NRF National Retail Federation

MONTHLY

Economic Review

NOVEMBER 2021

Jack Kleinhenz, Ph.D., CBE
Chief Economist
National Retail Federation

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 | **Unwrapping the NRF Holiday Sales Forecast**

With rapid and unpredictable fluctuations of unprecedented size, the COVID-19 pandemic has posed substantial challenges to economic forecasting for two years in a row now. Our forecast model relies on data and assumptions regarding key variables such as disposable income, past retail sales, consumer spending and employment among other factors – numbers that have gone virtually off the charts both up and down during the pandemic. It is impossible to perfectly model the economy even in normal times, and during a pandemic it is more challenging than ever.

Economic models are at best a description of the economy and cannot perfectly represent the complex mechanics and forces at work. The value is not in pinpoint accuracy but in the ability to capture the many changes in the economy and provide guidance about possibilities. Assumptions based on prior knowledge and theories play a crucial role, but during pandemic times there are no comparable past episodes to draw data and information from. That means assumptions play an even more important role than ever and require judgement calls. For example, how probable is it that current COVID-19 cases will fall off and, if they do, will that encourage households to spend more during the holidays? And if consumers spend more, will be it on goods or will they shift to spending on services? How much savings is available for current spending, and will consumers spend it? In pulling together all the pieces for a forecast, it's important to remember an observation by Albert Einstein: "Not everything that can be counted counts and not everything that counts can be counted."

Against those challenges, NRF is forecasting that this year's holiday sales will grow between 8.5 percent and 10.5 percent over 2020. That works out to between $843.4 billion and $859 billion. By comparison, holiday sales last year grew 8.2 percent from 2019 and totaled $777.3 billion. Our forecast includes online and other non-store sales, which we expect to increase between 11 percent and 15 percent to between $218.3 billion and $226.2 billion.

That is up from $196.7 billion last year. We expect retailers will hire between 500,000 and 665,000 seasonal workers, up from 486,000 seasonal hires in 2020. Some of this hiring may have already occurred in October as many retailers concerned by the current labor shortage have brought staff on board early. More consumers have reported beginning their shopping early than in the past, possibly also driving early retail hiring.

There are several factors coming together to have a major impact on the holiday outlook, but strong household fundamentals are a bright spot in the uncertain present. Consumers are in a very favorable position going into the last months of the year and are spending because they can. A savings buffer of roughly $2.5 trillion accumulated during the pandemic has supercharged consumer spending this year while income is growing in the form of more jobs, more hours and higher wages reflecting businesses' competition for workers. Household wealth has risen strongly and set another record high in the second quarter (the latest data available). As wealth accumulates, consumer confidence increases and triggers consumer spending. Confidence also makes consumers comfortable using credit, and easily available credit could provide additional liquidity for spending this holiday season.

Spending has continued at a brisk pace throughout the year and has returned to pre-pandemic levels or higher for many categories. While some households that lost jobs last year are still facing financial difficulties, data tracked by Harvard University's Opportunity Insights projects shows total spending by low-income consumers was up 22.3 percent at the end of this September compared with pre-pandemic January 2020. The number appears to reflect enhanced unemployment benefits and other stimulus money such as the new child tax credit.

The strong growth in income and stockpiled savings should help spending overcome the inflationary environment that has become a big headache for both consumers and retailers. Inflation has been driven both by the jump in consumer demand and supply chain challenges in meeting that demand, and it is unclear when either will end. The challenge when – and if – sales begin to fall will be whether it is caused by weaker demand or reduced product availability.

Retail merchandise isn't the only category where prices are going up. U.S. households are expected to spend more money on heat this winter than last winter thanks to higher energy prices that could siphon off money that could otherwise go to holiday spending. Energy shortages and high demand have made the outlook uncertain, and a cold winter could make the problems even worse. American consumers have already been paying more for gasoline, and higher heating and electricity costs could follow.

