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 | Economy Remains in Critical Period During 2021

As we closed out 2020, it was an end to a whirlwind year whose challenging economic environment will almost certainly continue in 2021. The year included a global pandemic that caused record hospitalizations and deaths, a sudden recession, a stock market that saw its most devastating plunge since the infamous Wall Street Crash of 1929 but went on to notch new highs, the largest economic stimulus package in U.S. history, an intense presidential election cycle and a massive legislative struggle over passing another round of economic stimulus. The coming year might be just as eventful as the economic recovery faces many uncertainties. Recoveries do not proceed in a straight line and the prospects for volatility over the next few months are high. Nonetheless, just like the old Timex watch commercials, the economy takes a licking but keeps on ticking.

Holiday retail sales varied quite a bit among the industry's sectors and were influenced strongly by COVID-19-driven consumer spending behavior. November's month-to-month decline in retail sales was not necessarily a surprise as October retail sales were very strong and holiday spending was expected to be pulled forward by efforts such as NRF's "New Holiday Traditions" campaign that encouraged consumers to shop safe by shopping early.

While many analysts focused on the monthly downshift in November spending, we concentrate on the year-over-year pace of retail spending, and November data indicated that a very solid holiday season was in the offing. NRF's retail spending figures (excluding motor vehicles, gasoline and restaurants) showed an 8.8 percent year-over-year growth rate for November. The three-month moving average for September-November was up 10.8 percent year over year and retail sales during the first 11 months of the year were up 6.6 percent over 2019. Who would have imagined this type of performance last spring?

Even if December retail sales saw a modest decline, a big year-over-year increase is still in the cards and we are on track to meet NRF's holiday forecast of between 3.6 percent and 5.2 percent growth. We will find out when the U.S. Census Bureau releases December's numbers on January 15.

There is typically a lull in consumer spending immediately following Thanksgiving weekend each year, and 2020 did not appear to be much different. According to Harvard's Opportunity Insights Economic Tracker, retail sales (including online but excluding groceries) fell off in late November but rebounded to 14 percent above January's pre-pandemic levels by the first week of December — about the same level they had been at just before Thanksgiving weekend.

The recent winter weather and colder temperatures should be positive conditions for cold weather spending categories and stocking up on household necessities when shopping rather than making more frequent trips. Weather might be a speed bump for physical store visits, yet consumers are adapting to online ordering, delivery, and buy online, pick up in store services, so don't underestimate how retailers and shoppers performed through the end of the holiday season. Consumers have had time on their hands while at home and online shopping will keep happening now that we're into the new year.

Consumers' ability to spend has been bolstered by added savings from not traveling, dining out or taking in entertainment, resulting in a shift in spending from services to goods. Consumers have been buying big-ticket items, especially in housing-related categories such as appliances and furniture, and those purchases were a key driver of spending in 2020. Rising wealth from increasing home values and stock prices also supported additional consumer purchases of these retail goods.

The new round of stimulus checks is very important. Paying for usual expenses became more difficult in October and November for some households, particularly low-income families, as government aid came closer to running out, according to the Census Bureau's Household Pulse Survey. Government policies that aid lower income workers — like the just-approved new supplement to unemployment benefits — are needed to help support struggling families and small businesses that have received a share of the spending that has resulted from the supplemental benefits.

