Visa Business and Economic Insights

Monthly Consumer Monitor

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Retail sales slumped in December

Fig. 1: Retail sales by type of establishment

(Seasonally adjusted, month-over-month percent change)

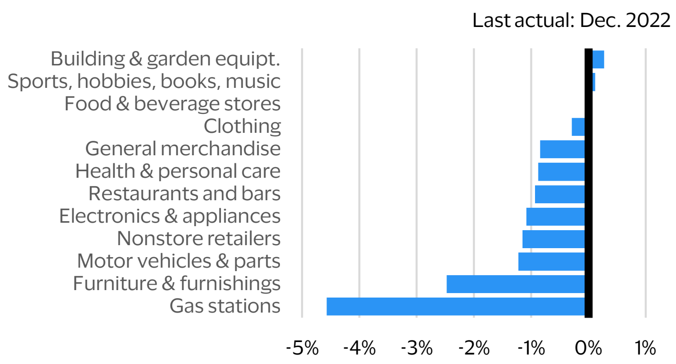


Fig. 2: U.S. holiday retail spending

(Retail sales excluding autos, gas and restaurants; YoY percent change)

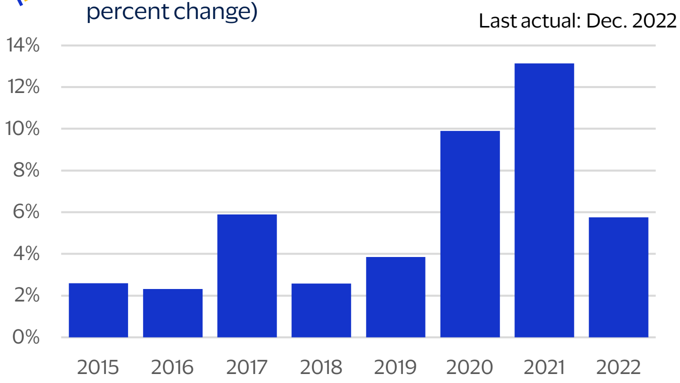
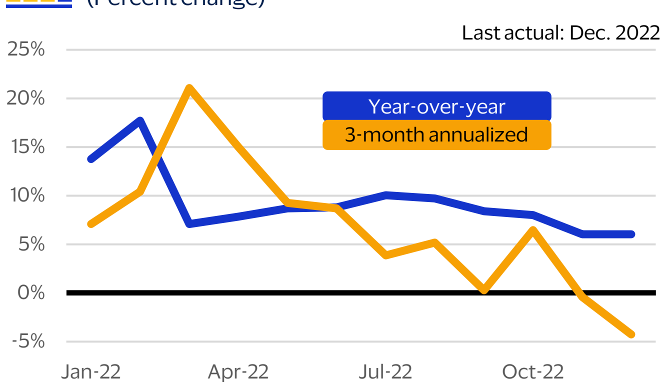


Fig. 3: Total retail sales

(Percent change)



2022 started with a bang and ended with a whimper

Signs of strength dotted the consumer landscape in early 2022. The economy had largely reopened and the economic impacts of the Omicron variant were fading fast. Sales surged at restaurants and bars as Americans entered the "year of getting on with life," and clothing sales hit new records as employees headed back to the office.[1] But a lot has changed since then, and 2022 ended with considerable consumer strain. Adjusted for seasonality, total retail sales declined by 1.1 percent between November and December, the largest drawdown all year.[2] Spending decreased sharply at gas stations due to a sizeable drop in gas prices and an even bigger fall in demand. Consumers purchased less furniture as the housing market faltered and fewer cars as interest rates increased. Severe winter weather had an impact, with a bomb cyclone keeping people off the roads and away from stores, but online shopping declined by approximately $1 million in December, suggesting that the broad-based weakness in December retail sales wasn't just due to the snowfall and wind chill.

Holiday sales recap

Compared to 2021, holiday sales increased by 5.7 percent year -over-year (YoY) in 2022.[3] In most situations, this would signal strong gains from a thriving consumer base. But in the current economic climate, such a result is decidedly mediocre. During the 12 months ending in December, consumer price inflation was 6.4 percent,[4] indicating that inflation-adjusted holiday sales actually declined. Activity in some gift-heavy categories was abysmal, particularly electronics and appliance stores, where spending shrank by 5 percent YoY even before adjusting for inflation.[5] Holiday spending was likely pulled forward into October as retailers offered early incentives to unload excess inventory and kick-start the shopping season, and this shift probably skewed the official holiday numbers downward. The primary bright spot was nonstore retail (primarily e-commerce firms), which saw sales increases of 11.6 percent.

Retail momentum is fading fast

On a YoY basis, total retail spending has also been mediocre. In December 2022, the dollar value of retail sales increased by 6 percent YoY[6] (shown in the dark blue line in figure 3), which indicates virtually no growth after adjusting for consumer price increases. This is a concerning macroeconomic development, since consumer activity accounts for a large share of the overall economy.[7] Even more concerning is the recent momentum in retail sales. Over the last three months of 2022, retail sales declined at a 4.3 percent annualized rate (shown in orange in figure 3), indicating serious weakness heading into 2023. The odds of recession are very high, consumers have spent most of the excess savings they accumulated during the pandemic,[8] and layoff announcements are piling up.[9] If the economy falls into recession, we would expect retail sales, and consumer spending more broadly, to weaken further.

Sources

Fig. 1–3: Visa Business and Economic Insights and U.S. Department of Commerce

Footnotes

[1–3] Visa Business and Economic Insights and U.S. Department of Commerce
[4] Visa Business and Economic Insights and U.S. Department of Labor
[5–7] Visa Business and Economic Insights and U.S. Department of Commerce
[8] Visa Business and Economic Insights, U.S. Department of Commerce, and Federal Reserve Board
[9] Visa Business and Economic Insights and Challenger, Grey & Christmas

Accessibility Notes

Fig. 1: Horizontal bar chart showing the month-over-month percent change in retail sales by category between November and December. The fastest growth was in building equipment and garden supply stores, which increased by 0.3 percent. Besides sporting goods, hobby, book, and music stores, all other categories were negative. The largest decline was gas stations, which declined by 4.6 percent.

Fig. 2: Bar chart showing the year-over-year (YoY) percent change in holiday sales from 2015 to 2022. The data presented annually, with a single bar for each year. The chart starts at 2.6 percent in 2015, rises to 5.9 percent by 2017, falls to 2.6 percent in 2018, then rises consistently until reaching 13.1 percent in 2021 before falling to 5.7 percent in 2022.

Fig. 3: Line chart comparing the YoY percent change in total retail sales to the three-month annualized (3MA) percent change in total retail sales. The chart begins in January 2022 and ends in December 2022. The data are presented monthly. The YoY percent change starts at 13.7 in January, rises to 17.7 in February, is within a range of 7.1 to 8.0 between March and October, then falls to 6.0 by December. The 3MA percent change starts at 7.1 in January, rises to 21.1 in March, then falls to -4.3 by December.

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