ECONOMIC OUTLOOK

REGIONS

November 2024

Holiday Sales Outlook: A Battle Of Wallet vs. Will – The Sequel

It's the most wonderful time of the year. Unless, of course, it's not. Either way, it is time for the November *Monthly Economic Outlook*, which means it is also the time of the year when we take the pulse of the U.S. consumer, conduct extensive research, perform highly sophisticated statistical analysis, apply the collective force of our years of professional experience, and then basically guess how much consumers will spend over the holiday shopping season. To be sure, when it comes to the economic data these days, guessing is about as good an approach as any other given what is a high volume of noise in much of the data, including the retail sales data. Okay, that was just our frustration over the reliability of the data getting the better of us. Of course we realize that coming up with an answer to a question as important and deeply meaningful as how much U.S. consumers may spend over the holiday season deserves nothing but the most thoughtful and rigorous approach, and we vow to perform the most sophisticated statistical analysis at our disposal. Only then, and only if we don't like the answer we come up with, will we resort to just making something up.

Okay, we will readily admit that, as our more cognizant readers have already realized, we pulled that opening paragraph from last year's holiday sales outlook. We can justify this on two grounds, the first of which is that, unfortunately, nothing has changed in terms of our ongoing frustration over a high degree of noise in much of the economic data making it hard to interpret the state of the economy, including consumer spending. If anything, our degree of frustration along these lines is even higher than was the case a year ago. On top of that, the reality is that, if we're being honest here, we like that opening paragraph so much that we're simply not ready to part with it just yet.

That opening paragraph is not the only thing we're, umm, borrowing, from last year's holiday sales outlook. We characterized last year's holiday sales outlook as a battle of wallet vs. will, meaning that while the various financial metrics suggested consumers had ample wherewithal to spend during the holiday sales season, the data on consumer confidence raised the question of whether they actually had the will to do so. We did note at the time that the aggregate metrics on household financial conditions masked some clear divides across household income cohorts, which would weigh on holiday season spending amongst some segments of consumers. That assessment hasn't really changed over the past year, hence our characterizing our 2024 holiday sales outlook as *Wallet vs. Will – The Sequel*.

So, wow, we've used the same opening and the same general theme that we used last year, which threatens to make this the forecasting/analysis equivalent of the holiday season fruitcake that gets passed around over and over and over. All we need to do now is to use the exact same forecast of growth in holiday season sales to make that the perfect analogy. Okay, we haven't gone quite that far, but may have come close enough for that analogy to hold, though we will say that unlike our, let's say, repurposing the opening and the general theme from last year's holiday sales outlook, we didn't actually set out to have this year's forecast come as close to last year's forecast as turned out to be the case. That's just how random number generators work sometimes.

Either way, as we do each November, we'll present our holiday sales forecast, regardless of how we arrive at it, and also take a deeper look at the state of U.S. consumers, both financial and psychological. Before getting to our forecast, we'll offer the usual housekeeping notes. First, our measure of holiday season sales consists of combined November and December retail sales excluding drug store, grocery store, motor vehicle, gasoline, building material, and restaurant sales. Though differing from other measures of holiday season sales, we've always excluded these categories from our measure on the grounds that these are not typically things given as holiday gifts. We do, however, have a standing offer – should anyone either find, or know anyone who finds, a neatly gift-wrapped new car or truck in their driveway, let alone out in the middle of the woods during a romp with an adorable, gift-wrapped puppy, we'll happily add motor vehicles into our measure of holiday season sales.

Second, while no index of goods prices totally conforms to our measure of holiday season sales, we have to pick one in order to deflate our forecast of nominal holiday sales and arrive at a forecast of real (or, inflation adjusted) sales. Given the wild swings in prices for used motor vehicles since the onset of the pandemic, we prefer to use the measure of core goods prices excluding used motor vehicles published by the Bureau of Labor Statistics. While not perfect – this measure includes prices of new motor vehicles, which are not included in our measure of holiday season sales (pending our standing offer, of course) – we find it to be the closest available match. One thing that has changed, or maybe we should say has changed back, this year is that goods prices have once again reversed course. For several years, consistently falling goods prices worked in favor of consumers and against retailers, but this pattern changed, and dramatically so, with the onset of the pandemic. That goods prices are falling may actually bring little cheer to consumers, while at the same time having to resort to discounting on top of already falling prices to drive sales would only add insult to injury for retailers this holiday season.