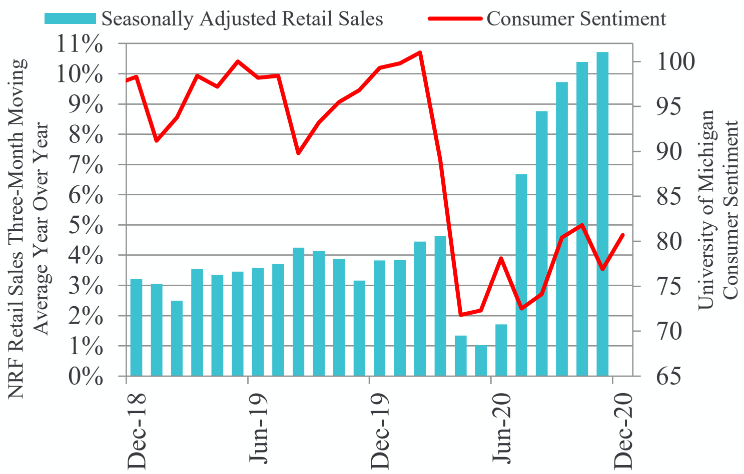
We expect retail sales spending to see a boost from the new round of stimulus. Consumers responded quickly to last spring's stimulus checks, and distribution of the new checks will come at a critical time that will help carry 2020's momentum into 2021. With additional funds, consumers are likely to reengage spending on non-durable goods and services.

Nonetheless, the outlook for consumer spending depends on the health risk from COVID-19. The vaccine news is very encouraging and, hopefully, we will see a sharp fall in infections. With the vaccine rollout, many households will begin using stimulus dollars toward travel and vacations this summer. The timing of the vaccine and its availability in the first quarter — historically a soft spot every year and especially during an economic recovery — couldn't be better.

Looking forward into 2021, economic uncertainty is very prevalent and at near-record levels, putting a crimp in economic activity as businesses avoid or pause in making investments and consumers delay spending. The pace of the economic recovery is expected to pick up after the winter months and into mid-year, and it is likely that we will see a reacceleration of gross domestic product and jobs leaning into a meaningful economic recovery. In such a scenario, consumer spending may grow rapidly. Nonetheless, we don't expect economic activity to return to pre-pandemic levels until late 2021 and employment at those levels won't return until well into 2022 and possibly 2023. That is why still more stimulus is needed to help speed up employment. As NRF said when Congress voted last month, we hope the latest stimulus will be seen as a down payment on further economic relief in 2021.

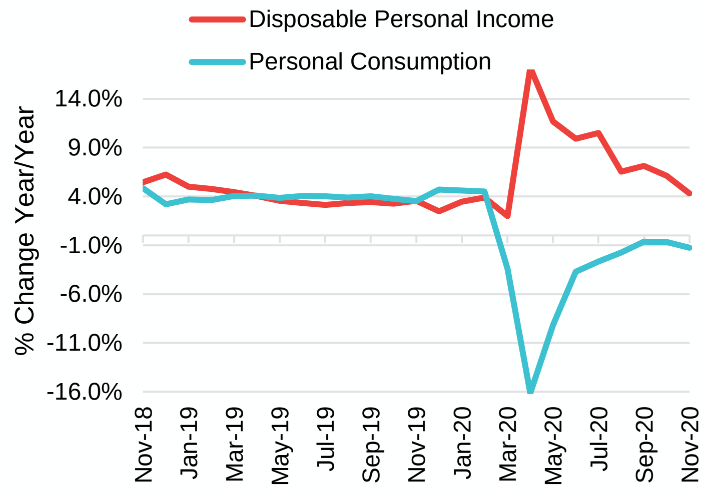
SALES AND SENTIMENT

Consumer sentiment rose in December despite the headwinds of infections and increased restrictions. While the recent recession was severe, retail spending benefited from rapid government support.



