NRF National Retail Federation

MONTHLY Economic Review

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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 | Trade policies have overwhelmed everything and turned the economy on its head.

With so much uncertainty surrounding the economy in the past few months, I'm not sure anyone can predict the storm path of tariffs and their likely impact. There is no clear information yet on how tariffs are affecting consumer prices and consumer spending since the effect on prices isn't immediate. But the wide range of uncertainty has introduced a high level of unpredictability and has raised the probability of a significantly slower pace for the U.S. economy. Hiring, unemployment, spending and inflation data continue in the right direction, but at a slower pace. Everyone is worried, and a lot of people have recession on their minds.

Economic growth in 2025 is at a pivot point. The economy entered the year on solid footing after growing 2.8% year over year in 2024, and inflation continued to ease. But gross national product contracted at an annual rate of 0.3% in the first quarter, marking the end of 11 consecutive quarters of growth and growth in 36 of the last 40 quarters. The contraction has heightened fears of a recession, but while the economy has lost momentum, data is not yet consistent with a typical downturn. The topline GDP figures overstate the weakness in the economy and are largely the result of a huge surge in imports as households and businesses tried to get ahead of tariffs. In contrast, overall personal spending growth came in stronger than expected at 1.8% during the quarter. Adjusted for inflation, private final sales to domestic purchasers — a measurement that focuses on consumer and business spending — remained in positive territory, up 3.1% following 2.2% in the prior quarter and suggesting a relatively steady pace of growth.

Overall, the labor market continues to perform better than expected following the announcement of tariffs. Businesses have not overreacted, and the data remains steady. Employers added 177,00 jobs in April and the unemployment rate remained unchanged at 4.2%. While the most recent rise in weekly initial claims suggests a weakening job market, weekly movements in the data can be volatile. The data suggests that hiring has slowed because firms may be reluctant to lay off employees after they struggled to fill positions during the pandemic, are concerned about the potential for short-staffed situations if the economy recovers and want to retain skilled workers. While the workings of the labor market do not indicate an imminent recession, the market is expected to slow in the back half of the year as the impact of tariffs permeates.

While consumers are expecting higher prices and weaker income growth, their spending continues to be sustained by income gains. For a good share of American households, spending largely tracks with growth in income, and disposable personal income (income after taxes) was up 4% from a year ago in March. While part of the growth was due to pre-tariff purchasing, pending on goods increased 0.9% month over month in March and was up 4.1% from a year earlier. Spending on services rose 0.6% month over month and was up an impressive 6.3% year over year.

The hard data is in contrast to consumer sentiment surveys, which have fallen to near-historic lows in response to the flood of tariffs. The University of Michigan Consumer Sentiment Index, which measures personal finances, business conditions and buying conditions, remains weak and is stuck in deeply recessionary territory. Since consumer sentiment is not highly correlated with actual spending, it is difficult to reconcile these views. But what we've learned over the last several years is not to count the American consumer out — at least not yet.

On the inflation front, the Personal Consumption Expenditures Price Index, the key inflation indicator used by the Federal Reserve, showed prices were up 2.3% year over year in March. While the Employment Cost Index measure of wages, salaries and other employment costs reflected a moderating labor market in the first quarter, it still showed a firm start to the year with a 3.6% year-over-year gain. That exceeded inflation and can be seen as a plus for consumers but was nonetheless the slowest growth in four years.

Well-established economic theory is very clear that tariffs raise prices for consumers, distort investment and reduce the competitiveness of firms that use non-U.S. parts, materials and other inputs. I remain concerned that the sporadic implementation of tariffs announced one day, postponed the next and maybe — or maybe not — finally imposed later is weighing on business investment and hiring, likely leading to a weak labor market that will be harmful. People are on an economic cusp, and when people worry about their jobs, their anxiety often triggers a slowdown in consumer spending.