While in last year's holiday sales outlook we had wallet winning out over will, we thought it would be a closer call than turned out to have been the case. Our forecast had nominal (not adjusted for price changes) 2023 holiday season sales up 4.7 percent over 2022 sales and real (adjusted for price changes) sales up 3.7 percent, but the data show nominal sales rose by 6.2 percent and real sales rose by 5.6 percent. In reality, though, last year's holiday sales

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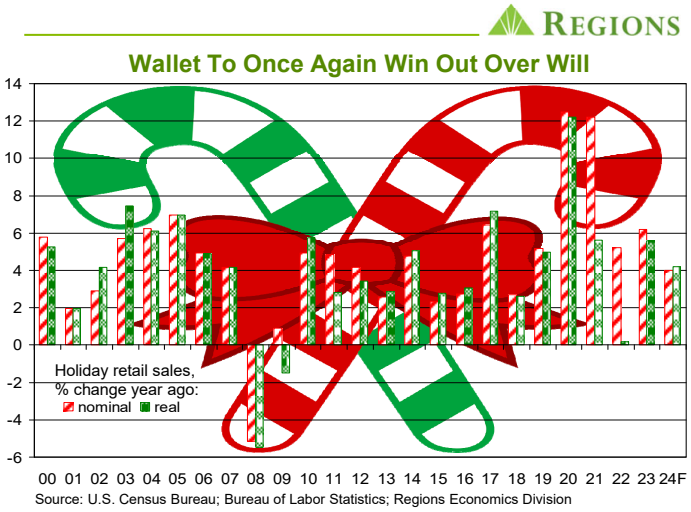
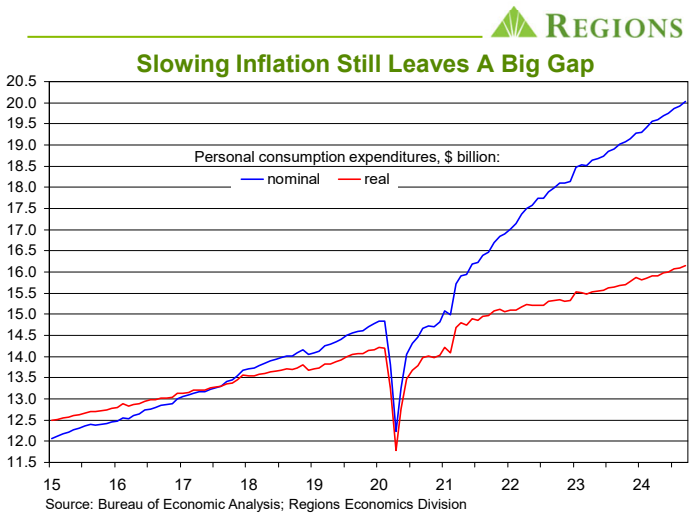
season was salvaged by the largest December jump in our measure of holiday sales since 2006. That, of course, may not be all that comforting of a thought given what came after that, but it did show that dour consumer moods can be improved, even if only for a while, by aggressive enough discounting, which we saw toward the end of the 2023 holiday sales season. Our forecast for 2024 holiday season sales has nominal sales up 4.0 percent from 2023, with real sales up by 4.2 percent.



As seen in the above chart, the 4.0 percent increase in nominal holiday season sales our forecast anticipates would be the smallest such increase since 2018, a year in which a partial government shutdown weighed on spending in December, as reflected in a sharp decline in our measure of holiday sales in that month. In that sense, despite our definition being different than those used by others, our forecast of 2024 holiday season sales is in line with others we seen, in that many of those also anticipate the smallest increase since 2018. Though many reflexively interpret this as a sign of financial stress amongst U.S. consumers, a look at the above chart suggests more to it than that. After all, the spikes in nominal spending seen in 2020 and 2021 were never going to be sustained, and for that matter the above-average increases seen in 2022 and 2023 should not have been counted on to be sustained. That the increase our forecast anticipates would match the average increase seen over the decade prior to the pandemic can to some degree be seen as in keeping with what for us has been a general theme, which is the pace of economic activity settling back toward pre-pandemic norms. We didn't have that theme in mind when building our forecast, that's just how random number generators work sometimes.

