On the surface, the U.S. economy appears to be humming along. Total U.S. retail sales have exhibited growth year-over-year, with consumer spending supported by low unemployment rates. However, there are underlying economic issues that threaten to crack the foundation and have already started to weaken certain sectors.

### BUY

Unadjusted core retail sales in September 2023 totaled an estimated \$411.1 billion. This represents an increase of 4.8% year-over-year and a year-to-date increase of 3.9%. This seems to demonstrate a resilience amongst consumers' willingness to spend. However, following record-high inflation last year, prices this year continue to increase, though more moderately, for many Source U.S. Census Bureau

necessary items.



**FOOD** 

The food at home price index 2.4% for the 12 months ended

September 2023.

CARS



The new vehicles price index 2.5%

for the 12 months ended September 2023.

#### **ELECTRICITY**



The electricity price index 2.6%

for the 12 months ended September 2023.

#### APPAREL



The apparel price index

2.3% for the 12 months ended September 2023.

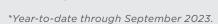
TOTAL INFLATION: The total annual inflation rate in the U.S. was up 3.7% for the 12 months ended September 2023.

As a result of the stubbornly high prices for many necessities, some consumers have curbed spending on non-essentials, such as furniture, home goods, apparel, and electronics. As many of these items experienced a surge in sales during the brunt of the pandemic that lasted well into 2022, some sectors have exhibited year-to-date declines in sales. >









Building Materials/Garden Equipment:

Furniture/Home Furnishings:

**V** 1.8%

Department Stores:

Electronics/Appliances:



< Conversely, spending on more essential items have been on the uptick.

Source: Bureau of Labor Statistics, U.S. Department of Labor

## **BORROW**

Both corporate and consumer debt levels continue to impact the economy and will likely continue to do so in the coming months.



Thus far in 2023, the retail sector has seen several major retailers file for bankruptcy protection. Some, such as Tuesday Morning, Christmas Tree Shops, and Bed Bath & Beyond, closed all remaining store locations. Others, such as Rite Aid, Party City, and David's Bridal, have focused on financial restructuring.



# REDUCTION

Other companies have focused on expense reductions through closing underperforming store locations, consolidating warehouse locations, and rationalizing employee levels.



# **ONSUMER**

While some households were able to increase savings rates during 2020 and 2021, particularly during stay-at-home orders and when government stimulus checks were being sent out, 2023 data indicates that consumers are increasingly relying on borrowing. Household debt has increased by \$2.9 trillion since late 2019, reaching close to \$17.1 trillion in the second quarter of 2023.

Source: Federal Reserve Bank of New York

Conversely, **personal savings rates**, as a percentage of disposable income, stood at 3.9% in August 2023, down from 4.1% in July and 4.9% in June.

Source: Bureau of Economic Analysis, U.S. Department of Commerce

Also weighing on consumers' wallets is the October 2023 resumption of federal student loan repayments. In the second quarter of 2023,

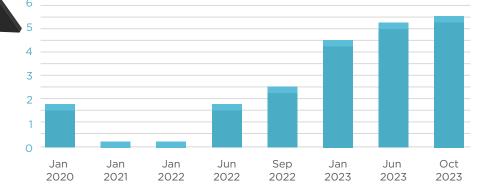
outstanding student loan debt equated to close to \$1.6 trillion.

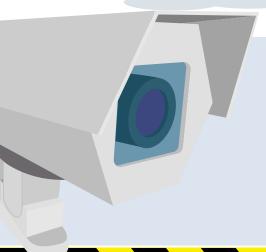
Source: Federal Reserve Bank of New York



Moreover, it continues to get more expensive for consumers to borrow. as the Federal Reserve has been raising interest rates, which have trickled down to consumers.

### The following illustrates the target rate/range for federal funds:





## STEAL:

As retailers contend with consumers having increased caution when spending, some have also faced higher shrink levels as well. Major retailers such as Target, Walmart, CVS, Dollar General, Dollar Tree, Lowe's, Macy's, Dick's Sporting Goods, Foot Locker, Kohl's, TJ Maxx, and Best Buy have all reported rising shrink in recent quarters. While some of the shrink can potentially be attributed to lower staffing levels, as retailers work to keep payroll expenses in check, a portion can also be attributed to theft.

CAUTION - CAUTION

**OUTLOOK:** WILL CONSUMERS **TAKE CAUTION?** 

During the fourth quarter and holiday season, it remains to be seen if consumers will continue to spend, or if they will scale back. Price will likely remain a focus. Thus far in 2023, many companies have been enjoying stronger gross margin as freight costs have come down from historic highs during the brunt of the supply chain issues last year, but companies have been slower to pass on declines to customers. While forecasts indicate that retail sales should experience low-single-digit growth during the holiday season, discounting could be more prevalent if consumers seem less willing to spend.

