

MONTHLY Economic Review

DECEMBER 2021

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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 | **Holiday Sales Could be Better Than Expected**

Now that we're in December, the holiday shopping season is nearing the finish line. The question is how have factors ranging from economic indicators to the twists of the COVID-19 pandemic affected the season so far, and what role will they play in the weeks that remain? There's no crystal ball to provide a definitive answer, but the latest data is encouraging and provides useful insights. In fact, the season could turn out even better than we expected.

Just before Thanksgiving, the Bureau of Economic Analysis released data showing that U.S. economic growth slowed to a modest 2.1 percent in the third quarter, down from 6.7 percent in the second quarter. But real gross domestic product was still 4.5 percent higher than it was in the third quarter of 2020, and third-quarter growth was led by personal consumption and increased inventories as retailers and other businesses worked to keep up with demand. Business investment in intellectual property was also up, along with state and local government purchases, although net exports, home building, business investment in equipment and commercial construction slowed.

BEA data on income and outlays for October provided an all-important update on the health of the consumer. Nominal disposable income rose 0.3 percent, reflecting increases in wage, salary and interest income, although the increases were partly offset by a decrease in government pandemic aid after extended unemployment benefits ended in September. While dwindling government stimulus has held back month-to-month income growth in recent months, consumers remain in solid financial shape and do not appear stretched. Consumer spending rose by 1.3 percent in October, the largest monthly increase since March. There was no evidence of a pullback in consumer spending despite price increases that have come with supply chain disruptions and increased demand. Disposable personal income is up 4.1 percent in the past year, while spending has increased 12 percent. The increase in income together with very strong spending lowered the saving rate from 8.2 percent to 7.3 percent, the third monthly decline in a row with the latest figures beginning to return to pre-pandemic levels.

SYNOPSIS | Holiday Sales Could be Better Than Expected

Nonetheless, households have a savings cushion of around \$2 trillion accumulated since the beginning of the pandemic to support spending and provide an important buffer against higher prices.

The Federal Reserve's preferred measure of inflation – the Personal Consumer Expenditures Price Index from the BEA – increased 5 percent year-over-year in October, reflecting increases in prices of both goods and services. But that was driven largely by a 30.2 percent in energy prices while food prices increased 4.8 percent. Excluding food and energy, the index was up only 4.1 percent. Even at that level, it's worth noting that this dynamic is not constant across all sectors of the economy and not all goods and services are moving in lockstep or even in the same direction from month to month. Looking at the core retail categories of general merchandise, apparel, accessories and furniture, prices grew at a more muted 3.3 percent.

Meanwhile, the job market appears to be regaining its vitality. Initial unemployment claims declined by 71,000 to 199,000 as of the weekend before Thanksgiving, plunging to the lowest level since 1969. Continuing claims declined by 60,000 to just over 2 million. Those figures are consistent with strong job growth expected to be seen in the upcoming employment report for November. Official labor market data for October showed payrolls were up by 531,000 jobs, a rebound from 312,000 in September and 483,000 in August, both of which had initially been reported far lower before revisions. October's performance implied that the impact of the COVID-19 delta variant was fading and that it might not have been as pernicious to the labor market as previously thought. The consensus forecast for November is a 550,000-job gain. A few more months of these strong growth rates could put a serious dent into the 4.2 million jobs that still need to be recovered to reach the pre-pandemic peak.

The economy has a lot riding on consumers, and it needs the consumer to keep growing. Retail sales growth remained strong in October as many consumers began holiday shopping early. NRF's calculation of retail sales – which excludes automobile dealers, gasoline stations and restaurants – showed October spending increased 1.7 percent from September and was up 10.8 percent unadjusted year-over-year. For the first 10 months of 2021, sales were up 14.1 percent over the same period of 2020.