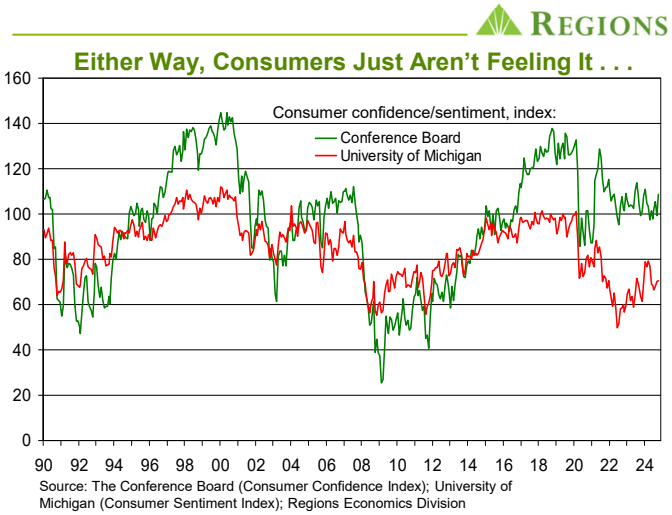
Either way, though, that doesn't mean there are not other factors that will impact holiday season spending. One key factor is prices; that we expect a larger increase in real sales than in nominal sales this holiday season indicates that we look for prices of core (non-food, non-energy) consumer goods to fall further over November and December, even before allowing for retailers having to resort to late-season discounting in order to move merchandise. While this would be in stark contrast to the experience of the past five years, recall that prior to 2019 this was a common occurrence, including the six-year run from 2013 through 2018, as can be seen in the chart. Through September, the last available data point, the BLS's measure, from the Consumer Price Index data, of core goods prices excluding used motor vehicles was down by 0.5 percent on a year-to-date basis, and there is little to suggest core goods prices reversing course over the remainder of 2024. Note that broader measures of core goods prices that include used motor vehicles, whether from the CPI or from the PCE Deflator, have fallen to an even greater degree than the BLS measure excluding prices for used vehicles. This is relevant in that the retail sales data are reported on a nominal basis, such that falling prices will be a weight on growth in holiday season sales, which is one reason we also present the data in real (adjusted for price changes) terms.

Still, it should be noted that the decline in core goods prices, either including or excluding used motor vehicles, seen to date in 2024 does not come close to making a dent in, let alone reversing, the cumulative increases over the past few years. As such, for many households slightly lower core goods prices over the course 2024 have done little to alleviate feelings of financial stress. We often use the following chart to illustrate this point; that it is based on total consumer spending – goods and services – rather than on our measure of holiday season sales does not alter the broader point. The blue line shows the path of nominal consumer spending, i.e., not adjusted for price changes, while the red line shows the path of real consumer spending, i.e., adjusted for price changes. Think of the gap between the two lines as reflecting the cumulative increase in prices, and it is easier to see why many lower-to-middle income households continue to feel financial stress.



To us, this chart goes a long way to answering the question of why consumers don't feel better than they do, at least as measured by the various gauges of consumer confidence/sentiment. This is where the "will" part of wallet vs. will comes into play. Both the Conference Board's measure of consumer confidence and the University of Michigan's measure of consumer sentiment show consumers feeling anything but upbeat heading into the holiday shopping season. The Conference Board's measure is weighted more toward assessments of labor market conditions, which may account for it at least holding up better than the University of Michigan's measure, which is more weighted toward overall financial conditions. Both, however, saw post-pandemic rebounds quickly turn into routs as inflation began to heat up in 2021, as can be seen in the chart on the following page. There has always

