

# Research Briefing | US

## A chilly holiday season for consumers

### Economist

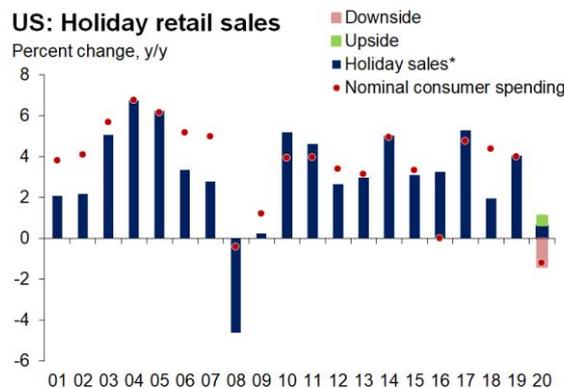
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- We expect holiday sales to register a small advance this year, up only 0.6% y/y. While phase one of the recovery proved that fiscally supported incomes can fuel potent spending on goods, we shouldn't fall for alluring rearview-mirror economics. Phase two of the recovery is significantly slower, with muted employment gains and reduced fiscal aid weighing on incomes. Plus, a worsening Covid outbreak is once again limiting activity across the country.
- This holiday sales forecast is susceptible to greater uncertainty than usual, with risks skewed to the downside. In particular, big unknowns include the trajectory of the third Covid wave, the distribution of personal savings across lower- and higher-income families, and higher-income families' propensity to shift traditional spending on services toward goods.
- Our downside scenario sees retail sales falling 1.4% y/y as families across the nation grow increasingly fearful and restrain their outlays in response to reduced income momentum. Our upside scenario foresees retail sales rising 1.1% y/y, still the lowest since 2009, as households partially discount the worsening health situation and angle spending more toward goods.

We can't sugarcoat it: The US health situation is going from bad to worse, and this will have important consequences on economic activity in coming weeks, especially in the absence of additional fiscal aid.

Our below-consensus 0.6% y/y call for holiday sales growth – November and December retail sales excluding autos, gas, and restaurant services – reflects a resurgence of Covid-19 hospitalizations and deaths, gradually cooling income growth, souring consumer confidence, and rising inequality. A strong equity market performance, elevated savings among higher-income families, and encouraging vaccine news all bode well for economic activity in 2021, but their effects will be limited this holiday season.

### A reserved holiday season with doubts and hopes



Source: Oxford Economics

Our holiday sales outlook suggests cooling consumer spending momentum. We see holiday retail sales posting a modest 0.6% y/y increase, while nominal consumer outlays contract 1.2% y/y. While risks are tilted to the downside, even an upside scenario would see the weakest holiday season since 2009

# A chilly holiday season for consumers

## The good, the bad and the predictable

The uncontrolled surge in the number of new daily Covid-19 infections, now above 150,000, has unsurprisingly led to a record number of hospitalizations – 10% higher than their prior two peaks (**Figure 2**). The resulting rise in virus fear and renewed social distancing measures are constraining [sentiment](#) and weighing on mobility and spending.

Household income is gradually falling back toward its pre-Covid level as fiscal aid no longer offsets the 10 million jobs shortfall relative to February and capped wages (**Figure 3**).

In this environment, the recovery's fragilities are becoming apparent. While lower-income families drove the rebound in consumer spending during the recovery's first phase, they're likely to cut back if the second phase doesn't feature as much, or any, additional fiscal support in the form of government transfers. Such a pullback would predominantly constrain retail and holiday sales since higher-income families tend to dominate spending on services.

And while the national savings buffer is large, with the personal savings rate at 14.3%, it would be incorrect to assume that this represents an evenly split lump sum across all families. Evidence from the [JPMorgan Chase & Co. Institute](#) indicates that most of the unemployment benefit savings had been depleted by summer's end. As such, we believe most of the excess savings are currently held by higher-earning families and families less affected by the crisis who'll have a lower marginal propensity to spend their savings.

