Special Commentary — October 28, 2024

2024 Holiday Sales Outlook

We Forecast a Scary Christmas and a Happy New Year

Summary

As the leaves start to change color, retailers move out the back-to-school merchandise as they deck the aisles with everything from 12-foot evergreens to human-size nutcrackers earlier and earlier each year. While our official tally of holiday sales does not kick off until November 1, anyone who has been in a home improvement store recently is reminded the holidays are fast approaching. In a year when sustained consumer spending propelled growth and helped the economy skirt recession, we're actually calling for a fairly modest holiday sales season to close out 2024.

- Back by popular demand, some themes made the holiday menu again this year—holiday shopping continues to get pulled forward with less happening during the traditional period spanning from Black Friday to Christmas, still-high prices and less support propping up purchasing power means continued competition for consumer dollars, and online retailers continue to be the king of the dance when it comes to commanding the most holiday-sales dollars.
- Yet, there is also a scent of, dare-we-say, “normal” in the air this year. Consumers' purchasing power has once again become dependent on income growth, as unique pandemic-era spending sources have faded. Despite consumer momentum helping sustain the economic expansion this year, through September the retailers included in our holiday sales metric have seen the *slowest* year-to-date sales growth in seven years. Momentum isn't a huge lift factor this year, as it has been in the years since the pandemic.
- Both traditional brick-and-mortar and online retailers are growing flexible in catering to the *early* and *late* shopper, but with competition for consumers' dollars as fierce as ever, households are on the hunt for value this year and will likely spend less on traditional retail than in years past.
- All told, we forecast holiday sales to rise 'just' 3.3% in November and December compared to the same period last year. If realized, that means we expect the 2024 holiday sales season to not only be weaker than last year's sales season, but also less robust than the long-run average of 4.3%.
- While we're expecting a more modest end to the year for retailers, the fact is consumers are spending more throughout the year instead of waiting for Christmas. On that basis a soft finish to retail spending in 2024 need not set off major concerns about the sustainability of spending in 2025.

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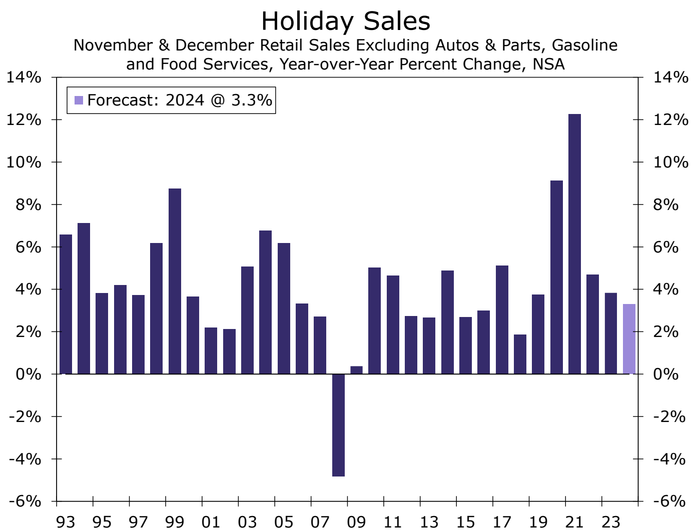
Holiday Sales = Retail sales excluding sales at auto & part dealers, gasoline stations and bars & restaurants in the months of November and December.

Six-Inch Ribbon Curls, Honey

Despite his seven-foot height, the wolf-man looks comparatively small flanked by a giant turkey on one side and the Abominable Snowman of 1960s TV fame on the other. The Abominable manages to look both cheery and menacing at his towering height of more than nine feet. This is no fever dream, it is what you would have found inside any U.S. home improvement retailer in recent weeks as stores push sales earlier and earlier each year. It's barely sweater weather in most of the country, but for months retailers have been stocked and ready for the holidays, even though the official start to holiday sales is not until November 1.

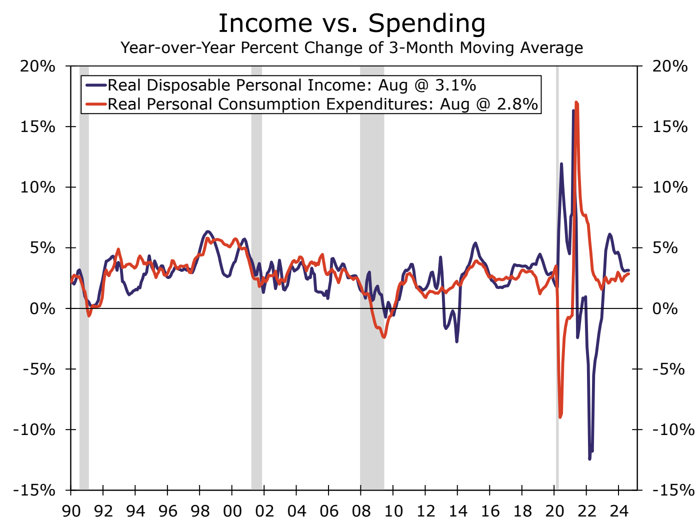
We define holiday sales as total retail spending *excluding* sales at auto & parts dealers, gasoline stations and bars & restaurants that occurs in the months of November and December. By that measure, we forecast holiday sales to rise 3.3% compared to the same period last year. That would be weaker than last year's sales season and also well below the long-run average of 4.3% annual growth (Figure 1). Despite it being a year characterized by solid consumer spending that helped the economy sidestep a recession, we look for a fairly modest holiday sales season.

