

# Breaking down retail's 'new normal of slower growth'

Article

US retail sales will hit \$7.334 trillion this year, according to our forecast, a growth of 3.3% YoY. "Where we're headed is something of a new normal of slower growth," said our analyst Zak Stambor on our "[Behind the Numbers: Reimagining Retail](#)" podcast.

- We forecast US retail ecommerce sales will hit \$1.148 trillion this year, a growth of 10.0%.

- The National Retail Federation **projects online retail sales will rise between 10% to 12% YoY** this year, totaling between \$1.41 trillion and \$1.43 trillion.

“Consumers are still spending—for now,” said our analyst Sky Canaves. But “retailers are feeling very vulnerable to [economic] forces and trying to take protective measures.”

**Inflation keeps up:** **Inflation growth is cooling** month over month, rising by just 0.1% in March, according to the US Labor Department as cited by CNBC. But inflation remains high compared to a year ago, up 5% over March 2022.

“[Inflation] feels high, even though it is at its lowest point in a year, because many of us, including myself, just haven’t been through a high-inflationary environment in our lives,” said Stambor.

**Grocery pains:** Food and beverage sales will grow by 7.1% in the US this year, according to our forecast, but brands and retailers risk alienating consumers as prices rise. Much growth in this category has come from price elevation, as sales volumes remain the same or take a hit.

**Private label play:** Lower-priced groceries look particularly attractive when sharing a shelf with brand items that cost twice as much.

- “Unlike something like gas where your only option is really to maybe drive less when prices go up, with CPG [consumer packaged goods] brands, there are always other options,” said Canaves.
- Procter & Gamble saw this effect play out in its last earnings report. Consumers shied away from higher prices, leading **quarterly profits to fall and sales volumes to decline**.
- **Walmart, however, has doubled down on private label**, assuring consumers it won’t raise prices. Walmart had a **strong holiday season** but posted a cautious outlook for 2023. Keeping prices low will likely play to the retailer’s strengths as consumers seek less expensive alternatives to brand-name products, though there is a risk that sticking to low-priced private label goods could backfire if the margins are too low.

**Gassed up:** OPEC+ announced earlier this month it would **cut oil output**. “That’s going to raise gas prices and could really throw a wrench in consumer spending,” said Stambor, noting that high gas prices will cause a pullback in other areas.

- Higher gas prices would also result in higher product costs, due to the rising cost of shipping, which will also take a toll on consumer confidence.
- **Gas prices have dipped** a bit since 2022, but much like inflation, they remain persistently high at an average of \$3.60 per gallon.

**Looking ahead:** Retail sales growth will remain between 3.3% and 3.5% per year through the end of our forecast period in 2027, a significant decline from 8.1% growth last year and 17.9% in 2021. In the more immediate future, keep an eye on jobs.

- **The labor market cooled** a bit in March, but **another interest rate hike** could be on its way, which could cool the labor market further.
- A strong labor market has kept consumer confidence high, even as inflation persists. If employment drops, consumers may pull back spending even further.

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