a picture of economic consistency and consumer resilience.

Overall consumer spending was robust throughout 2024, fueling economic activity and making a consistent contribution to growth. Supported by low unemployment, steady wage growth and other household finances, consumer spending unadjusted for inflation increased 4.2% in the fourth quarter and 2.8% for all of 2024. Core retail sales as defined by NRF – excluding automobile dealers, gasoline stations and restaurants – ended the year on a solid note, growing 3.6% unadjusted for inflation during 2024 over 2023. Holiday sales punctuated this growth, with a year-over-year increase of 4% that beat the average growth of 3.6% from 2010 to 2019.

Consumers remained engaged in January even as retail sales showed some slowdown in momentum. Sales slipped 0.9% seasonally adjusted month over month in January, but the downshift came after a vigorous holiday spending season and an upward revision to December figures. Sales showed steady growth year over year, up 4.2% unadjusted from January 2023. While retail sales can be a telltale sign of slower consumer spending, consumer fundamentals in early 2025 are still strong and are not showing significant indications of stress.

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In-store and online shopping work hand in hand to reach and engage customers. Ecommerce sales have stayed on a growth path, increasing 2.7% in the fourth quarter seasonally adjusted from the previous quarter and up 9.4% year over year, according to the Census Bureau. Ecommerce sales for the full year were up 8.1% from 2023 and accounted for 16.1% of total retail sales, up from 15.3% in 2023.

The labor market has been in good shape and has continued to expand in the post-holiday months so far. A moderate 143,000 new jobs were added in January. That was a substantial deceleration from upwardly revised job growth of 261,000 in November and 207,000 in December, but the unemployment rate edged lower to 4% after holding between 4.1% and 4.2% since last June. The slower spending growth in January reflected weaker payroll growth, but there do not appear to be any fractures in the labor market since wages and other household finances continue to support retail spending. The data shows the labor market to be a bit tight, with signs of worker scarcity rather than labor market slack.

Inflation in the United States accelerated more sharply than anticipated in January, with consumer prices up 3% year over year compared with 2.9% in December and up 0.5% month over month. Producer prices also started 2025 with a sizzle, rising 0.4% in January from December and up 3.5% from a year earlier. Year-over-year inflation has been rising since October, and the critical question is whether the trend will continue. Given the hot January inflation readings for consumer and producer prices alike, the Federal Reserve is unlikely to cut interest rates anytime soon.

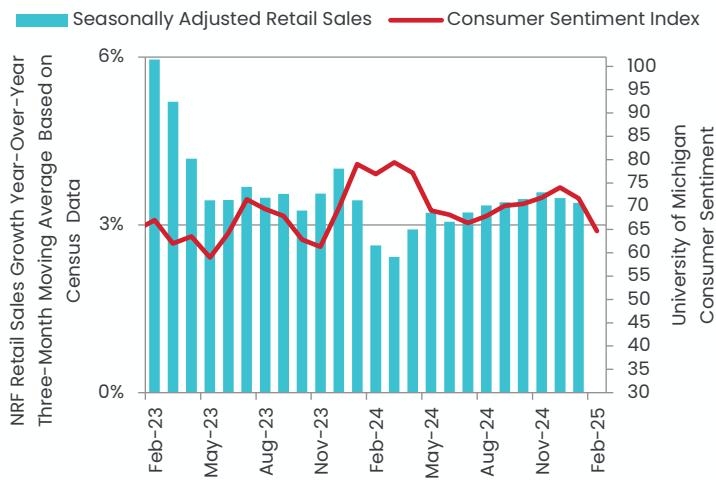
Inflation and other uncertainties are expected to impact consumer spending. The University of Michigan's Index of Consumer Sentiment was at a low level in February, falling to 64.7 from 71.7 in January and down for two straight months after five months of small gains. Inflation worries have escalated, and consumers expressed unease about multiple economic factors, providing headwinds for consumer spending. More than half of consumers expect unemployment to rise in the year ahead, the highest share since the pandemic recession. And consumers expect inflation to rise to 4.3%, up from the 3.3% they expected in January. The expected inflation rate is the highest since November 2023 and likely reflects a concern about tariff-induced price increases. How much consumer attitudes will actually play into their 2025 spending is difficult to say since there has been a significant disconnect between low attitudes and healthy spending the past two years.