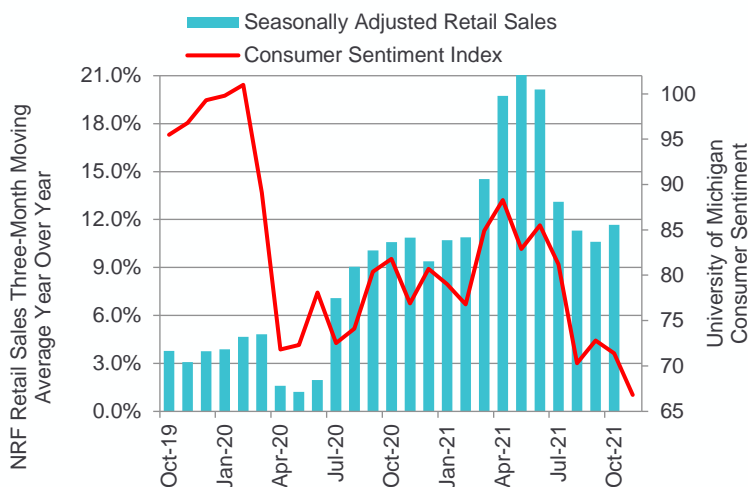
The holiday season clearly looks to be off to a good start. As seen with the October results, some sales were likely pulled forward from November and December as consumers began holiday shopping earlier than ever in the face of disrupted supply chains that threatened to limit inventory levels. As a result, the ever-important Thanksgiving holiday weekend now helps to mark the holiday season rather than serving as the kickoff it once was. Consumers and retailers have both revised their playbooks and broken with previous traditions. With the momentum we've seen so far likely to continue, it seems probable that we will exceed our initial projection, which was made when the late-summer growth in COVID-19 was still a key factor. Rather than the growth of 8.5 percent to 10.5 percent over 2020 we expected in October, we now believe holiday retail sales could grow as much as 11.5 percent.

In direct contrast to the positive outlook much of the data is showing, consumer confidence as measured by the University of Michigan shows confidence at pandemic-era lows. The UM Index of Consumer Sentiment declined to 67.4 in November, the lowest level since November 2011. The decline appears to have been instigated by the surge in prices, especially for gasoline, pushing up inflation fears, and the impact of rising COVID-19 infections as the delta variant spread. Wrangling in Washington over federal legislation, the federal budget and debt limit likely contributed as well. Nonetheless, when faced with a disparity between a consumer survey and hard data on spending, watch what consumers do, not what they say.

Amid all these considerations, the latest wild card raising uncertainty around the economic outlook – and creating a potential risk – is the new COVID-19 omicron variant. It's too early to have a clear answer – or any answer at all – to how omicron will impact the economy and the retail industry. Compared with where we were a year ago, however, there is a much higher share of vaccinated population, which should help slow its spread. What we do know is that retailers have been on the front lines from the start of this pandemic in implementing procedures and protocols that protect their workers, their customers and the communities they serve. Those procedures and protocols remain in effect, and retailers will continue to follow guidelines established by health professionals and experts. This development shows we cannot take anything for granted, but we are hoping households can enjoy a safe and happy holiday season.

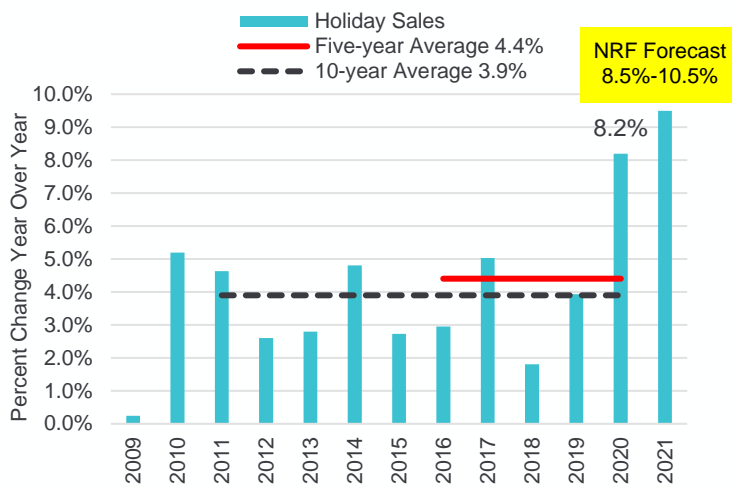
SALES AND SENTIMENT

Despite a falloff in consumer sentiment, there was no evidence of a pullback in October retail sales. Sales figures reflected the combined effects of Halloween and early holiday spending.



