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 | 2023 Holiday Sales Will Have a 'Whole New Set of Dynamics'

The last few holiday shopping seasons have been filled with unmatched peculiarities for consumers and retailers alike. In 2020, despite the challenges the country faced with the COVID-19 pandemic, retail sales for November and December surged 9.1% year over year, clearly shaped by Americans staying home and moving to online shopping. Retail supply chain bottlenecks and sharply rising demand defined holiday shopping in 2021 and resulted in an historic growth rate of 12.7%. Holiday sales during 2022 remained especially strong at 5.4% and took a unique twist as the season reflected both rising inflation and the ability to draw on excess savings built up during the pandemic. Online spending continued, but in-store shopping surged, and there was a shift in spending from goods to services as consumers who had stayed home were venturing out more.

This year, a whole new set of dynamics is in place. In general, the average household remains on relatively solid financial footing despite pressures from still-high inflation, stringent credit conditions and elevated interest rates. Recent revisions to government data indicate that consumers haven't drawn down as much of their pandemic savings as believed earlier, and savings are still providing a buffer to support spending. The overall story for this holiday season is that it looks very good.

NRF expects retail sales during the holiday season – defined as November 1 through December 31 – to increase between 3% and 4% over 2022 to a total of between $957.3 billion and $966.6 billion. The growth rate is expected to fall short of the pace of the last three years but is consistent with the average annual increase of 3.6% from 2010 to 2019. And the projected total, which excludes automobile dealers, gasoline stations and restaurants to focus on core retail, would be a new record, topping the previous record of $929.5 billion set last year. NRF expects online and other non-store sales, which are included in the total, to increase between 7% and 9% to between $273.7 billion and $278.8 billion. Convenience is part of the calculus of a successful holiday season, and the increase in online shopping has been one of the biggest shifts that have resulted from the pandemic.

While e-commerce will remain important, households are expected to continue most of their shopping in-store in the spirit of enjoying a more traditional shopping experience. This year's holiday expectations are consistent with NRF's forecast that annual retail sales for 2023 will end up in the range of 4% over 2022.

We are continuing to see a disconnect between solid consumer spending and weak consumer confidence. Recent surveys show that consumers are concerned about the outlook for income and that business and job market conditions are slowed by higher interest rates elevating borrowing costs, ongoing inflation and political stress. Nonetheless, the consumer sector has been remarkably resilient in 2023 even though spending has been uneven. Consumer spending on goods and services expanded at a brisk pace in the first quarter but then slowed at a sizeable pace in the second. Consumer spending was quite strong in the third quarter but does not appear to be growing as strongly now that we are in the fourth quarter.

While there is significant uncertainty surrounding the measurement of how well the economy is performing, it continues to move forward and defy recession predictions, proving it to be more resilient than anticipated. There are a number of headwinds facing the consumer in the final two months of 2023 that pose significant risks: gas prices have been on the rise throughout much of 2023, credit card balances are higher and borrowing costs are on the rise, savings rates are down, elevated inflation persists, student loan payments are resuming, and both job and wage growth are lessening.

For all that the consumer has kept the economy afloat, the shift of spending from goods to services will also affect holiday sales trends. Strong service spending has grown faster than goods spending and is now in line with pre-pandemic trends. One concern is that money households spent on travel, entertainment-related events and restaurants this past summer may have pulled forward spending they would have done at the end of the year. On the other hand, a number of travel analysts say many Americans plan to travel over the holidays, which could also move spending further away from goods.

While credit card usage has been on an upswing, consumer's ability to service the debt is not out of alignment with pre-pandemic levels, nor have delinquency rates returned to pre-pandemic levels. As we consider what will happen this holiday season, it is important to recall that households tend to prioritize spending on important family and holiday events and may even reduce purchases prior to these occurrences to safeguard spending for November and December celebrations.

Job growth over the past few months along with growing wage and salary income continue to shape consumers' capacity to spend. Payrolls climbed by 150,000 jobs in October, in line with expectations and bringing the three-month moving average to 204,000 after downward revisions for both August and September. Clearly, job gains have slowed but have not tumbled. While this weaker pace may reverse next month with the United Auto Workers strike ending, we expect a slower pace that will influence holiday spending. With a slower expected pace of spending, retailers are expected to hire between 345,000 and 450,000 seasonal workers, which is in line with the 391,000 hires in 2022. Some of the hiring may have been pulled into October to support early shopping and promotions.