With solid strength from consumer demand, the current business cycle expansion likely has further to run after already clocking 58 months. According to the Congressional Research Service, the average expansion between 1945 and 2019, the end of the most recent cycle, lasted about 65 months. The current momentum appears to be holding and is not only keeping the expansion on track but also keeping GDP growth above its potential. However, when an economy operates above its potential it can generate upward pressure on inflation and prompt the Fed to "cool" the economy by raising interest rates.

While the U.S. economy has entered 2025 with a fair amount of momentum, the mix of policies being debated on immigration, tariffs, deregulation and taxes blur the economic outlook and its narrative, with many crosscurrents at work. While deregulation and tax cuts could provide positive momentum, immigration restrictions and tariffs could be a drag on the economy and have adverse effects. Although recent economic data remains strong, we are concerned about the downside risks. Weak consumer perceptions and uncertainty from the lack of clarity regarding future government policies and regulations can significantly hinder business operations. That, in turn, can cause a hesitation in consumer spending and make it difficult for companies to make investment and hiring decisions. We are watching carefully and hoping for the best as much depends on how and when these policies are put in place.

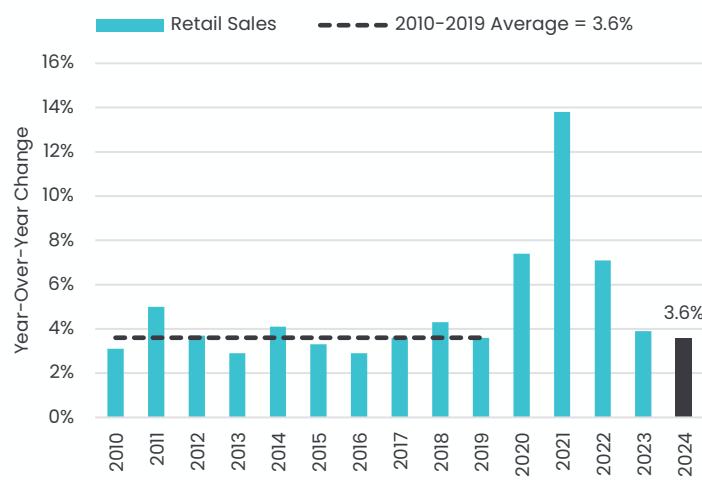
SALES & SENTIMENT

While there was some pullback in retail spending growth during January it stayed near the three-month moving average of 3.4%. Consumer sentiment remains weak and was down for the second consecutive month.



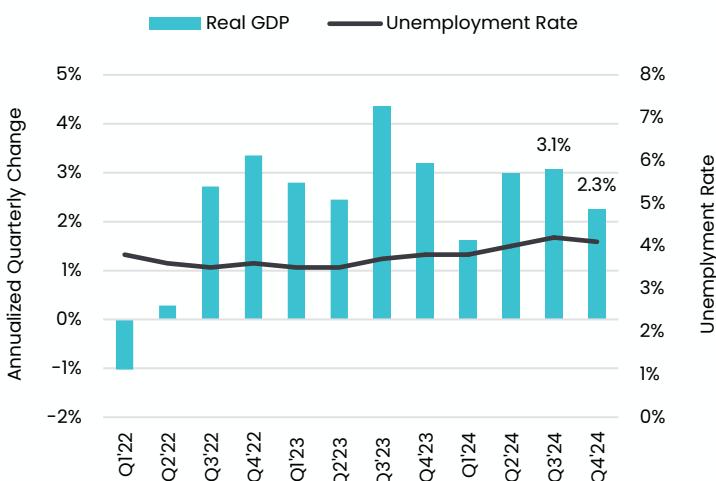
ANNUAL RETAIL SALES

Retail sales increased 3.6% during 2024, beating NRF's forecast that spending would increase between 2.5% and 3.5%.