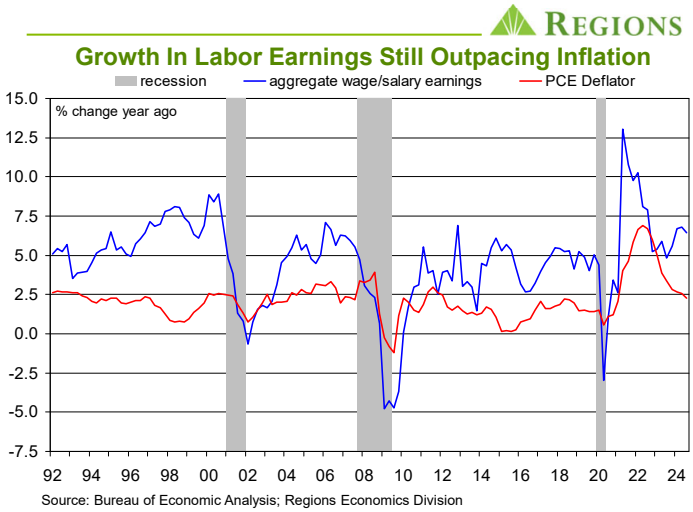
been some debate as to whether, or to what extent, these or other measures of consumer moods correlate into spending decisions, and one need only look back to last year's holiday shopping season for an illustration of this, as these measures showed similarly downbeat moods, This is, after all, where our "wallet vs. will" theme came from, yet holiday season sales rose sharply in 2023.



Though many are quick to dismiss measures of consumer moods on the grounds that what consumers say often seems unrelated to what consumers do, we would not dismiss these measures out of hand. The University of Michigan's measure of consumer sentiment shows divides across household income cohorts, to our earlier point about the toll taken by cumulative price increases over the past few years. Moreover, the Conference Board's measure of consumer of confidence being more focused on labor market conditions makes it, at least in our view, worthy of attention given the clear cooling in labor market conditions over recent months. The Conference Board's gauge of consumer assessments of labor market conditions has deteriorated since last year's holiday shopping season and, as we discussed in last month's *Outlook*, consumers questioning the prospects of their landing a new job if they lose their current job could easily weigh on discretionary spending. We'd say that this is at the least a downside risk to any forecast of 2024 holiday season sales, ours included.

Without discounting that downside risk or dismissing the financial stresses being felt by lower-to-middle income households, we'd argue that these are factors that will help govern the pace at which consumer spending, holiday season or otherwise, grows, not whether consumer spending expands or contracts. We have for some time noted that, though there are clearly pockets of stress, household financial conditions on the whole remain healthy and supportive of growth in consumer spending, including during the holiday shopping season. We've also noted that, as the financial supports seen during the pandemic become, for many households, an increasingly distant memory, spending growth is becoming realigned with income growth, which is one reason we've argued the pace of growth of consumer spending is settling back toward the pre-pandemic trend rate.

Real disposable personal income, or after-tax income adjusted for inflation, was up 3.2 percent on a year-to-date basis through Q3, matching average annual growth over the six years prior to the pandemic. Moreover, growth in aggregate labor earnings, the largest component of personal income, continues to easily outpace inflation, which we expect to remain the case even if the pace of job growth slows further over coming months as we anticipate.



We've argued that growth in aggregate labor earnings outpacing inflation has been a key, if often overlooked, support for consumer spending, particularly given the extent to which earnings growth accelerating across all industry groups as the economy re-opened from pandemic-related shutdowns has set a higher base for wages across the board. At the same time, household balance sheets remain healthy; though the Q3 data are not yet available, the Federal Reserve's *Flow of Funds* data show household net worth at a record high in Q2 as well as a record high for owners' equity as a percentage of the value of residential real estate. That owners' equity has risen so strongly over recent years indicates that growth in net worth has been more broadly based across households than would have been the case had rising equity prices been the primary driver. Moreover, the composition of household net worth is supportive of spending, with a significant pool of liquidity at the disposal of consumers, while the preponderance of fixed-rate debt on household balance sheets has been a strong buffer against the impact of higher interest rates.

Of course, the one notable exception to the insulating effects of fixed-rate debt is the rapid growth in credit card debt over the past several quarters. To that point, household non-mortgage interest expense has risen sharply over the past several quarters and, as a percentage of after-tax personal income is higher than at any time since mid-2008. Indeed, many point to the record-high level of credit card debt outstanding, over $1.1 trillion, as evidence of "tapped out" consumers having little, if any, capacity to engage in discretionary spending during this holiday shopping season.