Figure 1



Source: U.S. Department of Commerce and Wells Fargo Economics

Figure 2



Source: U.S. Department of Commerce and Wells Fargo Economics

And Now, Back To Our Regularly Scheduled Programming

At the start of 2024, it was not clear whether the country could avoid recession this year. Yet, the economy has side-stepped forecasters' worst fears as a soft landing continues to play out thanks largely to sustained consumer spending.

That said, the money that consumers have spent in recent years has diminished the health of the household sector somewhat. Once flush with cash, households have largely spent their excess savings. And once unburdened by a mountain of consumer loans, households today carry 30% *more* revolving debt than they did just two Christmases ago. To foot the bill for this year's holiday spending most families will need to rely on their paychecks. The good news is that while the labor market may be cooling, so far that cooling has been only incremental and relatively orderly.

Disposable personal income growth is still supportive of a decent pace of spending (Figure 2), but without ample cash and credit cards helping facilitate a holiday-related splurge, we expect households will be on the hunt for value this holiday season—an idea echoed by a number of retailers in recent quarterly earnings releases when discussing their forward guidance.

There is also a missing tailwind this year: sales momentum is as modest as it has been in seven years. With already reported data for the first nine months of the year, we know that consumers are coming into this year's holiday season in pretty average shape. Despite broad spending continuing at a robust clip, the retailers we include in our holiday sales measure have seen sales rise at the *slowest* pace on a year-to-date basis through September in seven years. Since our forecast compares November and December sales to last year's levels, the low base so far this year makes for difficult year-ago comparisons.

We Don't Use Money in Heaven

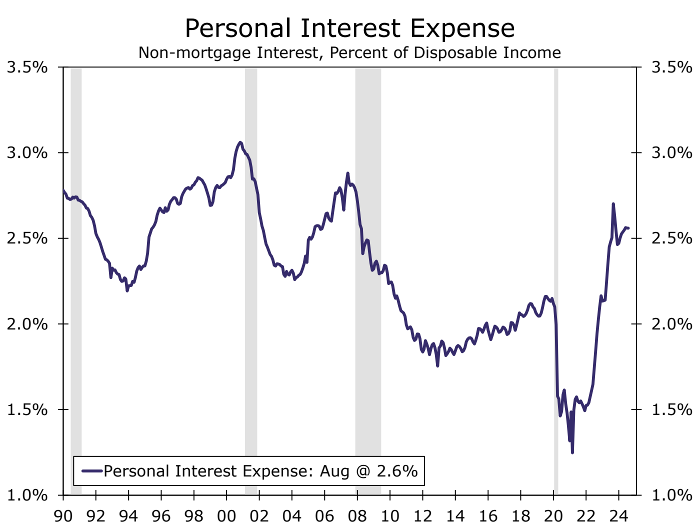
There is also the matter of competition for consumer dollars, which is as fierce as ever. What are we spending money on these days that's *not* included in holiday sales?

For starters, even as inflation has slowed, prices remain high and continue to erode how much households can spend on gifts. The rising costs of certain non-discretionary services have crowded out wallet share that could otherwise support holiday shopping. Consider healthcare, for example. The share of spending dedicated to healthcare services has steadily climbed the past two decades with nearly a record share of consumers' wallets tied to healthcare spending today. Some more-discretionary activities like going out to eat during the holidays are another example where households are dedicating dollars that could otherwise go toward gifts (recall that bars and restaurants do *not* count toward holiday sales in our definition). Both medical care services and the price of going out to eat have outpaced broader inflation over the past year. Even as inflation slows back to the Fed's 2% target, price gains tend to compound for households. When everything costs more, there's less to dedicate to gifts.

There is also the matter of financing costs to consider. With households carrying more debt today, they are paying more in interest to service those outstanding balances. Even as the Fed has begun to lower interest rates, the share of disposable income dedicated to interest payments remains elevated and roughly in line with what households were experiencing last year (Figure 3).