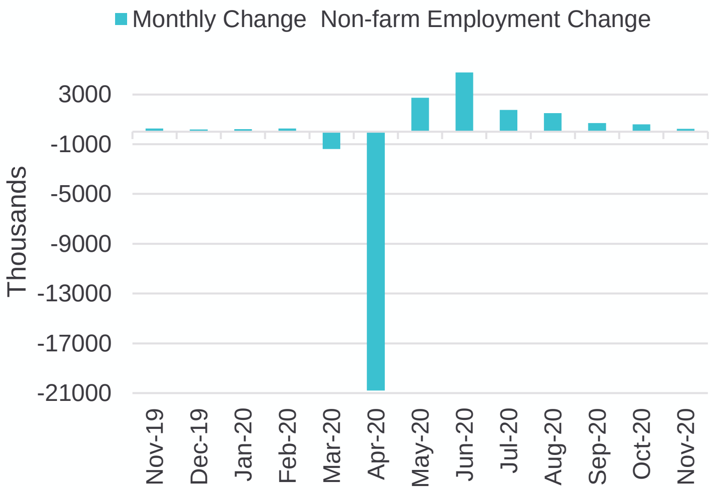
INCOME & CONSUMPTION

November's deceleration in disposable personal income was driven by a fall in government support spending. Consumer spending paused in November as increased infections and restrictions on activity weighed on consumers.



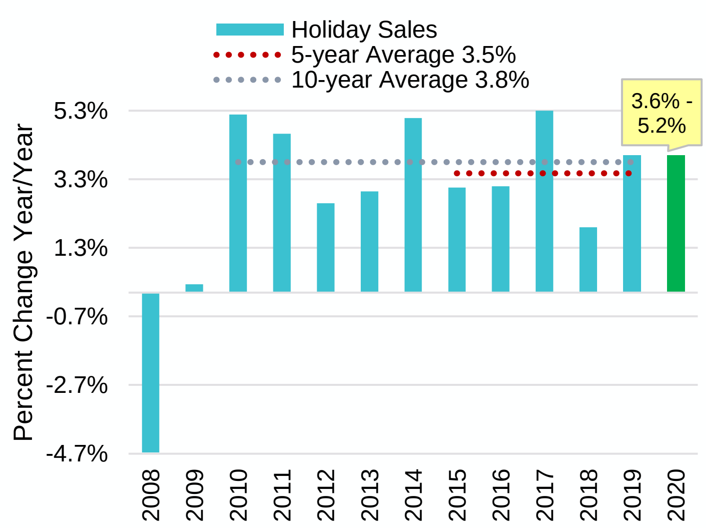
EMPLOYMENT

Payrolls increased by only 245,000 jobs in November, the lowest gain since the recovery began in May. December's numbers could see a rollback reflecting the impact of the virus surge and restrictions.



HOLIDAY SALES

NRF expects holiday spending to increase between 3.6 and 5.2 percent, which compares with 2019's 4 percent gain and a five-year average of 3.5 percent.



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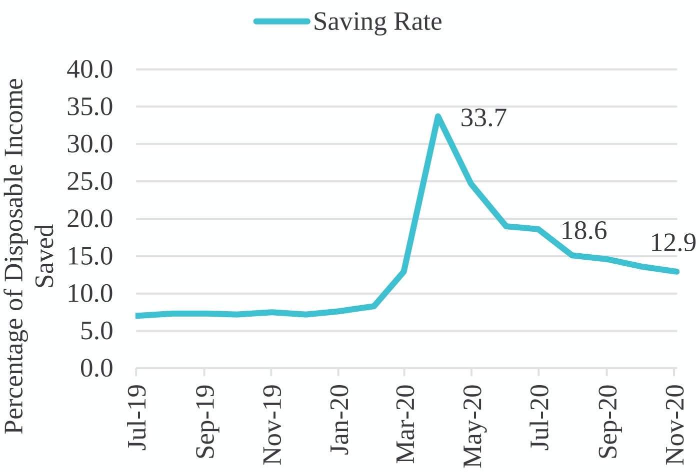
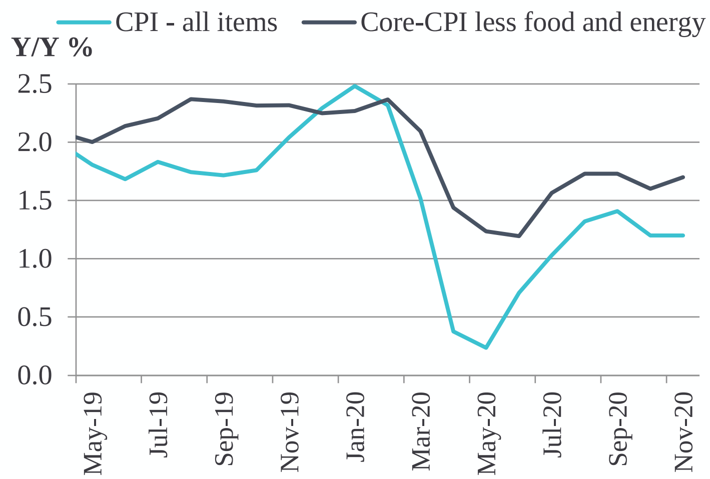
SAVINGS RATE