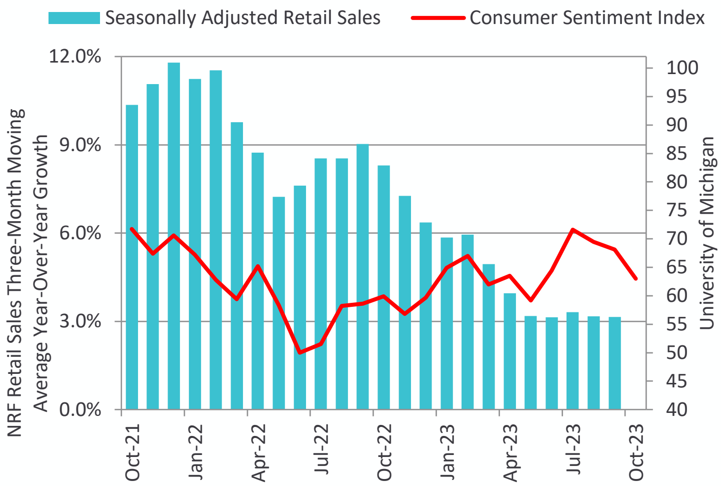
While retailers face a multitude of challenges, one is totally out of their hands. Weather during the holiday season can play a role in holiday retail sales but is difficult to predict. The National Oceanic and Atmospheric Administration says an El Niño weather pattern is expected but the agency is not certain how strong it will become. Regardless, the federal Energy Information Administration expects winter heating prices to remain relatively flat or decrease this season, depending on the region and heating fuel used, potentially benefiting holiday spending.

NRF monitors many sets of monthly and quarterly data related to consumer spending and retail purchases, and the holiday forecast is based on an economic model that takes into consideration a variety of indicators including employment, wages, consumer spending, disposable income, consumer credit and previous retail sales.

Putting all these considerations together, I expect the recent rhythm of spending will continue into the holiday season and that consumers will continue to spend on a range of items and experiences but at a slower pace. Households are starting the season in decent financial shape and are managing the constraints of their paychecks amid higher interest rates and higher monthly financial obligations as they seek to maintain their mode of living.

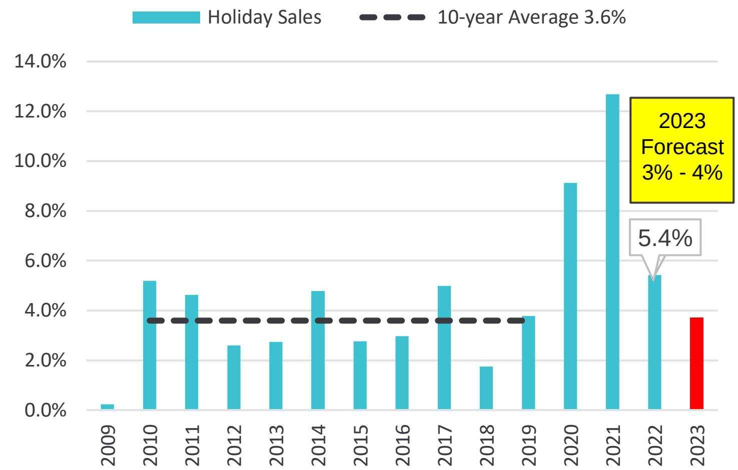
SALES AND SENTIMENT

Steady retail sales growth has stayed closely within the range of the three-month moving average of 3% for five months. Consumer sentiment fell in October following two consecutive months of little change.



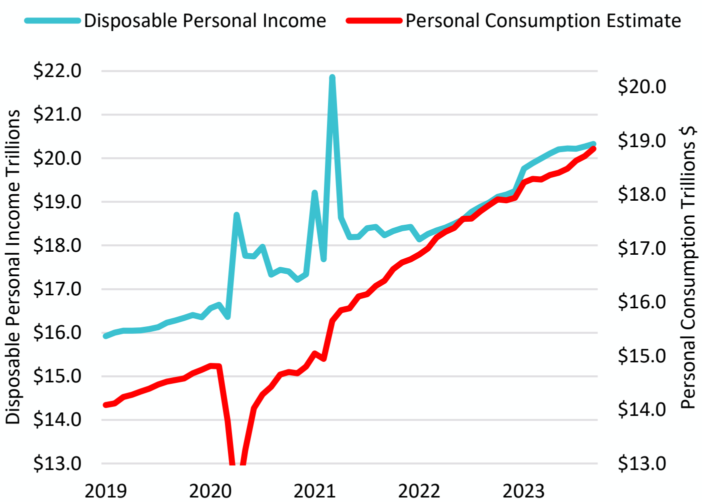
NRF HOLIDAY FORECAST

NRF expects holiday spending to increase between 3% and 4%, which is consistent with the 10-year average of 3.6% posted prior to the pandemic.



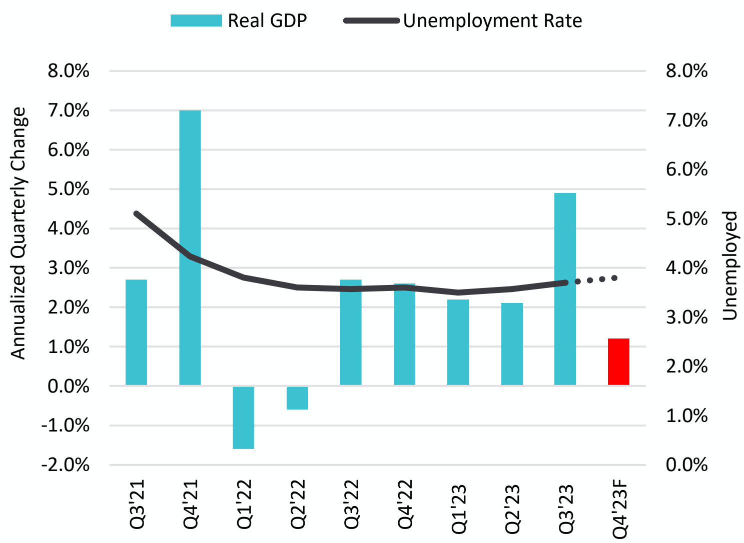
INCOME & CONSUMPTION

Household incomes in September continued to rise and consumer spending continued to expand. This healthy trend is expected to carry over into the fourth quarter but at a slower pace.



