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ECONOMIC TALKING POINTS

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November 14, 2014

Retail Sales Outperform --- But We Also Have a Warning

An early take at what holiday shopping might be this year has been a positive one. October retail sales turned out to be stronger than expected, with spending up 0.3% for the month. If you remove purchases of autos and gas, the picture turns even brighter with all other outlays up a total of 0.6%.

These are solid numbers. **But there is one potential spoiler looming!** It's not a concern we have at the consumer level. Indeed, Americans appear ready to ramp up spending to their highest level in years. What ***is*** at risk is that retailers may not actually have enough stock on hand to sell to their customers. How so? It's not that they've ordered too little stock. Just the opposite, retail executives were expecting strong demand this year and followed through with more orders than usual.

The real problem appears to be on the supply chain distribution front. Retail managers are increasingly worried--- and with good reason—that the goods will not be delivered on time for the season kickoff, which begins the Friday after Thanksgiving. More on this potential crisis in a moment.

Let's first focus on the demand side for retail goods. The constellation of economic stars are now aligned in a way that suggests this year should be one of the best holiday shopping seasons of the decade.

Let's go down the list:

- More people are working. Payrolls this year have been growing at the fastest pace since 1999!
- The unemployment rate has fallen to 5.8%, the lowest in 6 years.

- Companies are laying off workers at the slowest pace in 14 years!
- A greater portion of the American population is also working. The employment to population ratio climbed to 59.2% last month, the highest percentage in more than five years!
- Gasoline prices have plummeted since last spring, saving Americans about $50 billion (and still counting), funds that can now be spent elsewhere.
- Consumer balance sheets are in much better shape. Household debt service (on mortgages and other type of consumer loans), fell to 9.91% of disposable personal income, the second lowest since the Federal Reserve began tracking this series in 1980.
- In addition, household net worth has climbed to $81.5 trillion, a record in both nominal and real (inflation-adjusted) dollars, and we continue to see stock market and real estate values climb.
- The just-released preliminary consumer sentiment number for November confirms what similar surveys show: Americans are the most optimistic they have been in 7 years.
- Even the Ebola virus scare has been fading in recent days.

The combination of these positive factors should prove to be the shot in the arm that gets consumers into generous spending mood. If not, you really have to wonder what ever will.

Business leaders are thus anticipating a robust season. The National Retail Federation (NRF) has forecast holiday sales to increase 4.1% this year, which would be the first time since 2011 such revenues jumped by more than 4%. Our forecast is even higher, with sales edging closer to a 5% rise. Keep in mind that holiday spending has on average grown just 2.9% over the past ten years.

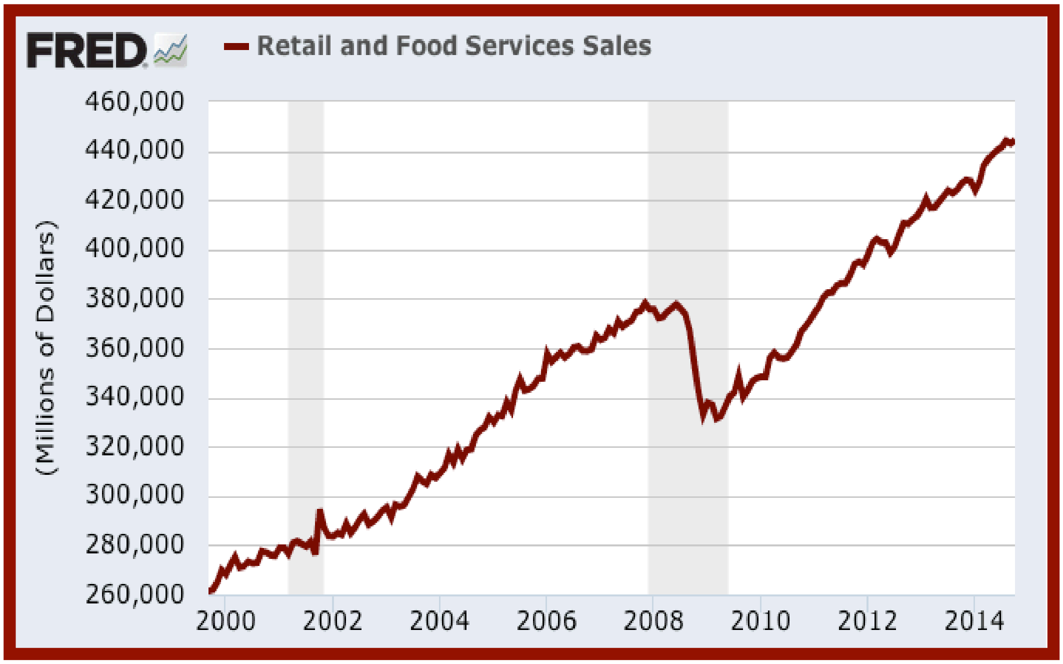
With the holiday outlook so bright, companies expanded their bookings and hiring. New orders from manufacturers exploded last month, according to the ISM survey, with that index climbing to 65.8, the second highest since 2009. Retailers have hired an additional 61,000 people the last two months, bringing total employment in this sector to 15.44 million, the most in six years. Even that is apparently not enough. Yesterday's Job Openings and Labor Turnover survey showed the retail industry is still seeking to fill 508,000 additional posts as of September. The trucking industry has also geared up for a busy season. They have been hiring people all year (through October). If this pace continues for another two months, then 2014 will be the first time ever (or at least since such records began in 1990) that trucking firms expanded their payrolls every single month in a calendar year.