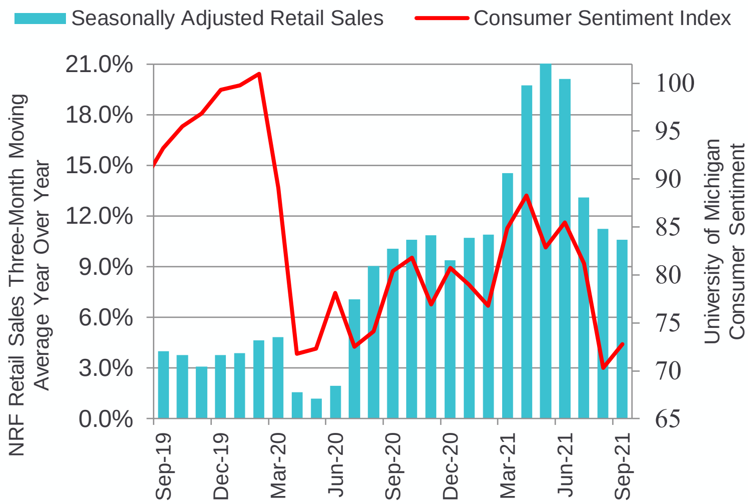
It is difficult to quantify the effect of weather on holiday sales, but the National Oceanic and Atmospheric Administration says there is a 70 percent to 80 percent chance that a La Niña will bring cold weather to the Northern Hemisphere this winter. That would be a repeat of last year, and the climate phenomenon has coincided with stronger retail sales in the past.

As we proceed into the busy holiday shopping season, everyone will be watching COVID-19 and the delta variant closely. With vaccine booster shots now available and both new cases and deaths trending downward, spending could begin to switch from retail goods to services as consumers become more comfortable with travel, dining out and attending entertainment events. But, as we saw last winter, the pandemic could throw a wrench into the works if indoor gatherings during cold weather set off a surge of new cases.

With concerns over supply chain shortages increasing daily, retailers have urged consumers to shop early to get ahead of any potential lack of inventory. Shipping delays could also result in tension. However, if merchandise arrives before Christmas and retailers can keep it on the shelves, it could be a stellar holiday sales season.

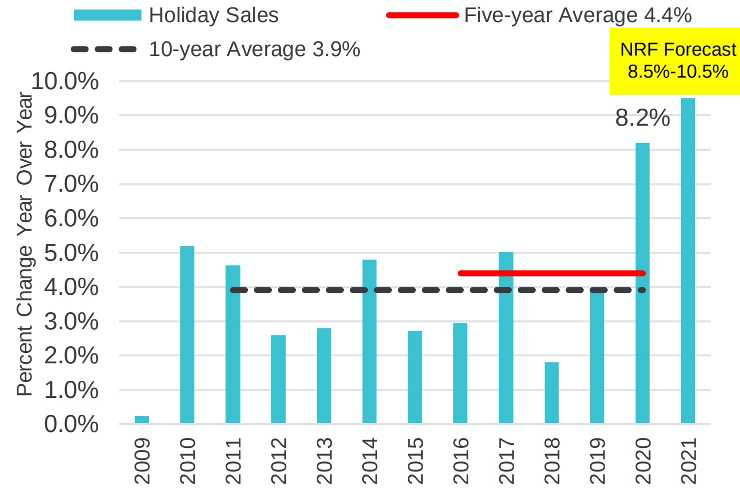
SALES AND SENTIMENT

Retail sales in September continued to show solid gains despite gloomy consumer sentiment measures. The weakness in confidence was instigated by a surge in prices.