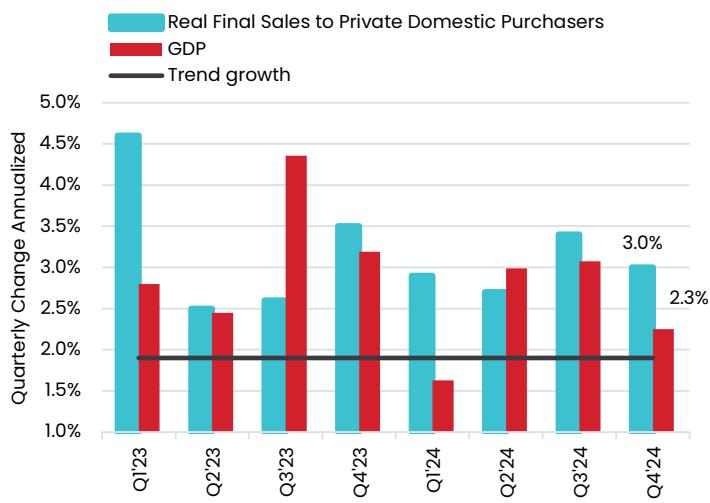
GDP & UNEMPLOYMENT

The economy remained solid in the fourth quarter but was weaker, with GDP rising 2.3% compared with 3.1% in the third quarter. The economy grew 2.8% in 2024 overall, and the unemployment rate averaged 4%.



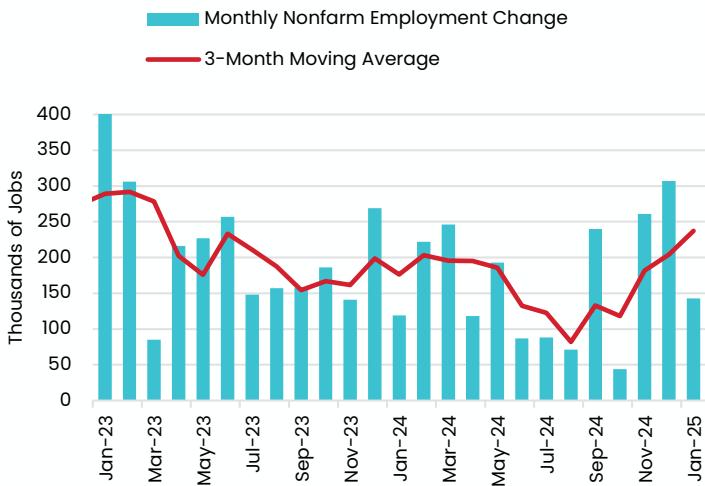
SALES TO DOMESTIC PURCHASERS

Final sales to domestic purchasers (excluding government, net exports and inventories) have grown at a healthy pace of 3% for the last eight quarters and are above trend.



JOB MARKET

Payrolls expanded at a moderate pace in January, adding 143,000 new jobs. The three-month moving average moved higher to 237,000 jobs due to upward revisions to prior months.



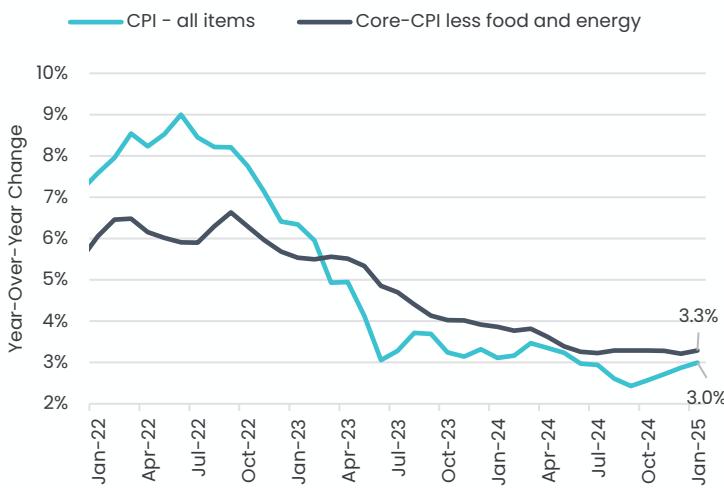
ECOMMERCE

Ecommerce sales continued to grow in the fourth quarter, increasing 9.4% compared with a year earlier. Internet sales accounted for 16.4 % of total sales in the fourth quarter.



CONSUMER PRICE INDEX

While the trend in consumer prices has fallen, inflation accelerated in the first month of 2025. The Consumer Price Index was up 3% from a year earlier and core CPI was up 3.3%.



DEBT TO INCOME RATIO

While consumer debt is at an all time high, the debt-to-income ratio is below the pre-pandemic percentage. On the surface, consumers do not appear to be over extended.

