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Delayed data show shoppers were cautious going into the holiday season

Consumers offered mixed signals about their willingness to spend



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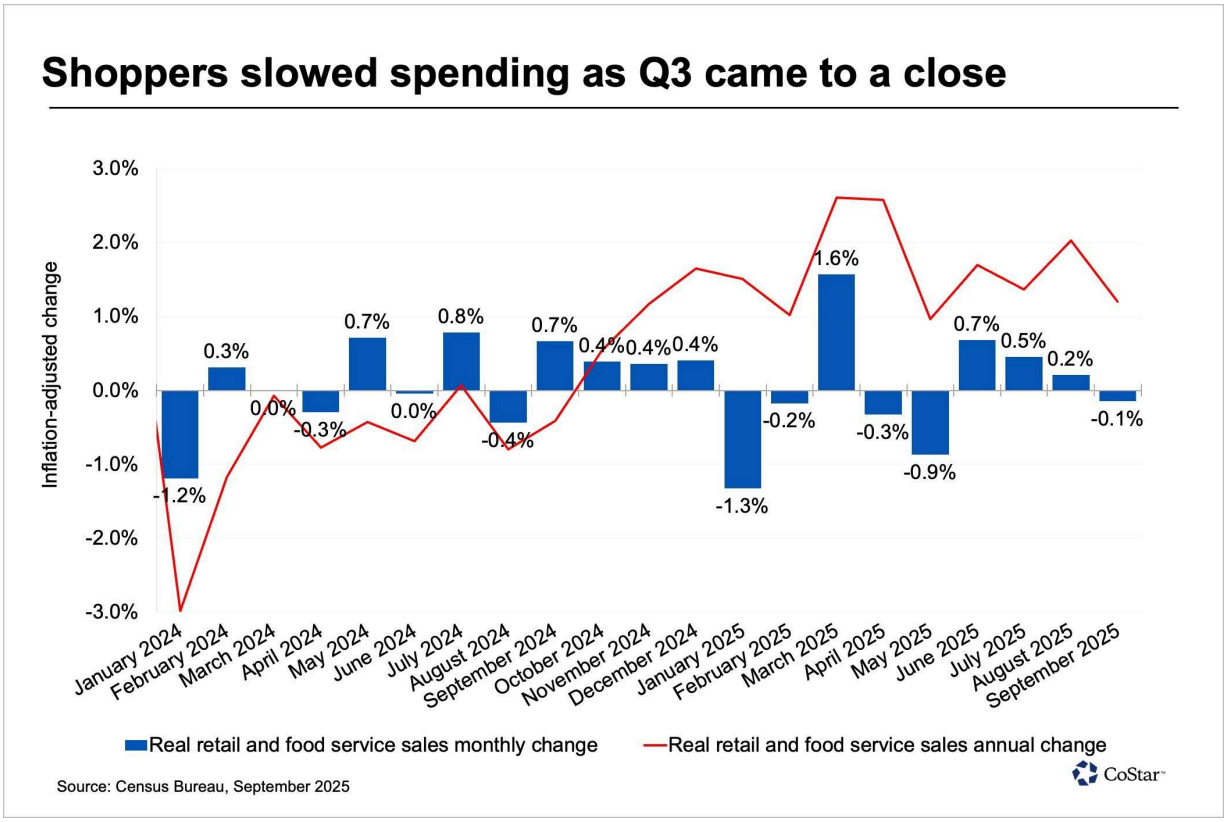
American consumers entered the peak of the holiday shopping season offering a basket of mixed signals.

Industry group reports hinted at a positive October for retailers, and the Federal Reserve's Beige Book suggested that while middle-income

households appeared to be pulling back, high-income households continued to spend.

