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 | A holiday season to remember

Consumers were torn between excitement over the holidays and worries about the coronavirus pandemic during the 2020 holiday shopping season. But confidence from recovering economic indicators combined with a desire to forget about the pandemic and celebrate for a moment appear to have been behind a holiday spending increase that was even larger than NRF had expected.

U.S. holiday sales rose 8.3 percent in 2020 from a year earlier despite the economic challenges of the pandemic. That was the highest holiday growth rate in records going back to 2002 – topping 6.8 percent in 2004 – and more than double the 3.5 percent average increase over the previous five years, including 2019's 4 percent gain. Consumers' ability to spend was bolstered by the stimulus payments they received earlier in the year and the money they saved by not traveling, dining out or attending entertainment events. Rising record wealth from increasing home values and stock prices also provided support for holiday spending. And consumers were likely encouraged by the news of COVID-19 vaccines becoming available, which helped offset concerns about increased infection rates and state restrictions on activity. Nonetheless, there was a sharp split among consumers with different resources: While sales were at record levels, many Americans struggled during the holiday season as millions remained without jobs and others were working fewer hours.

Total sales for the November-December holiday season (excluding automobile dealers, gasoline stations and restaurants) came to $789.4 billion, easily exceeding NRF's forecast that sales would grow between 3.6 percent and 5.2 percent to between $755.3 billion and $766.7 billion. These are preliminary results based on Census Bureau data and are subject to revision in the coming months but nonetheless represent a record year for holiday sales despite unprecedented challenges. Year-over-year retail sales growth for all 12 months of 2020 was 6.8 percent, exceeding its pre-pandemic trend.

The holiday total includes online and other non-store sales, which were a standout this holiday season, growing 23.9 percent year-over-year to $209 billion as consumers shopped more online whether they made their purchases from pureplay online sellers or traditional retailers' websites. That compared with 14.7 percent growth in 2019 and represented 26.5 percent of total sales during the holiday season. (Non-store sales include catalog sales and miscellaneous categories such as vending machines or kiosks, but are made up mostly of online sales, offering a close approximation of ecommerce-only data that will become available later.)

This was not a typical holiday season and it took place amid an unprecedented shopping landscape. There was a push and pull between the emotion of the holidays and the rise in COVID cases, with the crisis throwing off many consumers' shopping cadence. Retailers kicked off promotions and sales in October, both to create excitement early in the game and in response to NRF's New Holiday Traditions campaign to encourage consumers to shop safe and shop early. Because of the pandemic, most big box and mall stores were closed on Thanksgiving Day, reversing a trend of opening on the holiday in recent years. In the third and fourth weeks of December, holiday-related spending picked up. At that point, it was too late to expect delivery of online purchases by Christmas, but consumers turned to quick in-and-out trips to stores and took advantage of buy online, pick up in-store/curbside services retailers had perfected over the past several months.

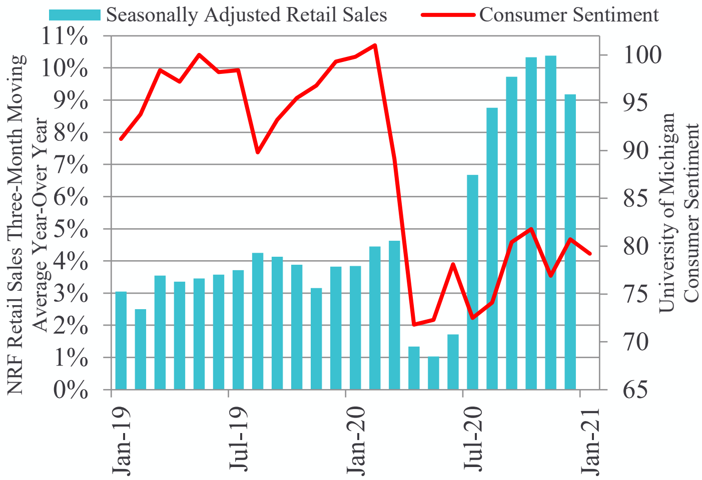
When we assembled our 2020 holiday forecast, we knew one possible scenario was that results could come in high and that sales might exceed the forecast. The economist John Maynard Keynes once remarked that economic activity results from rational motivations but can also be governed by "animal spirits" that are not necessarily rational and that those spirits are a key cause for fluctuations in the economy. As such, household emotions likely played into holiday economic decisions as consumers wanting to offset the anxiety and stress experienced during 2020 spent on gifts to enjoy a better-than-normal holiday. This was clearly a year when animal spirits outweighed conventional wisdom.

