

Forget About Macy's

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Two simple questions: How many times have you bought something at Macy's in the past month? How many times have you bought something through Amazon over the same timeframe? We're guessing the answer to the first questions is once...maybe, while the answer to the second question is so many times you can't keep track.

We're not picking on Macy's, in particular, which is a perfectly fine department store. It's just the chain that grabbed the biggest headlines among all the department stores recently reporting relatively weak sales and profits.

But just because old-line brick-and-mortar department stores are having weak sales doesn't mean consumers are weak overall or the Plow Horse economy is about to keel over. The problem with some department stores is their business model, not fatigue on the part of consumers.

Retail sales surged 1.3% in April, led by autos and non-store retailers (internet and mail-order). "Core" sales, which exclude volatile components like autos, building materials, and gas station sales, rose 0.8% in April, the largest gain in the past year and the 13th increase in the past 14 months.

Automakers have reported US sales of 17.6 million cars and light trucks in the past year, very close to the record high set at the peak of the dot-com boom back in 1999-2000.

These robust spending figures are consistent with the improving financial situation of households. During the past few years, the financial obligations ratio, the share of after-tax income that consumers need to meet monthly obligations (mortgages, rent, car loans and leases, student loans and credit card debt) has hovered at the lowest level since the early 1980s.

Although some analysts have bemoaned a \$5 billion rise in seriously delinquent auto debt over the past few years, all

seriously delinquent debts (mortgages, home equity loans, autos, credit cards, and student loans, combined) are down about \$600 billion since 2010.

Meanwhile, payrolls are up about 2.7 million in the past year, while wages have been growing and are starting to accelerate. This is not an environment in which consumer spending is going to get weaker.

Instead, Friday's report on retail sales, as well as other recent data, suggests a modest upward revision to first quarter real GDP growth, closer to 1% annualized. The Atlanta Fed's tracking model for real GDP growth says 2.8% for Q2. We think that's probably too high because of a temporary correction in inventories. But real (inflation-adjusted) final sales, which is real GDP excluding inventories, should be up at about a 3% annual rate in the second quarter.

In other words, no recession.

Nothing in the big picture has changed. Monetary policy remains loose, tax rates should be lower but are not particularly high, and new free trade deals may be on hold, but the old ones haven't gone away (at least not yet). We do worry about big spending politicians and over-regulation, but we haven't seen anything yet that means a recession. Slower economic growth over the long run, yes; recession, no.

What we are witnessing in the retail sector isn't a sign of weakness. Instead, they're the gales of creative destruction at the heart of free-market capitalism.

Out with the old, in with the new. Unlike stale economies run by politicians, free market economies show their dynamism and strength by letting the former establishment take a fall. If we weren't free, that couldn't happen. That it can happen is something to be celebrated, not feared.

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
5-16 / 7:30 am	Empire State Mfg Survey – May	6.5	8.3	-9.0	9.6
5-17 / 7:30 am	Housing Starts – Apr	1.125 Mil	1.174 Mil		1.089 Mil
7:30 am	CPI – Apr	+0.3%	+0.3%		+0.1%
7:30 am	“Core” CPI – Apr	+0.2%	+0.2%		+0.1%
8:15 am	Industrial Production – Apr	+0.3%	+0.5%		-0.6%
8:15 am	Capacity Utilization – Apr	75.0%	75.0%		74.8%
5-19 / 7:30 am	Initial Claims May 14	275K	275K		294K
7:30 am	Philly Fed Survey – May	3.3	0.1		-1.6
5-20 / 9:00 am	Existing Home Sales – Apr	5.400 Mil	5.370 Mil		5.330 Mil