We'd argue that, while there are stresses from rising credit card debt, those stresses are more concentrated rather than universal. For instance, record-high notwithstanding, the level of credit card debt outstanding as of Q2 2024 was equivalent to 8.1 percent of after-tax personal income which, aside from the pronounced dip in 2020-21, is the lowest ratio since the early 1990s. Moreover, even with higher credit card interest, overall monthly debt service burdens (principal and interest payments as a share of after-tax income) continue to hover around what would be the lowest on

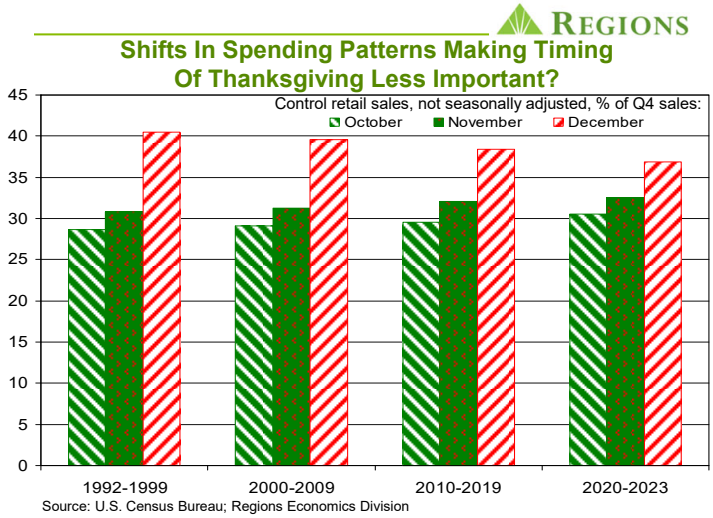
record save for the sharp decline in 2020-21 brought on by the generous financial transfers to the household sector after the onset of the pandemic.

Again, though there are pockets of stress within the household sector, overall financial conditions remain supportive of spending, even if at a slower pace of growth, particularly given that growth in aggregate labor earnings continues to outpace inflation. That said, there is still the matter of how consumers will spend. For instance, though prices have been drifting lower, that interest rates remain elevated makes financing consumer durable goods more difficult, which could weigh on spending on things like home furnishings and appliances. To be sure, such spending could be diverted toward nondurable consumer goods, but lower ticket values relative to consumer durable goods would be a weight on overall holiday season sales.

There is also the matter of goods versus services spending. This is a topic we and others have devoted considerable attention to over the past few years, so the quick summary is that in the early phases of the pandemic spending was heavily skewed toward goods and away from services, but that pattern would ultimately reverse. Over recent months, however, growth in discretionary services spending has softened, though we attribute at least part of this slowdown to there simply being less pent-up demand. Why this matters in this context is that spending on discretionary services such as travel, tourism, recreation, and entertainment is not captured in the retail sales data, while restaurant sales are excluded from our measure of holiday season sales. As such, renewed vigor in discretionary services spending over the holiday shopping season would take away from spending on goods which, in turn, would hold down growth in our measure of holiday season sales. Given the extent to which providers of discretionary services resorted to discounting in the face of softening demand over the summer months, typically the time of peak demand, don't think they'd be hesitant to do so again during the holiday season. This poses a downside risk to our holiday sales forecast.

Many are pointing to calendar effects as a downside risk to holiday season sales, in the sense that Thanksgiving falls late – November 28 – this year, the premise being that this leaves less time for consumers to shop between "Black Friday" sales events and Christmas. News flash: "Black Friday" may still refer to the day after Thanksgiving, but Black Friday sales events start well before then, and many started in early-November this year. Moreover, in the life of the current series on retail sales, which dates back to 1992, there is little evidence that the timing of Thanksgiving has all that much of an impact. That has become even more the case over the past several years as many retailers have used October as a month in which to launch aggressive online sales promotions. To some extent, this has pulled holiday sales forward, lessening the impact of the traditional holiday sales season.

We've gone through the current series on retail sales and broken down the share of Q4 control retail sales accounted for by October, November, and December. As seen in the following chart, over time the month of December has become less dominant in terms of the share of Q4 control retail sales (we don't have as long of a history for our measure of holiday season sales, but the overall results are pretty much the same) while both October and November have gained ground. We'd argue that some of the advantage still maintained by December stems from late-season discounting on the part of retailers looking to clear merchandise before the start of the new year. Either way, it does seem that the increased prevalence of online promotional events during October has helped pull holiday season sales forward to some degree.