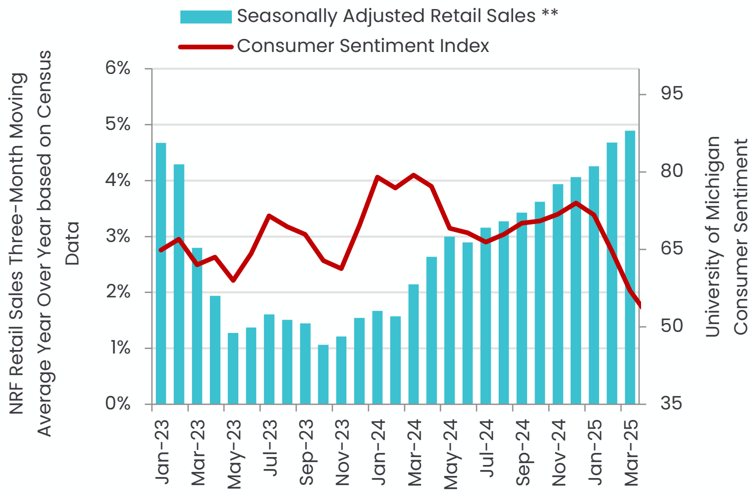
Other economic data broadly shows that the economy remains in a buoyant mode. The most recent Federal Reserve Beige Book, which provides a snapshot of economic conditions from mid-March through mid-April, showed that little has changed. Nevertheless, the summary, which is based on both anecdotal and survey information, noted that that "uncertainty around international trade policy was pervasive across reports" from the 12 Federal Reserve districts and that the outlook had worsened considerably in several districts. The Fed is unlikely to make a move on lower interest rates in the near future as it continues to monitor how the economy responds to trade policies, although it is likely to be considering further rate changes in the later part of 2025.

The possibility of a U.S. recession in the near future has increased due to rising trade tensions and other economic factors, but it hasn't happened yet. According to research by the Federal Reserve Bank of St. Louis, "state coincident indexes" of state-level economic data produced by the Federal Reserve Bank of Philadelphia can be used to assess whether recession-like conditions have developed. In general, about half the states need to have negative growth in this index to have reasonable confidence that the national economy has entered into a recession. So where are we now? The April report showed that the indexes had increased in 43 states, decreased in four and remained stable in the remaining three, suggesting that we are not in a recession.

Clearly, trade policies have overwhelmed everything and have turned the economy on its head. It has been a shocking and confusing ordeal. The sure extent of what has been advanced puts the current expansion into jeopardy. Trade policy has drifted into unchartered waters and there is no playbook. How sustainable will these policies be and what will be the future course of the economy? No one can predict with any degree of certainty how things will transpire.

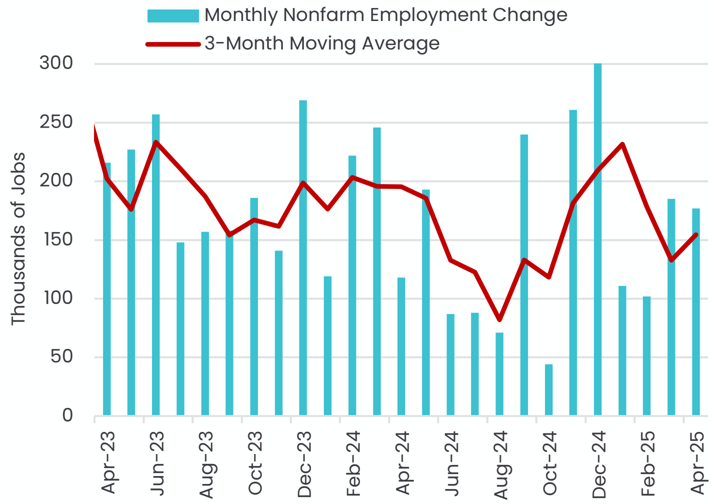
SALES & SENTIMENT

Retail sales strengthened in March, supported by solid growth in income and a steady job market. In contrast, the University of Michigan Consumer Sentiment Index fell to a historically low level in April.