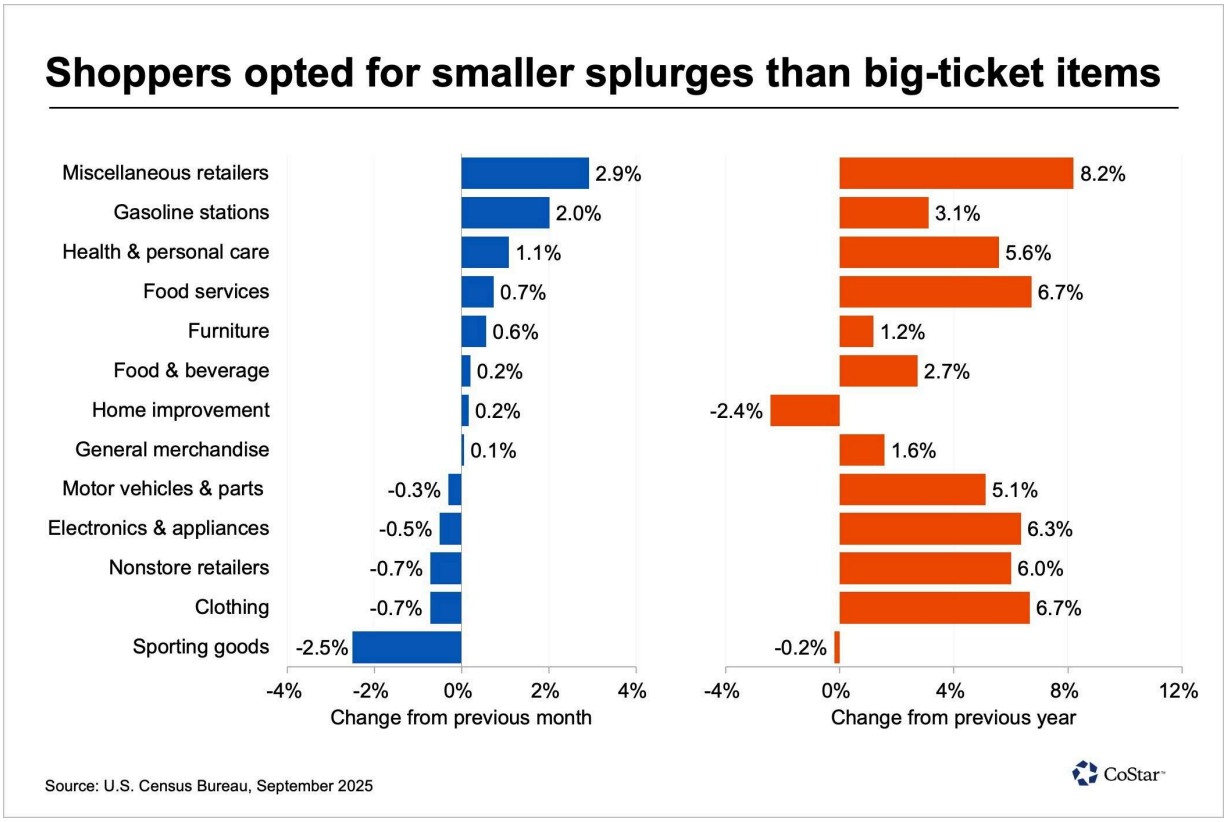
Other surveys conducted in November indicated that consumer confidence and sentiment had declined for all income groups. Meanwhile, official retail sales data from the U.S. Census Bureau, delayed by the federal government shutdown, showed a sluggish September during which inflation-adjusted retail sales fell for the first time since May.

Put together, these anecdotes and delayed data suggest a cautious, not collapsing, consumer. Factors beyond consumer health or confidence, such as the timing of sales promotions and the front-loading of spending earlier in the year to avoid tariff-related price increases, may explain some of the decline.



The most substantial drops in the Census report for September came from big-ticket items, such as motor vehicle and parts dealers, where

sales fell by 0.3% over the month, and electronics, down by 0.5% per month. The September expiration of the electric vehicle tax credits may explain the decline in vehicle sales. The decrease in spending on clothes, which fell 0.7%, and sporting goods (down 2.5%) likely reflects, at least in part, the drop-off from higher levels of back-to-school spending in July and August.