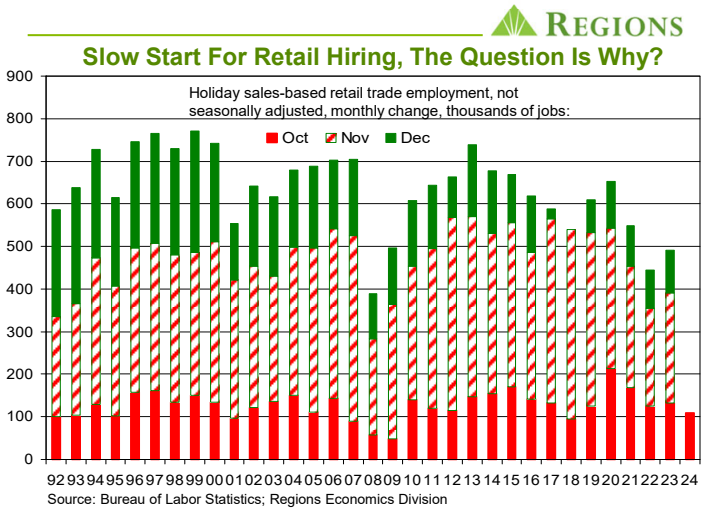
As to the specific timing of Thanksgiving, the November shares of total Q4 sales in prior instances in which Thanksgiving fell on November 28 have been in line with overall November averages whereas one would expect, given the attention given to this topic, that share to be smaller. It is true that the highest November share of total Q4 sales in the life of the current data series came in 2018, a year in which Thanksgiving fell on November 22. We'd argue, however, that was more a reflection of the partial government shutdown that led to December retail sales being abnormally weak, as other instances of such early Thanksgivings haven't led to November capturing atypically large shares of Q4 sales.

It is worth noting that shifts in the timing of sales, such as more Q4 sales coming in October and fewer in December, act as an open invitation to a most unwelcome visitor – seasonal adjustment noise. As we routinely note, faulty seasonal adjustment can, and often does, leave perceptions of the economic data at odds with the reality of the economic data. We observed this with the data on September retail sales, which were made to look much stronger than was truly the case thanks to generous seasonal adjustment. It isn't clear to us that seasonal adjustment completely keeps pace with shifts in the timing of holiday season sales, thus raising the possibility that the seasonally adjusted data suggest sales during this year's holiday season will look weaker than will actually be the case. We do know what a "typical" holiday season looks like on a not seasonally adjusted basis, so will be watching the data for signs of seasonal adjustment noise distorting perceptions of the data, though those reacting to the data solely on the basis of the headline numbers may be telling a different story than are we.

Weaker Seasonal Hiring This Holiday Season?

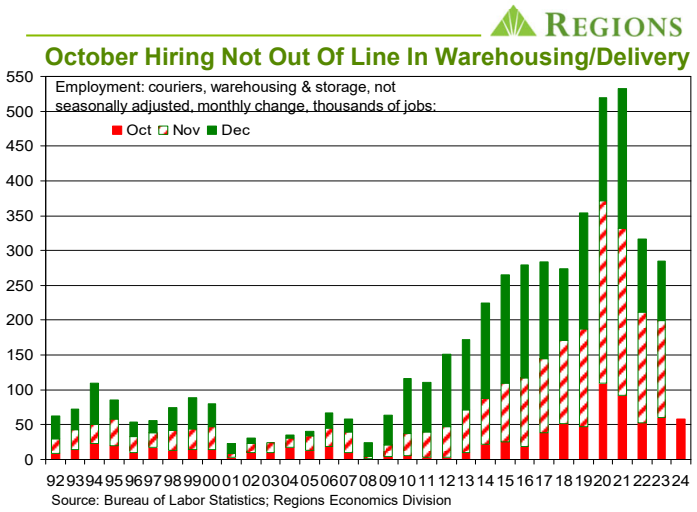
As we do each year when discussing our outlook for holiday season sales, we also offer some thoughts on holiday season hiring. Our rationale for doing so is that there are distinct and well-established patterns in hiring around the holiday season in sectors such as

retail trade and warehousing and delivery services which are tied to expectations of holiday season spending. As the manner in which consumers spend has shifted over the years, away from in-store shopping toward online shopping, so too has the mix of holiday season hiring, though this has led to little net change in overall holiday season hiring amongst these two sectors. One thing that has survived is the sequential pattern in hiring, i.e., in a typical year, holiday season hiring kicks off in October, with a much larger increase in November and a smaller increase in December, with the cumulative increases in Q4 in a given year followed by sharp declines in January of the subsequent year.