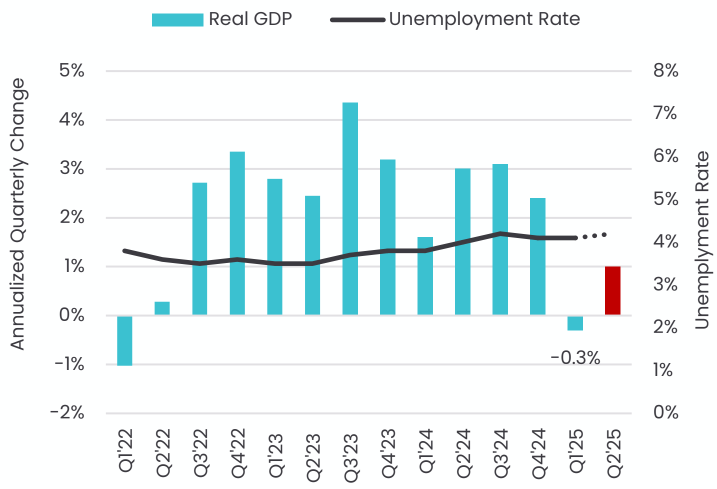
EMPLOYMENT

U.S. payrolls expanded at a moderate pace in April, adding 177,000 new jobs. The three-month moving average moved higher but revisions to the prior two months weighed on growth.



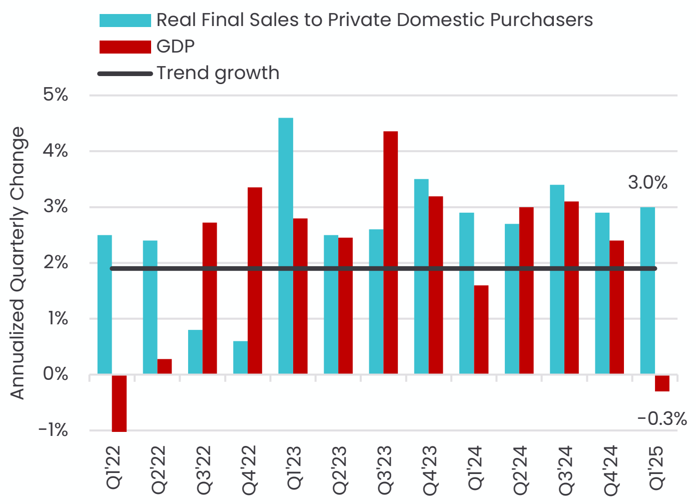
GDP & UNEMPLOYMENT

The U.S. economy entered 2025 on strong footing but contracted in the first quarter as consumers and business reacted to anticipated tariffs. Meager growth is expected in the second quarter.



SALES TO DOMESTIC PURCHASERS

There was a healthy pace to real final sales to domestic purchasers during the first quarter, primarily driven by consumer spending.



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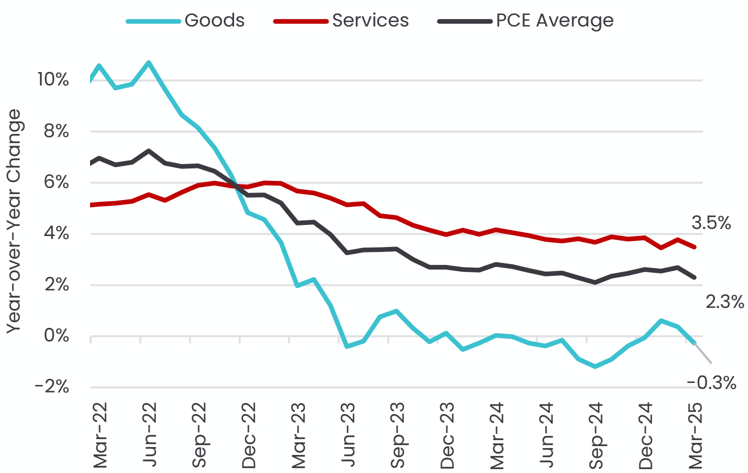
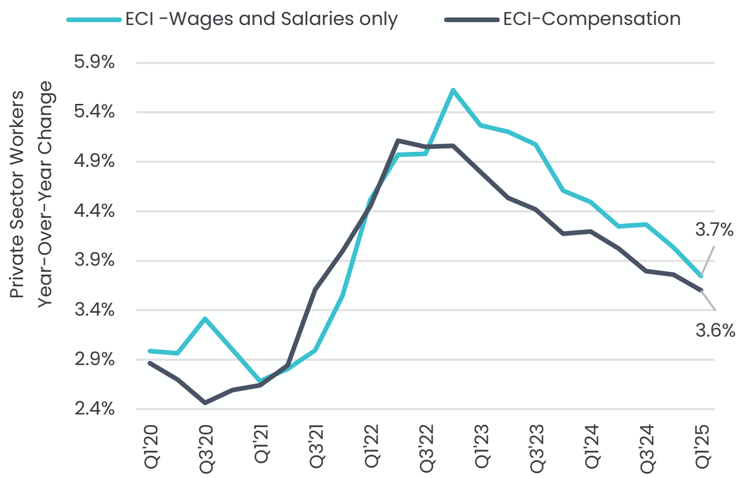
PERSONAL CONSUMPTION EXPENDITURES PRICE INDEX

