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Retail sales rise 6.0% in December, as consumers pulled back on spending

Article

The news: US consumers cut back on retail spending in December, as retail sales rose 6.0% year-over-year (YoY)—or 7.2% if gas and autos are excluded—per the US Commerce Department. Given that inflation was running at 6.5% YoY, real spending fell.

- Looking at the numbers from a different perspective, **retail sales fell a seasonally adjusted 1.1% month-over-month** (MoM)—or dipped 0.7% if gas and autos are excluded. That was the second consecutive month of decline and the largest monthly decline of the year.

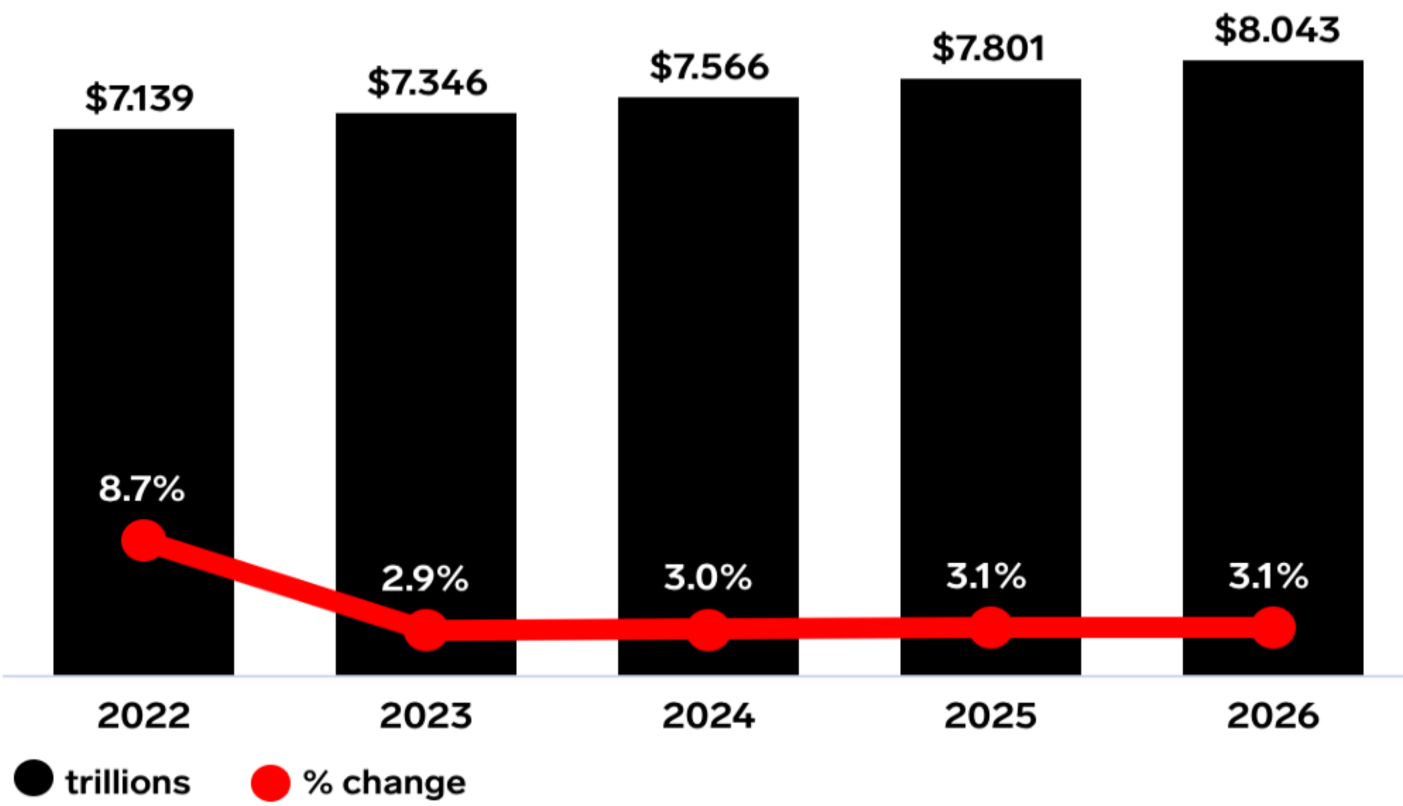
- Moreover, **sales in several categories that consumers turn to for gifts saw disappointing results**, including apparel and accessories stores (-0.3% MoM, 2.9% YoY), electronics and appliance stores (-1.1% MoM, -5.6% YoY), and department stores (-6.6% MoM, -0.6% YoY).
- The National Retail Federation blamed inflation and high interest for holiday sales falling short of its expectations; the trade group reported sales in November and December grew 5.3% YoY.

However, zooming out one sees an ever-so-slightly rosier picture.

- **Excluding gas and autos, retail sales last year rose 8.5% YoY**, roughly in line with our forecast's projected 8.7% growth rate.
- And **retail sales in the final three months of the year rose 6.7% YoY**, which suggests that some holiday sales were pulled forward into October thanks to **Amazon**, **Target**, and others pushing consumers to get started on their holiday shopping more than a month before the unofficial start to the season on Black Friday.

Retail Sales

US, 2022-2026



Note: excludes travel and event tickets, payments such as bill pay, taxes, or money transfers, restaurant sales, food services and drinking place sales, gambling and other vice goods sales
Source: eMarketer, November 2022

eMarketer | InsiderIntelligence.com

What drove the pullback: Consumers continue to feel the impact of high prices even as inflation begins to ease.

- **Consumers are pulling back on discretionary spending.** The share of households that reported making a large purchase—such as vacations, furniture, and home appliances—over the past four months decreased from 61.7% in August to 56.4% in December, per the Federal Reserve Bank of New York's December Household Spending Survey.

- **Retailers are feeling the impact of that shift in spending.** Several merchants, including **Macy's** and **lululemon**, recently lowered their Q4 outlooks.
- **A growing share is turning to credit cards to make ends meet.** More than 35% of households used credit cards or loans in December to cover spending needs in the past week, up from around 32% in November and just 21% in April 2021, when the US Census Bureau began collecting the data.

The big takeaway: It's important to take a big picture perspective when looking at the current retail landscape.

- Things remain weird due to the pandemic and its impact on consumer spending. For example, with consumers stuck at home in the early days of the pandemic, sales of items such as computers, TVs, and furniture surged. Now, only a few years removed from 2020 and 2021, fewer consumers are in the market for those items.
- Meanwhile, consumers have shifted more of their spending to experiences such as dining out. Spending at restaurants and bars surged 16.7% YoY in December, despite a 0.9% MoM decline.
- Now, as inflation continues to linger, US consumers are growing more conservative in their spending. We expect US retail sales growth to slow to 2.9% this year.

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