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A Weekly Comprehensive Macroeconomic Overview

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Consumer Spending this Holiday Season

Whilst the wider economy faces turbulent times U.S consumer spending has remained resilient, and even grown, despite the challenging macroeconomic outlook. From September to October, the [Census Bureau](#) reported that retail sales increased 1.3%. Although higher prices and state fiscal support did contribute to this growth, perhaps it can be seen as the first sign that despite recessionary fears retail consumer spending won't slow down this holiday season. In fact, the [National Retail Federation](#) has forecast that sales for the period will increase between 6% and 8% compared to 2021, which would be one of the largest year on year increases over the last 20 years. The stubbornly robust U.S labour market, which saw an increase of 263,000 jobs in November, is keeping Americans level of income elevated and this should help bolster higher levels of consumer spending. However, this is not to say that consumers concerns about rising prices won't dent sales figures, and [Morgan Stanley](#) reported that rising prices are shoppers top concern, with 70% waiting for stores to offer discounts before they begin the majority of their holiday shopping.



Consumer Staples Spending

Walmart CEO [Doug McMillon](#) recently spoke about how customers are “being more selective about their purchases” and choosing to reduce spending on discretionary items in favour of limiting staples consumption. The record high inflation the U.S is currently facing has pushed American’s savings to a low not seen since 2005 and this is drastically influencing the way they are managing their expenses. One market which will be dramatically affected by this shift, especially given it’s usual growth during Christmas holidays, is the catering industry. Indeed, due to their reduced purchasing power, consumers are expected to sacrifice dinners out for alternative in-house meals. According to a [PwC](#) study, “Christmas dinner” and “food and drink” will be the most resilient categories to reduced consumer spending from lower income households; with an expected decrease from year past 2021 of respectively 0% and -3% (compared to remaining categories varying from -11% to -18%). Doug McMillon also said that Walmart has utilised low priced groceries to attract customers as low and middle-income houses are predicted to reduce their holiday spendings by an average of 7.48%. Indeed, this focus on discount goods may prove popular for retailers as private labels are expected to shine this holiday season with 41% of consumers expected to purchase less expensive products as well as 86% confirming they would use more private label options than last year.



Lower and middle income households are feeling the most pressure from higher prices

Average holiday spending by household income



Households earning over \$150K actually plan to spend 21% or almost \$327 more than they did last year on holiday-specific purchases

Spending on Luxury Goods

This holiday season, it is clear that consumer spending on luxury items is on the rise as many high-end retailers report a boost in revenue. For example, in the last 6 months Burberry's sales are up 11%, LVMH's 28% and Kering's 14%. As previously discussed low and middle income households are feeling their wallets tightening with the inflationary squeeze, but the cost-of-living crisis hasn't hit high-income earners with anything like the same magnitude. The consumer segment of the young, rich and mortgage-free, and the scions of the 1% are having a roaring twenties resulting in the Global Luxury Goods Market growing 21% in 2022 to 1.4 Trillion Euros. This growth supports the beliefs of individuals like [Helene Brocklebank](#), chief executive of Walpole, who described the luxury goods market as virtually 'recession proof' and 'an extremely resilient sector, both at the top end of the market and at the affordable luxury segment'.

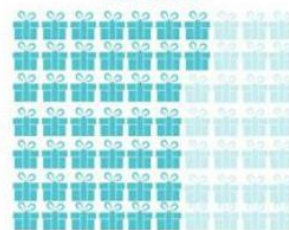
For the holiday season, at least for the wealthy, it seems that Santa will still be able to splurge on luxury goods. Whilst the less fortunate decide whether or not to heat or feed their households, in another world the rich will be stuck on Christmas Eve between the choice of their 50 year old bourbon or the Glenmorangie reserve to satiate Santa's thirst.

Consumer spending on gifts and other holiday items is consistent with historical averages

Per-person planned spending on gifts and other holiday items



62%



62% of holiday shoppers say they agree that it is important to spend on holiday gifts and celebrations.

Consumer Spending by Category

Holiday spending over the Christmas period will not only be differentiated by income, but also category, and certain sectors are expected to see significantly more growth than others. A [Morgan Stanley](#) survey found that consumers were expected to reduce spending in a number of categories including electronics, kitchen appliances and sporting goods. Personal electronics is forecast to take the biggest hit with a projected 25% reduction in spending compared to 2021 when accounting for inflation. Perhaps, given the boom in demand for kitchen appliances and sports equipment over the Covid-19 Pandemic, it is no surprise that consumer demand for the products has diminished this year and companies operating in the sector are predicting significant year on year reductions in revenue. As previously mentioned consumers will be resistant to trimming down grocery budgets but the same cannot be said for eating out or ordering in. Respectively, 74% and 61% of consumers reported they would cut back on dining habits to make room in the budget for gifts and experiences, a clear win for food retailers. Airline sales are expected to fly this year as consumers look to make the most out of minimal or non-existent Covid restrictions for the first time since 2019. In fact, [Transport Security Administration](#) screening data is already reporting increased travel activity and the good news for airlines is expected to carry into the New Year. In total, whilst overall consumer spending will remain strong this holiday season it is important to recognise where consumers will be looking to cut back in order to maintain some Christmas magic.