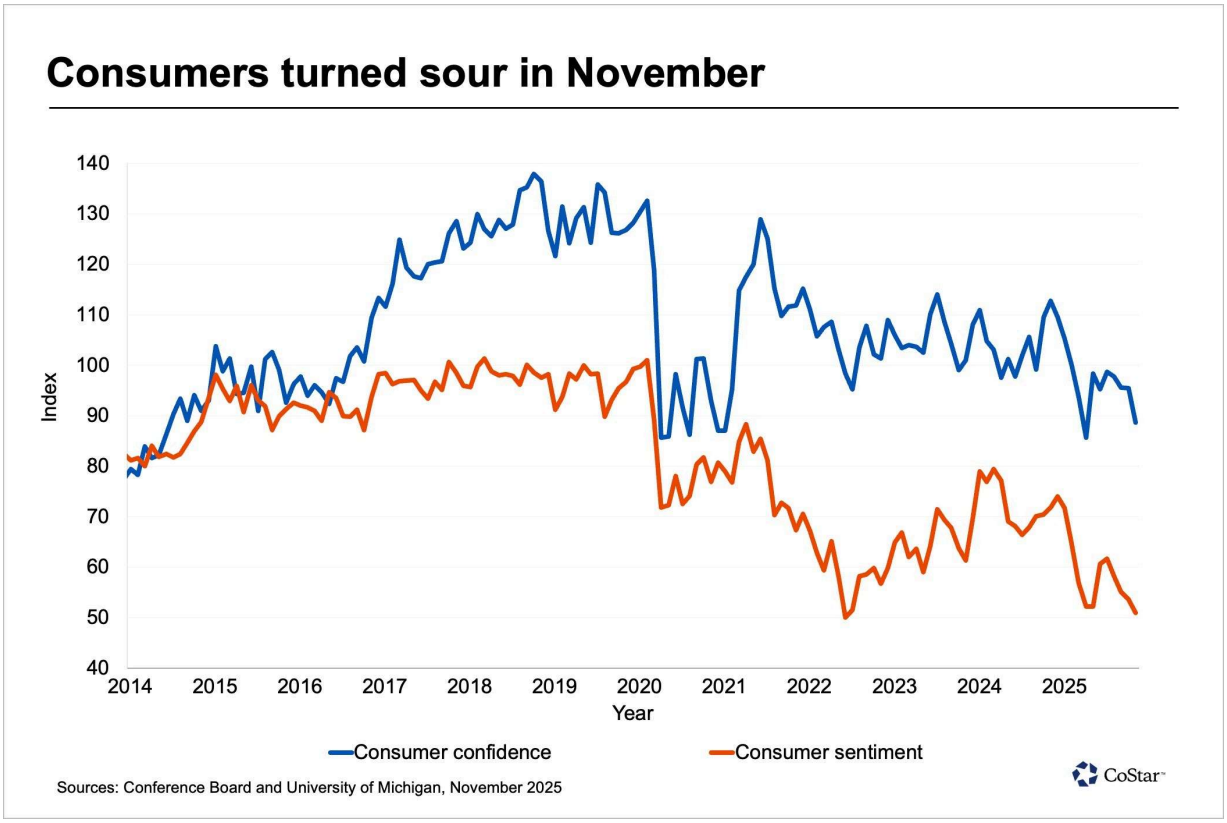


A decline in online spending at nonstore retailers, which now account for more than 17% of retail spending, had a more substantial impact on the headline sluggishness. The timing of Amazon's Prime Day discount promotion in early October may have delayed online expenditures. In the long term, nonstore retail spending increased by 6% year over year.

Necessity categories saw the highest increases. Notably, spending at gasoline stations rose 2%, largely because of price increases. Health and personal care store spending also rose by 1.1%.

Some discretionary categories, though, continued to grow. Restaurant and bar spending, for example, increased by 0.7% in September alone, rising for the fourth consecutive month. Restaurant spending has outpaced inflation, growing 6.7% since September 2024.