BUT --- as we noted earlier, there is one big problem emerging with this picture that could affect sales and frustrate consumers. Retailers are starting to have problems physically receiving the goods they ordered for the holiday season. Freight shipments, particularly imports, are not being unloaded fast enough.

There is severe congestion at the ports, especially those at Los Angeles and Long Beach, which is a major hub for the arrival of consumer goods. The two ports account for more than 40% of all imports that travel by ocean. Congestion and gridlock are also occurring at other ports too, including New York, New Jersey, Houston and Norfolk. According to Global Port Tracker, a report put out by the NRF, import volume at US ports soared to a record 1.59 million containers in both September and October.

Greatly compounding the problem of a lack of space and facilities at the ports to unload all the containers is that dock and warehouse workers on the West Coast have chosen to carry out a major work slowdown to increase their leverage in contract negotiations. Indeed, this could escalate into a full blown work stoppage and thereby threaten holiday deliveries. The situation has gotten so alarming that business leaders are urging the White House to intervene.

The slowdown has already succeeded in increasing the number of cargo ships and truckers sitting idle. **Unless this gets resolved fairly soon, retailers may find their shelves and stockrooms being depleted much too early in the holiday shopping period, an event that could turn what should have been a very profitable season into a dud.** This situation deserves close monitoring.



Key Economic Forecasts

- Actual
- Forecast

United States

	I 2013	II 2013	III 2013	IV 2013	I 2014	II 2014	III 2014	IV 2014	I 2015	II 2015	III 2015	IV 2015
Real Gross Domestic Product (GDP):												
%	2.7	1.8	4.5	3.5	-2.1	4.6	3.5	3.3	2.9	3.5	3.4	3.3
Personal Consumption Expenditures:												
PCE	3.6	1.8	2.0	3.7	1.2	2.5	1.8	3.0	4.0	3.4	2.8	3.1
Inflation, end of period, year-over-year:												
CPI %	1.5	1.8	1.2	1.5	1.5	2.1	1.7	1.8	2.0	2.3	2.5	2.6
Unemployment Rate (end of period):												
%	7.6	7.6	7.2	6.7	6.7	6.1	5.9	5.8	5.8	5.7	5.7	5.5
Non-farm Payrolls, monthly avg. thousand:												
	206	201	172	198	189	267	224	225	210	265	250	250
Treasury 10-yr Note Yield % (end of period)												
	1.9	2.5	2.6	3.0	2.7	2.5	2.5	2.5	2.8	2.9	3.2	3.5
Federal funds rate % (end of period)												
	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.5	1.0

GDP Growth - Global Economy

Country	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
US	1.8	-0.3	-2.8	2.5	1.6	2.3	2.2	2.4	3.1	3.3
Eurozone	2.6	0.6	-4.1	1.7	1.4	-0.6	-0.4	0.4	1.1	1.7
United Kingdom	3.1	0.6	-5.2	1.7	0.7	0.3	1.8	3.0	2.6	2.9
Japan	2.1	-0.7	-5.4	4.6	-0.7	1.6	1.5	1.2	1.0	1.7
Canada	2.7	0.7	-2.8	3.2	2.5	1.7	2.0	2.3	2.7	2.9
India	9.1	8.8	6.3	8.4	8.6	6.7	4.9	5.5	6.5	7.0
China	14.2	9.6	9.2	10.5	9.3	7.8	7.7	7.1	6.9	6.7
Brazil	5.7	5.1	-0.3	7.5	2.7	0.9	2.3	0.3	1.2	2.2
Mexico	3.3	1.4	-4.7	5.2	4.0	3.9	1.1	2.4	3.5	4.1
Australia	4.0	2.3	1.2	2.8	2.6	3.6	2.4	2.6	2.7	3.0
Russia	8.1	5.6	-7.9	4.0	4.3	3.4	1.3	-1.5	-0.6	1.0
World	5.4	1.6	-1.9	4.2	3.0	2.6	2.9	2.9	3.2	3.6

Key Currency Values

	End 2008	End 2009	End 2010	End 2011	End 2012	End 2013	End 2014	End 2015
USD/Yen	91	93	81	77	87	105	114	120
Euro/USD	1.40	1.43	1.34	1.29	1.32	1.37	1.23	1.20

Oil (Brent spot) & Gasoline (Average retail unleaded, $)

	End 2008	End 2009	End 2010	End 2011	End 2012	End 2013	End 2014	End 2015
Crude oil per barrel	46	78	95	107	111	111	79	90
Gasoline	1.61	2.57	3.00	3.27	3.30	3.32	3.17	3.25

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