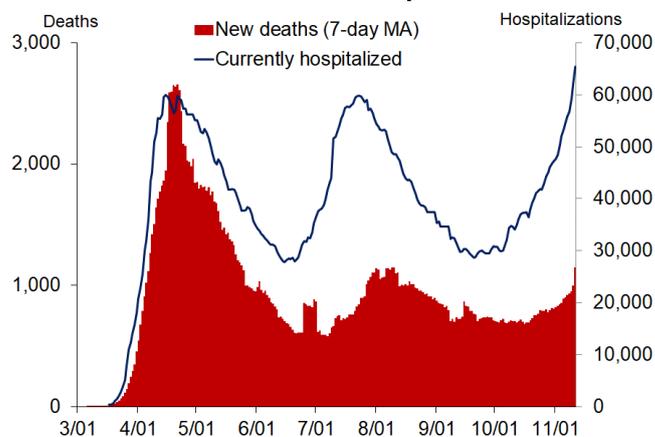
Similarly, the remarkable equity market gains in recent weeks could be perceived to represent strong support to discretionary holiday spending. But, we caution that the capital gains are predominantly going to higher-income families and that the wealth effect is [minimal](#).

While some holiday spending may get reallocated away from services – travel, arts and recreation, dining out – and toward retail sales, this will likely only be partial. Similarly, online sales won't offset the anticipated softness in holiday sales since large retailers have front run the holiday season with early Black Friday and Prime Day sales (**Figure 4**).

Given the unusual Covid circumstance, we developed a range of potential outcomes. Our downside scenario sees retail sales falling 1.4% y/y as families across the nation grow increasingly fearful and restrain their outlays in response to reduced income momentum. Our upside scenario foresees retail sales rising 1.1% y/y as households partially discount the worsening health situation and shift some of their traditional service sector outlays toward goods.

Figure 2: A concerning health situation

### US: COVID-19 deaths and hospitalizations

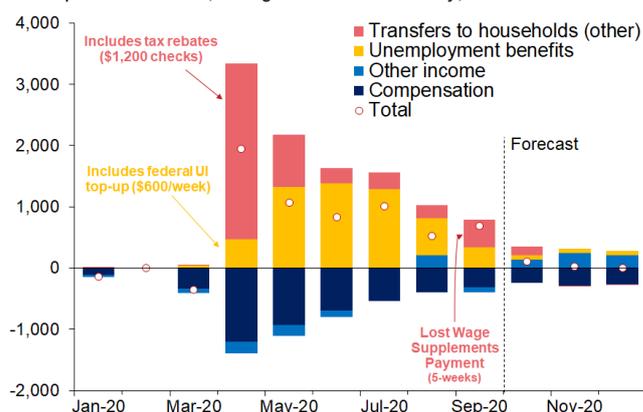


Source: Oxford Economics/Haver Analytics

Figure 3: Reduced fiscal aid will constrain incomes and spending

### US: The income risk from expiring fiscal aid

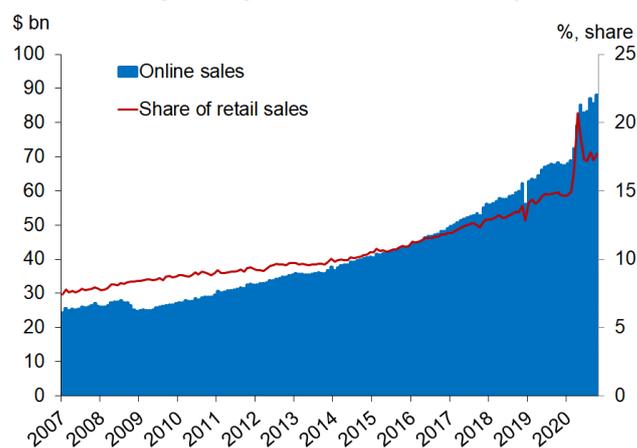
Total personal income, change relative to February, \$bn



Source: Oxford Economics/Haver Analytics

Figure 4: Strength in online sales won't suffice to offset weakness in holiday shopping

### US: Online spending won't save the holiday season



Source: Oxford Economics/Haver Analytics