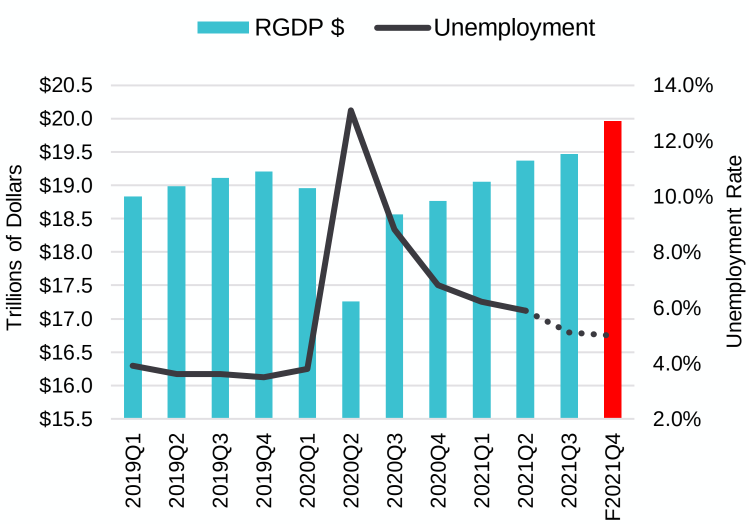
NRF HOLIDAY FORECAST

NRF expects holiday spending to increase between 8.5 percent and 10.5 percent, which compares with last year's 8.2 percent and the five-year average of 4.4 percent.



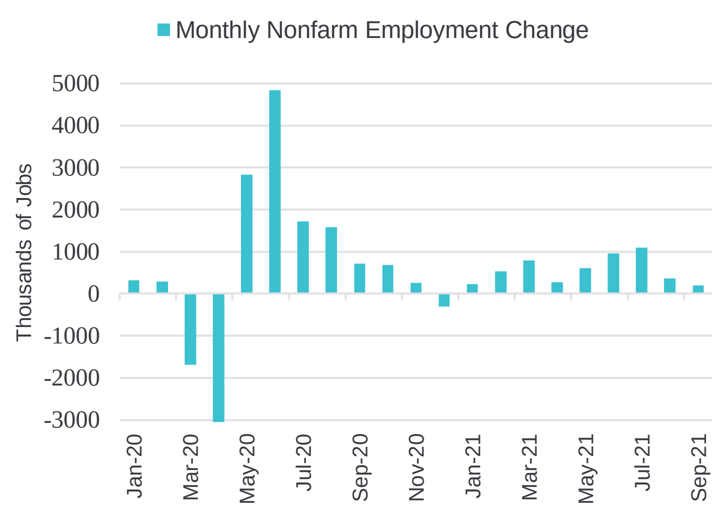
GDP & UNEMPLOYMENT

Real GDP growth is above its pre-pandemic peak, increasing at an annual rate of 6.5 percent in the second quarter. The unemployment rate should dip below 5 percent by year-end.



EMPLOYMENT

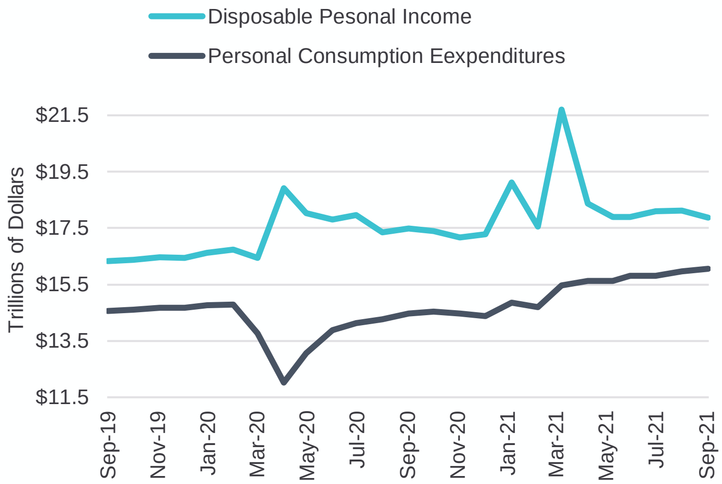
Payrolls rose by 194,000 jobs in September. With the July and August jobs reports revised higher by a combined 169,000, the three-month average was an impressive 550,000 jobs.