The combined effect of a drop in income that was larger than the drop in consumer spending resulted in the saving rate slipping from 13.6 percent in October to 12.9 percent in November.



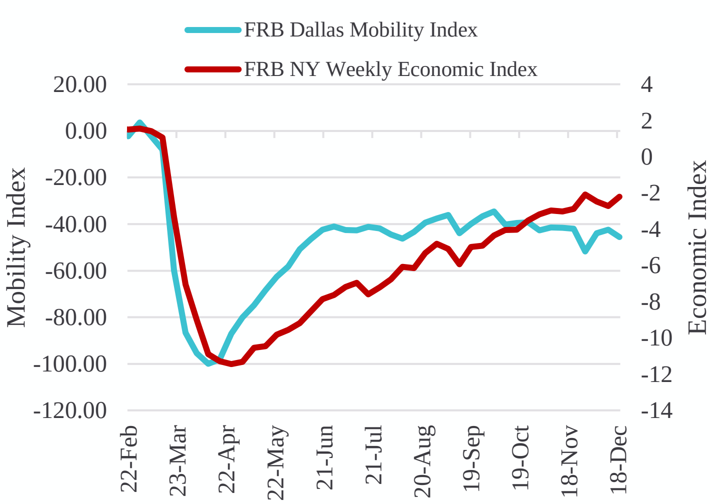
CONSUMER PRICE INDEX

The Consumer Price Index rose 1.2 percent year-over-year in November while core CPI increased 1.6 percent. Prices are expected to pick up once the economy opens in the second half of 2021.



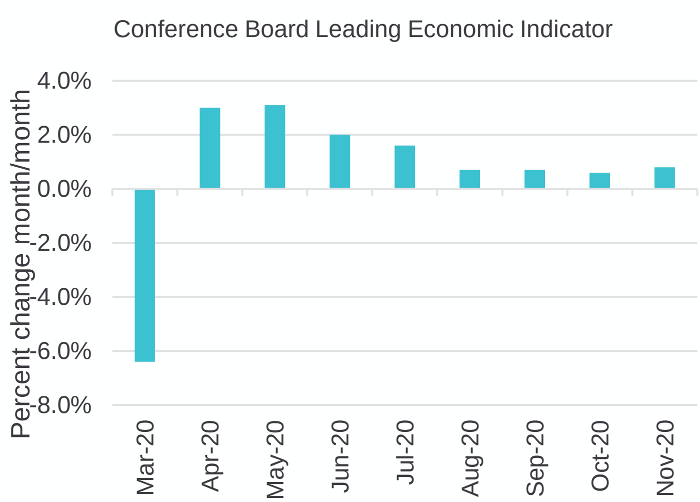
FRB INDEXES

The New York Fed's Weekly Economic Index edged up during December, signaling a moderate pace of growth. However, mobility factors were 40 percent below pre-pandemic levels as measured by the Dallas Fed's Mobility and Engagement Index.



ECONOMIC SENTIMENT

The Conference Board's Leading Economic Index continued to increase through November. Although moderating, the pace of growth continues to be supportive of the recovery.



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