Our expectation is that 2024 holiday season hiring in retail trade will be softer than was the case last year, likely coming closer to 2022 hiring than to any of the past several years. This in part reflects our expectations for a more restrained increase in holiday season sales. As a side note, we tailor our measure of holiday season hiring in retail trade to our measure of holiday season retail sales, omitting the corresponding categories from the employment data. That this year saw the smallest October increase in retail hiring since 2018, however, does not necessarily validate our expectations. Recall that the October employment data were significantly impaired by the effects of the Boeing strike and Hurricanes Helene and Milton. The hurricane effects likely contributed to a smaller than normal October increase in not seasonally adjusted retail trade payrolls, to the point that the seasonally adjusted data show a decline. To the extent the effects of the hurricanes weighed on October hiring, we'd expect payback in the form of a larger than normal November increase. It should also be noted that over the past several quarters there has been a consistent pattern of sizable revisions, almost all downward, to the initial estimates of nonfarm payrolls in any given month. Given the notably low initial response rate to the October establishment survey, it seems all but a given that the initial estimates of October job growth will be heavily revised, though in this case we don't have a sense for the direction of any such revision. Still, these points aside, we continue to expect fairly modest holiday season hiring in retail trade this year.

Those same caveats apply to the initial estimate of October hiring in warehousing and delivery services, which fell between October hiring in 2022 and 2023. To the extent that online sales capture a larger share of total holiday season sales this year, it would seem reasonable to expect solid holiday season hiring in warehousing and delivery services. Keep in mind, however, that payrolls in this area have been under downward pressure over recent quarters, in part because hiring in the early phases of the pandemic proved too ambitious. This may, in turn, weigh on holiday season hiring.



One additional factor that may weigh on holiday season hiring in retail trade and in warehousing and delivery services is that weekly hours worked have been drifting lower over the past several months, as is true across a range of industry groups. Firms cutting back on hours worked by their current work forces would be a sign of softening demand, but the flip side is that firms have the ability to meet a pickup in demand, such as seasonal demand around the holiday season in these industry groups, by adding hours worked as a means of increasing total labor input, as opposed to taking on additional workers. In that sense, tracking aggregate hours worked, as opposed to only tracking job counts, may be a more telling gauge of holiday season demand for labor in these sectors.

At the same time, we'll be watching the magnitude of seasonal declines in January and February 2025; as firms recalibrate expectations for 2025, they could decide that further cuts in hours worked are no longer feasible and instead begin letting workers go. In other words, it is possible that firms could begin to back down from the labor hoarding they have engaged in over the past several months and begin letting workers go. This is a general point that goes beyond these two sectors and, as such, is definitely something to watch as we get into 2025. To some extent, how well, or how poorly, our forecast of holiday season sales fares will determine, or how poorly, we gauged holiday season hiring in retail trade and warehousing and delivery services.

In last year's holiday season sales outlook, we noted that while we expected wallet to win out over will, we expected that win to be narrow. As it turned out, both sales and hiring surprised us to the upside last year. Though we may have, umm, borrowed our opening paragraph and the general theme from last year's edition, we see more downside risks around our forecast for holiday season sales than we did a year ago. So, the last thing we'll borrow from last year's outlook is the expectation that, while wallet will win out over will, it will be a narrow win. This time we really mean it . . .

