

What September's retail sales numbers mean for the holiday season

Article

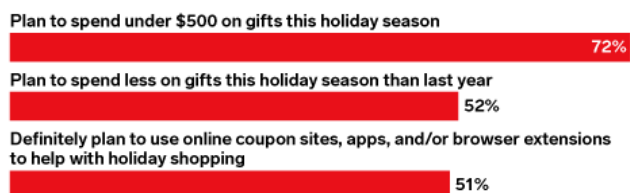
The news: US shoppers' retail spending was flat month-over-month (MoM) in September as consumers dealt with inflation and rising interest rates, per the US Commerce Department.

Signs of challenges ahead: Although US consumers have generally shrugged off higher prices and rising interest rates in recent months, there are signs that their ability to do so may be starting to wane.

- **Amazon's attempt to create a [second Prime Day](#) spending bonanza underwhelmed** as the average spend per household (\$110.45) during the retailer's Prime Early Access Sale was nearly half that (\$197.92) on Prime Day in July, according to Numerator.
- **Consumers have less spending power.** [Real hourly wages](#) decreased 0.1% MoM in September and declined 3.0% year-over-year (YoY), per the US Labor Department.
- **That's driving people to turn to credit cards to keep up.** [Credit-card balances in August](#) increased by the most in five months and revolving credit outstanding (including credit cards) rose \$17.2 billion, the third-largest monthly advance on record, per the US Federal Reserve.
- **Consumer sentiment remains relatively low.** It is just 9.8 points above the all-time low reached in June, and the expectations index—which looks at consumer outlook for the economy as it affects them over the short and long term—fell three percentage points MoM.

How Will Inflation Affect US Adults' Holiday Shopping Plans?

% of respondents, July 2022



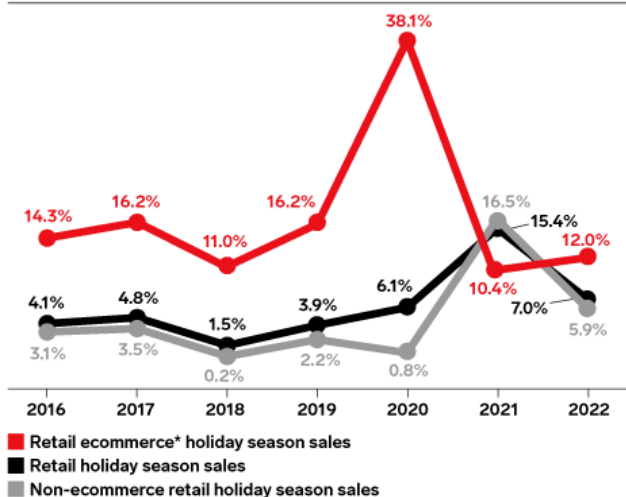
Note: ages 18+
Source: U.S. News & World Report, "Inflation Shopping Habits Survey 2022," Aug 23, 2022
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But it's not all bad news: Yet, despite those negative signals, **retail sales in September still rose 8.2% YoY** thanks in part to a [labor market](#) that remains extremely strong. The labor market is a key determinant of consumer spending trends, which is why our forecast is fairly optimistic about top-line holiday spending numbers.

- **We [expect](#) retail sales to grow 7.0% over the final two months of the year.** That's despite Amazon, along with other retailers, pushing the [start of the holiday season](#) into October.
- **However, most of the Q4 retail sales growth will go straight to inflation.** Given the [current inflation rate](#) of 8.2%, real sales in November and December will decrease YoY.

US Retail and Retail Ecommerce Holiday Season Sales Growth, 2016-2022

% change vs. prior year



Note: excludes travel and event tickets, payments such as bill pay, taxes, or money transfers, food services and drinking place sales, gambling and other vice goods sales; sales are for Nov and Dec of each year; *includes products or services ordered using the internet, regardless of the payment method or fulfillment
Source: eMarketer, Sep 2022

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Looking further ahead: The Fed has made clear that it will continue to aggressively hike interest rates to combat rising inflation. That will make borrowing costs higher, which may lead some consumers to be reluctant to use their credit cards.

- **Rising borrowing costs are also causing companies to pull back on investments.** That helps explain why the warehouse vacancy rate ticked up in Q3 (to 3.2% from 3.0% in Q2) for the first time in two years, per Cushman & Wakefield data reported in The Wall Street Journal.

The big takeaway: The strong labor market has helped retail sales keep pace with inflation. But if interest rates continue to rise, retailers will have no choice but to cut costs and focus on profitability.

- While it's difficult to read too much into a modest increase in the warehouse vacancy rate, that one metric may be a sign some retailers are adopting a more conservative approach to fulfillment.

*This article originally appeared in Insider Intelligence's **Retail & Ecommerce Briefing**—a daily recap of top stories reshaping the retail industry. Subscribe to have more hard-hitting takeaways delivered to your inbox daily.*

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