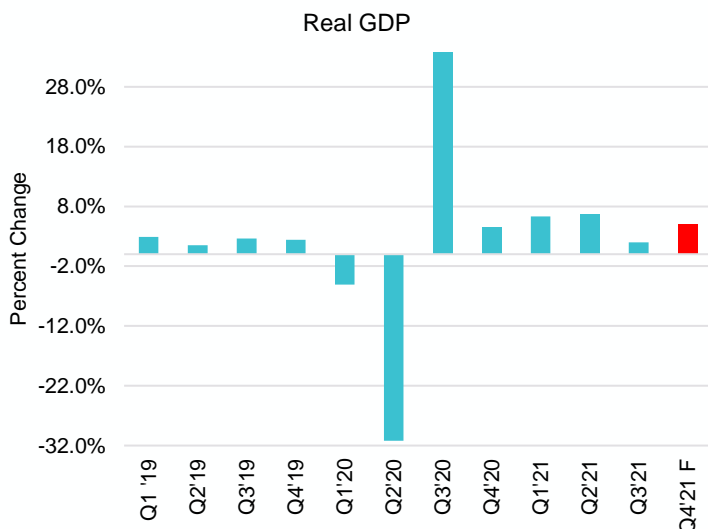
NRF HOLIDAY FORECAST

NRF expects 2021 holiday spending to rise as much as 11.5 percent, exceeding its initial holiday forecast of between 8.5 percent and 10.5 percent.



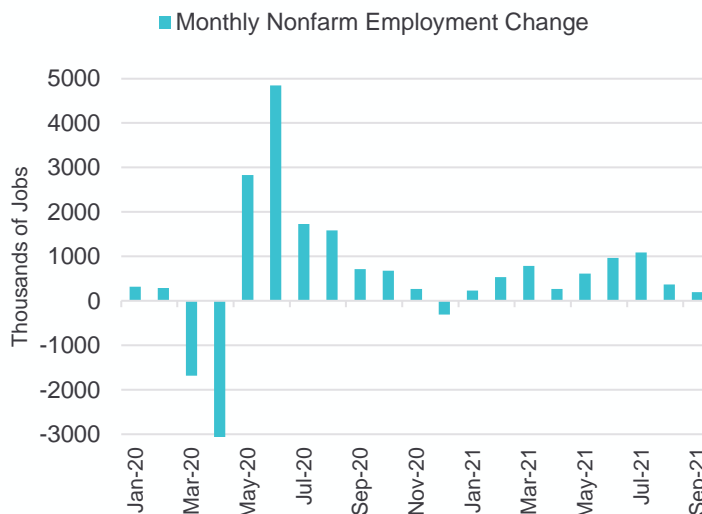
GROSS DOMESTIC PRODUCT

Real GDP grew 2.1 percent in the third quarter, lagging the second quarter's 6.7 percent. Weakness was broad-based. Consumer spending grew but far less than in recent quarters.



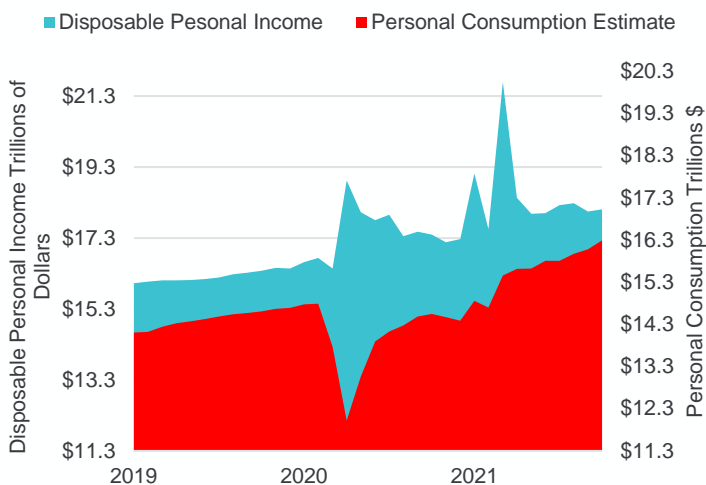
EMPLOYMENT

Payrolls rebounded in October, growing by 531,000 jobs. August and September totals were revised higher as well. The unemployment rate declined to 4.6 percent from 4.8 percent in September.



INCOME & EXPENDITURES

October disposable income reflected a rise in wages and salaries along with job gains. The end of pandemic unemployment benefits did not hamper consumer spending.



ECOMMERCE

Third-quarter e-commerce sales decreased 3.3 percent from the second quarter. Online's share of total retail sales edged down to 13 percent but remained above pre-pandemic levels.



RETAIL LABOR MARKET

With the labor market tightening, retail openings far exceed hires. September retail job openings were the third-highest on record at 1.1 million while hires totaled 893,000.



LEADING ECONOMIC INDEX

The Conference Board's Leading Economic Index aligns with other economic data showing the economy has picked from September's slower pace that was impacted by the delta variant wave.