Year-over-year growth in the Personal Consumption Expenditures Price Index has slowed notably. The price of services rather than goods continues to drive inflation.



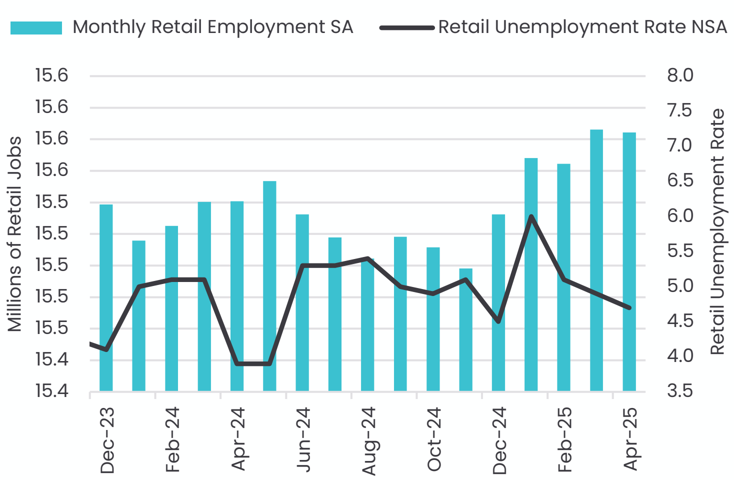
EMPLOYMENT COST INDEX

Employment Cost Index data suggests slower growth in compensation costs, including wages and salaries, and a rebalancing of the labor market.



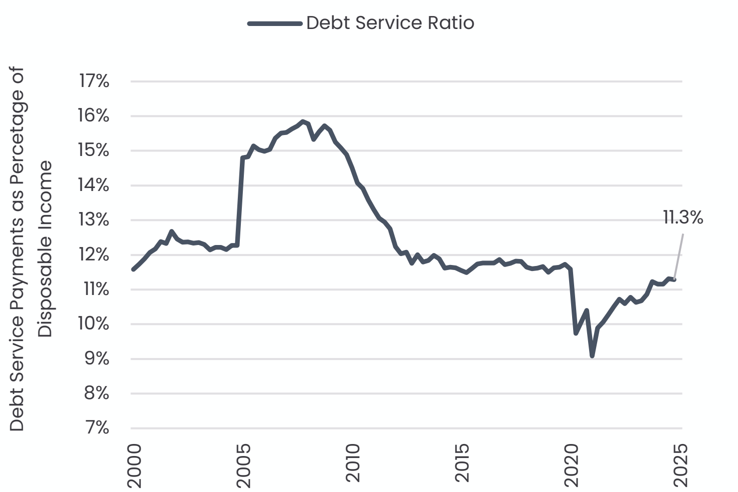
RETAIL EMPLOYMENT

While seasonally adjusted retail employment is near all-time highs, there was a loss of 1,800 jobs in April to 15.6 million. The unadjusted retail unemployment rate dropped to 4.7% in April from 4.9% in March.



DEBT TO INCOME RATIO

While interest rates and lending standards are restricting consumer spending, consumer debt service levels remain in good condition.



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