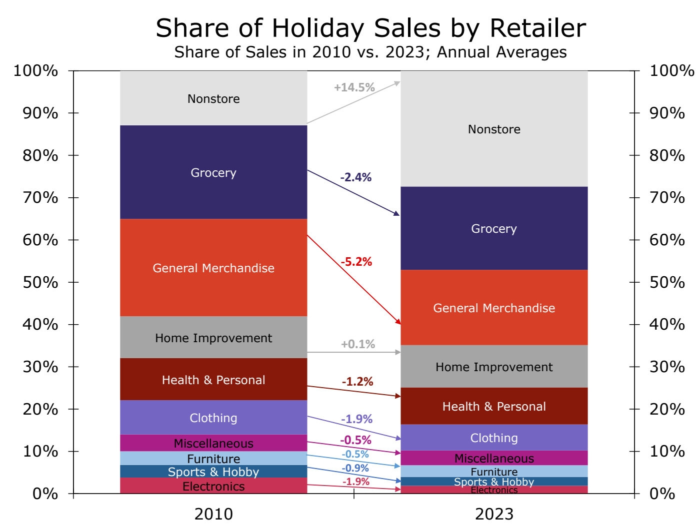
Then we must consider the gifting of experiences. Our holiday sales measure is relatively narrow in that it looks at sales on a retail level and therefore doesn't include the consumption of services. Gifting of experiences, like concerts, cooking classes, restaurant gift cards or jelly-of-the-month clubs, will also likely be at play this year amid growing consumer preferences, and spending here could work against traditional gift purchases made at many retailers.

Figure 3



Source: U.S. Department of Commerce and Wells Fargo Economics

Figure 4



Source: U.S. Department of Commerce and Wells Fargo Economics

Season Pushers

In the popular imagining, holiday shopping takes place at crowded stores and malls, but since 2019 the largest share of holiday sales have taken place online. Last year ecommerce expanded its lead and now commands 29 cents of every holiday dollar. Yet, give some credit to those elaborate holiday displays at home-improvement retailers, which have done an admirable job retaining their share of holiday spending even as other store-types have struggled. As seen in Figure 4, home improvement retailers are the only store type that has seen its share of holiday sales *expand* over the past decade, even if only modestly.

Traditional retailers have also broadly rolled out rapid local delivery often optimized by using increasingly sophisticated inventory management systems. This technology has enabled them to pair online orders with merchandise sitting on a store shelf, perhaps in a nearby mall in the locale where the end customer is completing the online purchase.

But traditional retailers fight back in two other ways: early and late. The *early* theme is evident in the season pushing perhaps best characterized by in-store displays that juxtapose inflatable reindeer with skeletons and pumpkins. An example of the *late* theme is the way traditional in-store retailers are happy to cater to procrastinators. Last minute shoppers cannot be guaranteed on-time delivery, so brick-and-mortar stores keep inventory in stock until late December.

Yet on both of these themes, ecommerce is unwilling to cede ground and is fighting back on both fronts: On the *early* front, Amazon has cloned its popular Prime Day and repeated it in October, and many other ecommerce providers follow suit with sales timed to overlap it. The *late* theme by staffing up with extra delivery people and promising delivery by December 25 in some cases right up until December 24.

With all retailers facing a shorter calendar this year, the pull-forward of doorbusters and deals becomes even more important for capturing sales. While our measure of holiday sales covers the entire month of November, the classic kick-off to the holiday season comes with Black Friday deals the day after Thanksgiving, which is later this year leaving just three-and-a-half-weeks for “proper” holiday shopping. The shortened schedule may further chip away at December's shrinking lead role.

December is still the most important month of the year for retailers, but it has been losing some luster. While the month still commands the largest share of annual sales in our holiday sales categories, a shrinking share of sales happen in December each year. That suggests season pushing is working but is also perhaps an indication of disjointed consumer purchases generally. That is, the ease of online transactions and the ability to compare prices in real time has led consumers to make more transactions overall and earlier in the year. Consumers are ready to act, perhaps well-in-advance of the traditional holiday period, if and when they see a deal on the perfect gift for that special someone.

There's Always Tomorrow for Dreams to Come True

In a year when sustained consumer spending propelled growth and helped the economy skirt recession, we're calling for a fairly modest holiday sales season. We look for holiday sales to rise just 3.3% in November and December compared to last year, which is slower than last year and below the long-run average.

Households no longer have unique pandemic-related sources propping up spending power, as income has once again become the primary source of spending. Despite broad spending continuing at a robust clip this year, the retailers we include in our holiday sales measure have seen sales rise at the *slowest* pace on a year-to-date basis through September in seven years, suggesting momentum is not on the side of sales this year. Finally, competition for households' dollars is as fierce as ever, with compounding price gains, high interest burdens and the continued desire for experiences over “stuff” hampering how much households spend on traditional retail this season.

Retailers have been making the right moves in recent years to push sales earlier and earlier and to be nimble in the growing online retail environment. This is even more important this year when the traditional holiday environment spanning from Black Friday through Christmas is a week shorter than last and households on the hunt for value are willing to make purchases early and quickly.

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