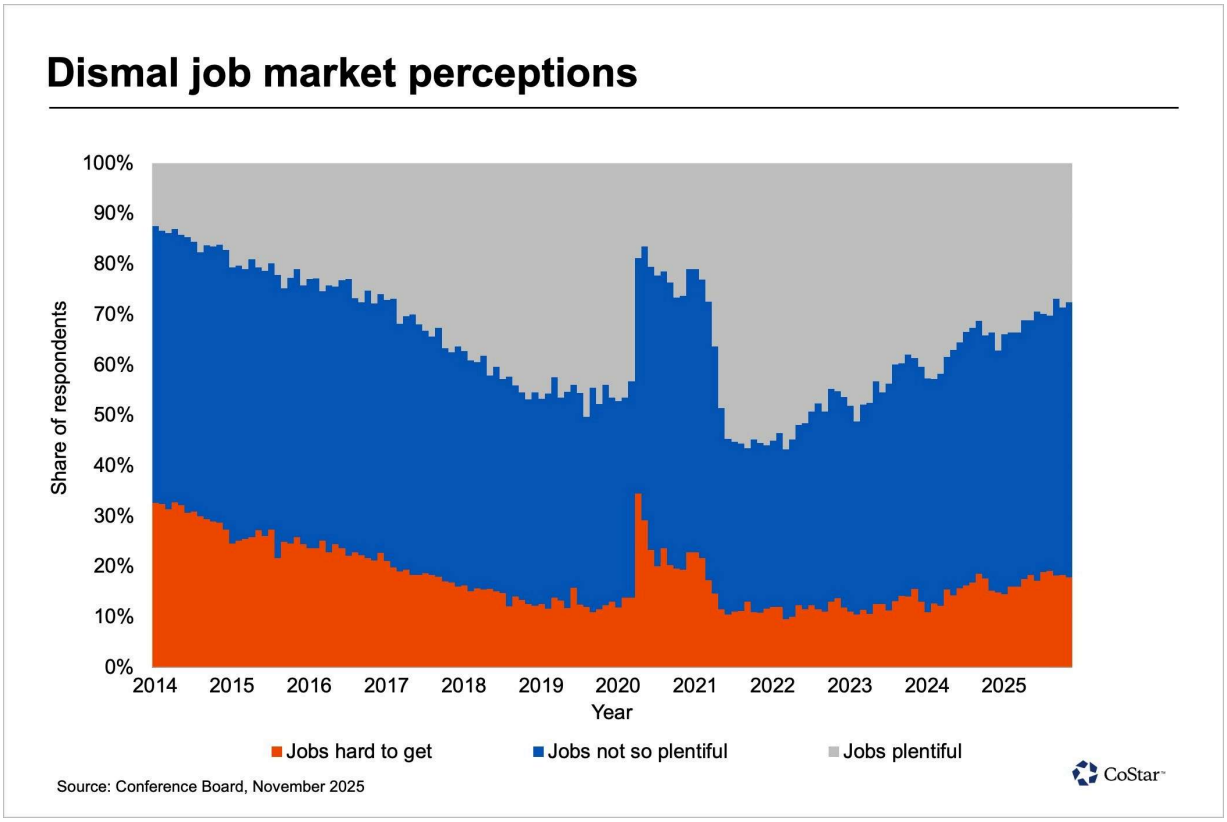
September's retail sales data predated the federal government's shutdown. With data collection suspended during the 43-day shutdown, a full report on October sales may never be released. This lack of official data has prompted analysts to focus on survey data for a more timely read on the consumer. What they are finding is a deteriorating outlook.



Consumers' moods took a sharp downward turn in November, just as holiday shopping plans were coming into focus. The Conference Board's consumer confidence index fell 6.8 points to 88.7 in November, its lowest rating since April 2025, and a 24.1-point decline since November 2024. Survey respondents noted scaled-back plans for spending on services, big-ticket goods and vacations over the next six

months. The University of Michigan's consumer sentiment survey captured a similar decline, with the index falling 2.6 points to 51, its lowest score since June 2022.

Still, gloomy survey responses have not always been followed by an observed pullback in spending. Uncertainty surrounding the federal government shutdown may have affected some respondents' moods in November and should be a less significant factor through December.



Ultimately, the employment market is likely to prove a bigger driver of continued spending. Though job-market perceptions have soured recently, the 4.4% unemployment rate remains low by historical standards.

A growing share of consumer-confidence survey respondents, 72.4%, rated jobs as either "hard to get" or "not so plentiful" in November. Although that share has continually risen since a trough of 43% in

March 2022, it remains roughly on par with the share reporting job-market challenges in 2015-2017, hardly a period of recession.

What we're watching ...

Although the September jobs report was delayed and its data appears to be from the distant past, it is likely to be a major data point to guide the Federal Reserve's policymaking committee in its deliberations. The committee plans to meet Dec. 9-10, before the November jobs report is released on Dec. 16, and before updates to inflation data are released later that week.

Markets are expecting the committee to lower its target interest rate by 25 points at that meeting. Still, recent remarks from voting members of the Fed indicate a wide divergence of opinions, with at least a third suggesting a wait-and-see approach while inflation remains elevated, and a similar share in favor of further easing.

Market watchers are likely to pay close attention to the number of dissents that accompany the committee's final decision, given that they could be a potential signal of disarray emerging in Jerome Powell's remaining days as chairman of the Federal Reserve.

CoStar Economy is produced this week by Christine Cooper, CoStar's managing director and chief U.S. economist, and Chuck McShane, senior director of market analytics.

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