ECONOMIC OUTLOOK

REGIONS

November 2024

Q2 '24 (a)	Q3 '24 (p)	Q4 '24 (f)	Q1 '25 (f)	Q2 '25 (f)	Q3 '25 (f)	Q4 '25 (f)	Q1 '26 (f)		2021 (a)	2022 (a)	2023 (a)	2024 (f)	2025 (f)
3.0	2.8	1.5	2.0	1.7	1.8	1.7	1.9	Real GDP[1]	6.1	2.5	2.9	2.7	2.0
2.8	3.7	1.9	1.9	2.1	1.9	2.0	2.1	Real Personal Consumption[1]	8.8	3.0	2.5	2.6	2.2
3.9	3.3	-0.8	1.9	2.0	2.6	2.7	2.9	Real Business Fixed Investment[1]	6.0	7.0	6.0	3.7	1.8
9.8	11.1	-4.3	2.2	1.2	1.8	2.2	2.8	Equipment[1]	6.7	4.4	3.5	3.7	2.2
0.7	0.6	3.0	3.1	3.9	4.7	4.6	4.6	Intellectual Property and Software[1]	10.2	11.2	5.8	3.8	3.0
0.2	-4.0	-1.7	-1.4	-0.7	-0.5	-0.5	-0.6	Structures[1]	-2.6	3.6	10.8	3.3	-1.4
-2.8	-5.1	0.1	3.5	0.1	-0.1	-0.2	-0.3	Real Residential Fixed Investment[1]	10.9	-8.6	-8.3	3.8	0.0
3.1	5.0	-0.6	1.6	1.6	0.9	0.8	0.6	Real Government Expenditures[1]	-0.3	-1.1	3.9	3.2	1.5
-1,035.7	-1,077.1	-1,061.0	-1,061.3	-1,079.9	-1,078.3	-1,088.3	-1,097.7	Real Net Exports[2]	-936.6	-1,041.7	-932.8	-1,037.7	-1,077.0
1,004	963	991	984	982	975	973	971	Single Family Housing Starts, ths. of units[3]	1,131	1,006	949	1,005	979
336	363	343	336	332	325	320	317	Multi-Family Housing Starts, ths. of units[3]	474	546	473	347	328
4.6	3.5	2.9	2.5	2.3	1.7	1.3	1.3	CoreLogic House Price Index[5]	15.4	13.1	4.0	4.0	1.9
15.7	15.6	15.9	15.9	15.9	15.9	15.9	16.0	Vehicle Sales, millions of units[3]	14.9	13.8	15.5	15.7	15.9
4.0	4.2	4.2	4.2	4.3	4.4	4.4	4.4	Unemployment Rate, %[4]	5.4	3.6	3.6	4.0	4.3
1.7	1.5	1.4	1.2	1.0	0.9	0.9	0.8	Non-Farm Employment[5]	2.9	4.3	2.3	1.6	1.0
2.4	1.6	2.3	3.3	1.9	2.4	2.5	2.9	Real Disposable Personal Income[1]	3.5	-5.6	5.1	3.1	2.4
2.6	2.2	2.3	2.1	2.0	2.2	2.3	2.3	GDP Price Deflator[5]	4.6	7.1	3.6	2.4	2.2
2.6	2.3	2.3	2.0	2.0	2.2	2.2	2.2	PCE Deflator[5]	4.1	6.6	3.8	2.5	2.1
3.2	2.6	2.5	2.2	2.1	2.4	2.4	2.4	Consumer Price Index[5]	4.7	8.0	4.1	2.9	2.3
2.7	2.7	2.7	2.4	2.2	2.3	2.3	2.3	Core PCE Deflator[5]	3.6	5.4	4.1	2.8	2.3
3.4	3.2	3.2	2.8	2.6	2.7	2.5	2.5	Core Consumer Price Index[5]	3.6	6.2	4.8	3.4	2.6
5.38	5.31	4.69	4.34	4.09	3.84	3.63	3.63	Fed Funds Target Rate Range Mid-Point, %[4]	0.13	1.73	5.07	5.19	3.97
4.44	3.95	4.21	4.34	4.35	4.38	4.41	4.45	10-Year Treasury Note Yield, %[4]	1.44	2.95	3.96	4.19	4.37
7.00	6.51	6.60	6.68	6.63	6.61	6.60	6.62	30-Year Fixed Mortgage, %[4]	2.96	5.34	6.81	6.71	6.63
-3.7	-3.5	-3.3	-3.3	-3.3	-3.2	-3.1	-3.2	Current Account, % of GDP	-3.7	-3.9	-3.3	-3.4	-3.2

a = actual; f = forecast; p = preliminary

Notes: 1 - annualized percentage change 2 - chained 2017 $ billions 3 - annualized rate 4 - quarterly average 5 - year-over-year percentage change

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