EMPLOYMENT

GDP rose a strong 4.9% in the third quarter. Economic indicators are expected to weaken in the next month or two as inflation and high interest rates remain a drag on the economy.



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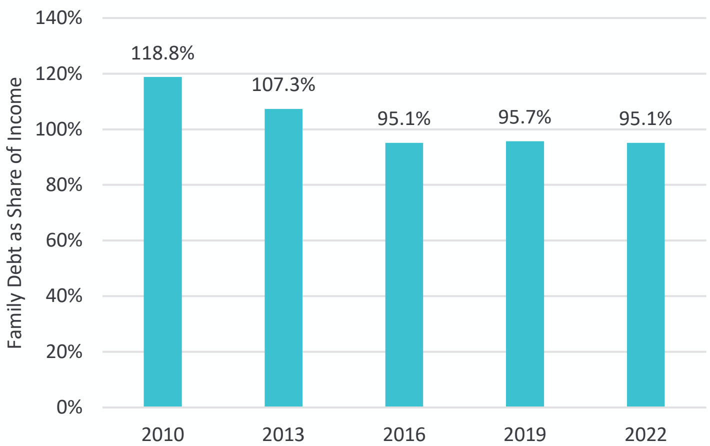
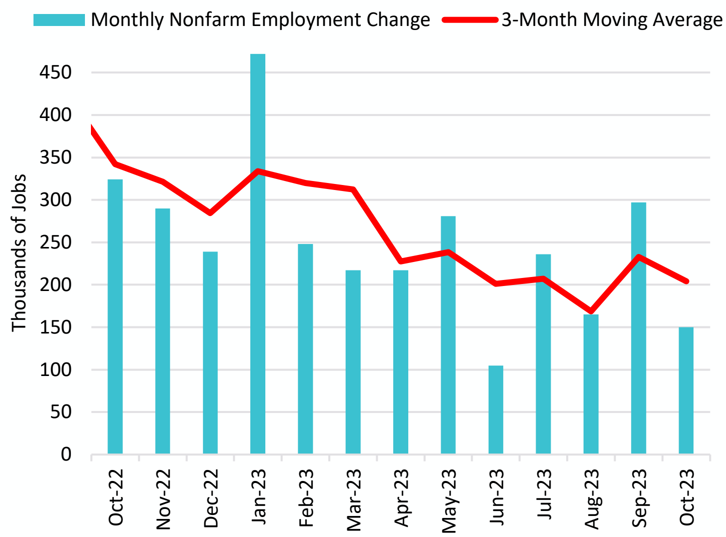
DEBT TO INCOME RATIO

According to the latest Federal Reserve Board Survey of Consumer Finances, the median debt-to-income ratio was 95.1%, holding steady since 2016 but well below its 2004-2013 levels.



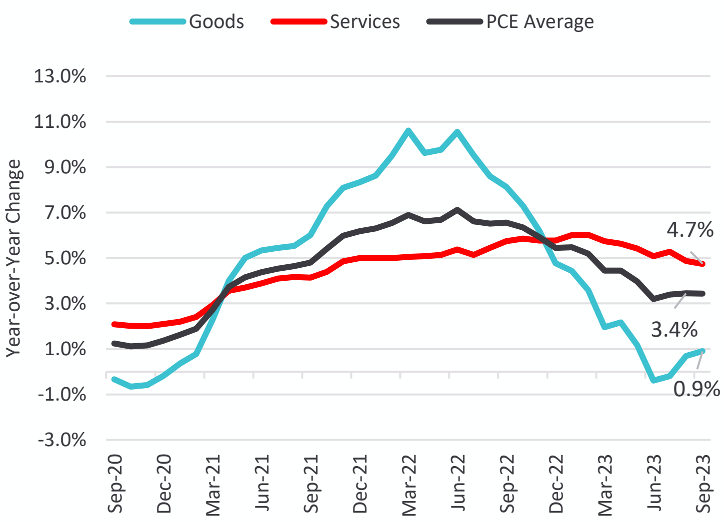
EMPLOYMENT

The U.S. labor market added 150,000 jobs in October. With August and September figures revised lower by 101,000 jobs, the three-month average stepped down from 233,000 to 204,000.



CONSUMPTION EXPENDITURE

The Personal Consumption Expenditures Price Index – the Federal Reserve's preferred measure of inflation –rose 0.4% in September, increasing the year-over-year comparison to 3.4%.



GOODS VS SERVICES

Consumers showed an increased willingness to consume both goods and services in September. Service spending growth has generally outpaced overall spending.

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