Consumer behavior and spending will be shaped by current events in the months ahead – most of all the pandemic – and getting through the period won't be easy. The latest tracking reports show employment weakening in the early months of 2021 and COVID-10 death and illness rates remain tragically high.

The pandemic is far from over, but it won't last forever. How different will customers be in a post-pandemic world? It is not easy to say since the COVID-19 crisis has had such a profound impact on people's behaviors. These changes have shaped consumer decisions on how they live, work, shop, learn and play, and many of those decisions could carry over once the pandemic is over. Retailers should examine these changes closely and prepare to match the shopping experience with consumers' new needs and expectations.

## SALES AND SENTIMENT

Consumer sentiment slipped 1.5 points in January after rising a surprising 3.8 points in December. The level of confidence is holding up despite the surge in COVID-19 infections.

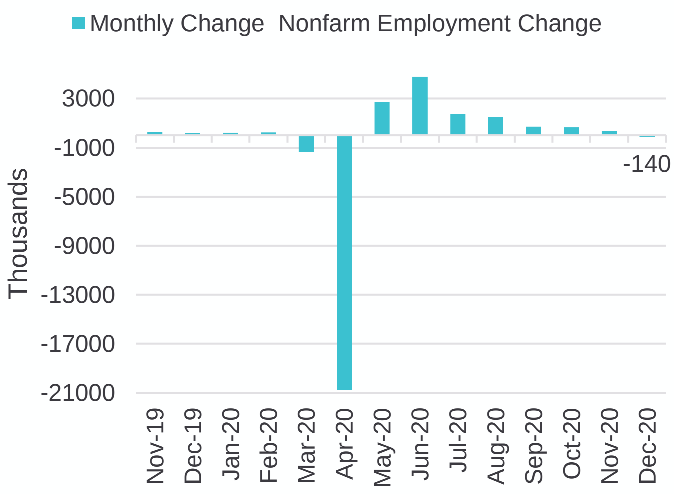



## HOLIDAY HIRES

Retailers added approximately 535,000 jobs to payrolls during the holiday season, within the NRF forecast of between 475,000 and 575,000 jobs.

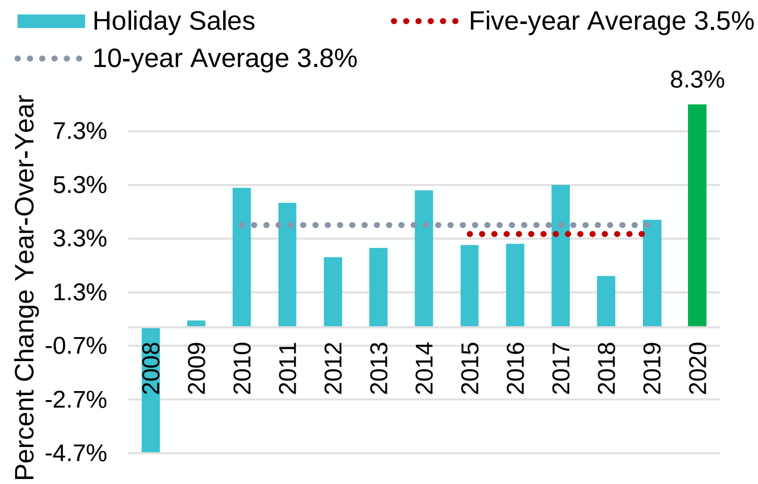

## EMPLOYMENT

Employment fell in December for the first time since April. The virus continues to play havoc with labor markets. Most declines were due to shutdowns in the leisure and hospitality sector.




## HOLIDAY SALES

Holiday spending grew an unexpectedly high 8.3 percent year-over-year during November and December, which compared with 2019's 4 percent gain and a five-year average of 3.5 percent.