National Retail Federation

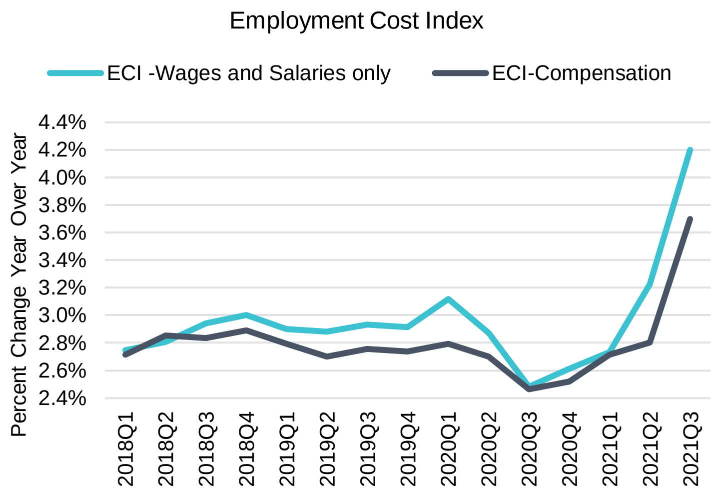
INCOME & EXPENDITURES

September disposable income reflected a rise in wages and salaries along with job gains. The end of pandemic unemployment benefits didn't hamper consumer spending.



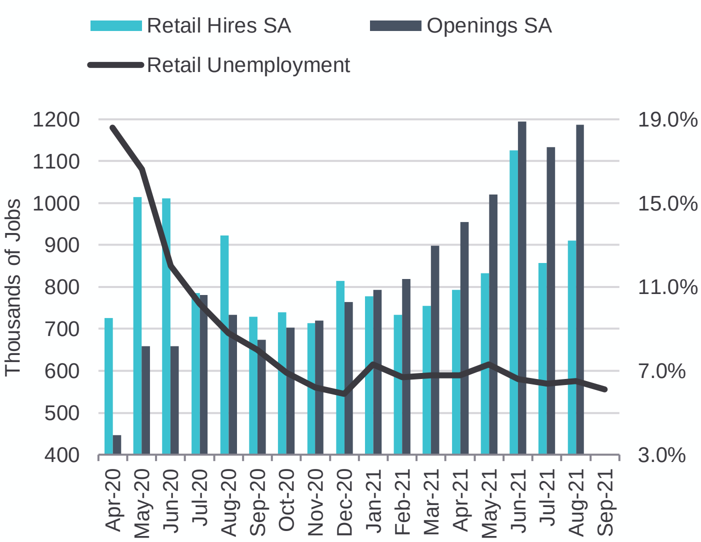
EMPLOYMENT COST INDEX

Even as hiring momentum slowed in the third quarter, labor costs increased sharply. The pressure on labor costs will keep inflation elevated over the next few quarters.



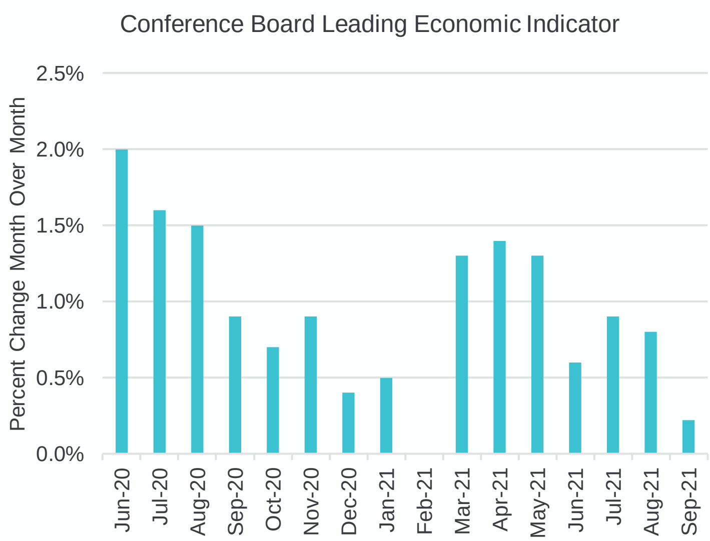
RETAIL LABOR MARKET

The retail labor market remained tight in August with openings far exceeding hiring. Retail job openings were the second highest on record. August openings amounted to 1.2 million and hires totaled 911,000.



LEADING ECONOMIC INDEX

The Conference Board's Leading Economic Index indicates the recovery decelerated further in September. The delta variant and supply chain bottlenecks are holding back more robust growth.



NRF National Retail Federation