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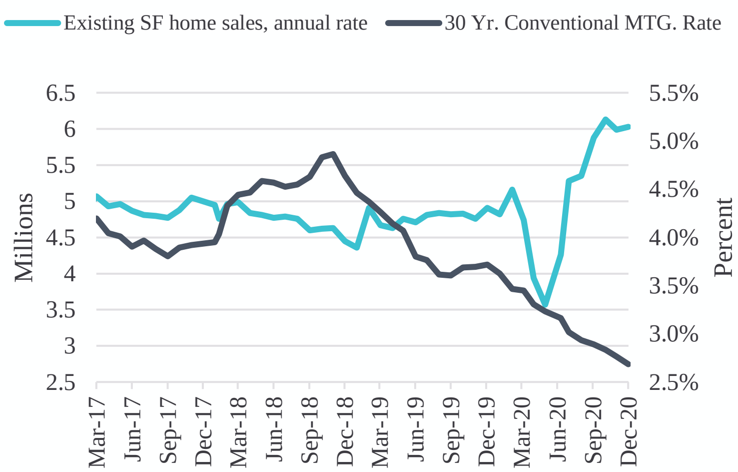
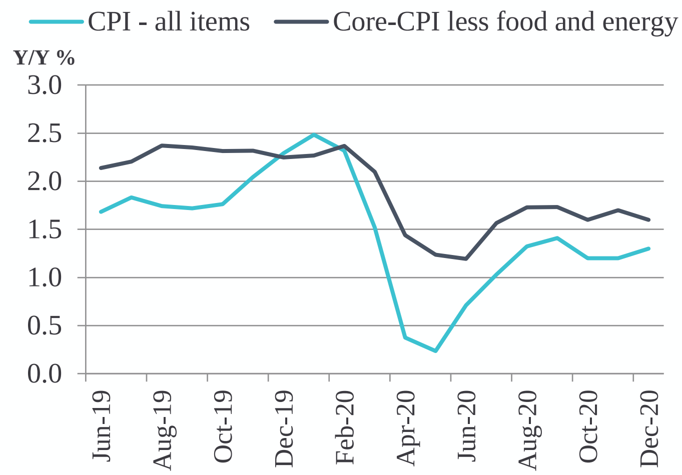
## HOUSING MARKET

Buoyed by historically low mortgage rates, the housing market was a bright spot during 2020. Sales of existing single-family homes registered at 6 million units in December, up 22.8 percent from December 2019.



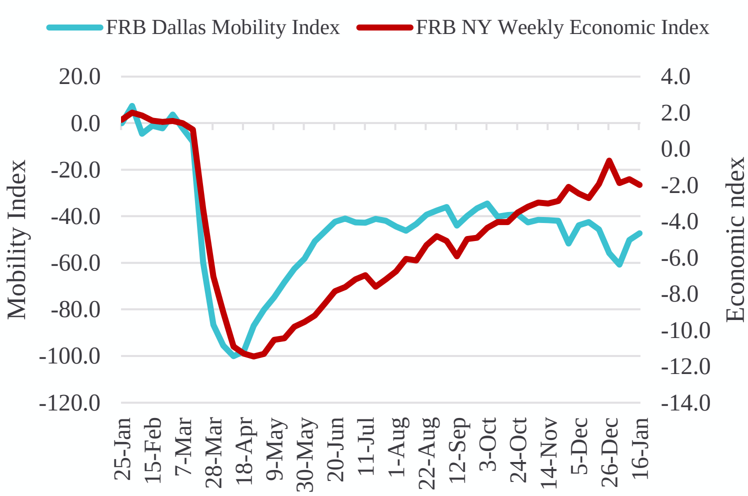

## CONSUMER PRICE INDEX

The Consumer Price Index rose 1.4 percent year-over-year in December while core CPI increased 1.3 percent. Prices are expected to pick up once the economy opens in the second half of 2021.



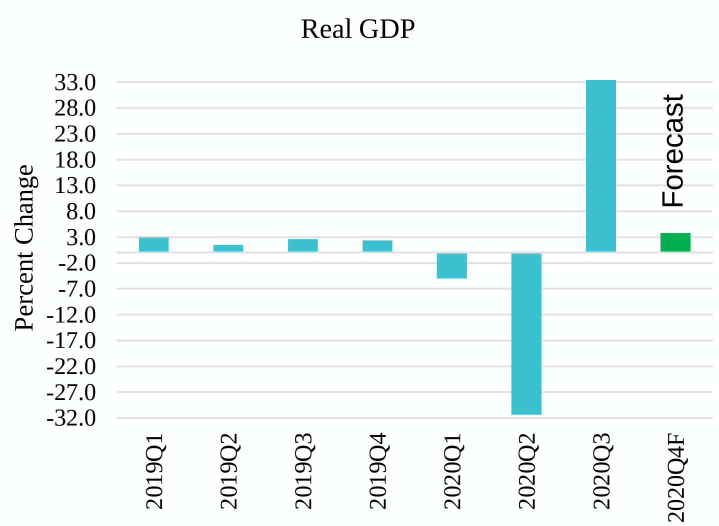

## FRB INDEXES

The New York Fed's Weekly Economic Index leveled recently due to the slower job market. However, mobility factors were nearly 50 percent below pre-pandemic levels as measured by the Dallas Fed's Mobility and Engagement Index.




## ECONOMIC GROWTH

Following a record-breaking 33.4 percent gain in the third quarter, the economy is expected to be much slower and show grow around a 4 percent annualized rate for the fourth quarter of 2020.



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