



Insigneo Weekly Dispatch

# Did Consumers Bite More Than They Can Chew This Thanksgiving Season?

A look back at some interesting spending patterns over the Thanksgiving weekend and Cyber Monday.

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## Did Consumers Bite More Than They Can Chew This Thanksgiving Season?

Nothing says Thanksgiving more than warm turkey at the center of the table surrounded by family or friends. This has been the tradition in the United States since President Abraham Lincoln proclaimed Thanksgiving Day a national holiday in 1863. However, another tradition that has taken root following the meal on Thursday is a big day of shopping the following day, on what is known as Black Friday. This practice has even extended from Black Friday and Thanksgiving weekend into Cyber Monday and now even includes Travel Tuesday.

In years past, Black Friday represented the biggest single-day shopping spree in the country. To be fair, it is still a big shopping event, seeing retailers slashing prices and consumers crowding malls. The National Retail Federation estimated that this year, approximately 200 million consumers shopped in some form or another on Thanksgiving weekend. Considering that the population of the U.S. is approximately 335 million people, the number of shoppers represented almost 60% of the population. Personally, I tend to avoid the mall on Thanksgiving weekend and opt to shop online instead. It seems that a growing segment of the population is choosing to do the same. A survey conducted by Bloomberg showed that sales at retail stores that rely heavily on holiday spending were down 4% on Black Friday, while data compiled by RetailNext showed that physical foot traffic at

stores rose 1.5% compared to 2022. Fair to say the data is mixed when it comes to shopping at actual stores. However, the data is quite clear when it comes to shopping online. Data compiled by Adobe Analytics showed that online shopping rose 7.5% this past weekend on a year over year basis. Interestingly, almost 60% of online sales were done using a mobile phone instead of a laptop. This increased ease of mobile transactions is a good omen for online sales in the future. According to Adobe Analytics, consumers spent \$12.4 billion on Cyber Monday, 3 times more than the \$4 billion spent in 2014. And that is not all. It is estimated that nearly \$38 billion was generated in online sales in the period between Thanksgiving and Cyber Monday. That is 38 billion dollars spent online in 5 days...to provide some context, this number is higher than the GDP of Iceland for the whole of 2023, as estimated by the IMF.

The question that comes to mind when we read statistics such as these is: "Where is the recession?". Our proprietary Insigneo-Forefront Recessionary Indicator suggests that the chances of recession over the next 6 months have dropped to nearly 0%, while the probability of recession over the next 12 months has also dropped from 80% to close to 60%. Consumer confidence numbers published earlier this week show that the consumer remains strong. In fact, following three months of relative weakness, consumer confidence rose on a month-over-month basis. Low unemployment and relatively lower gas prices could have helped fuel the current rise in consumer confidence. As we know, gas prices are fickle and can change from one month to another. However, unemployment, or the relative lack of it, is different as it has remained

stubbornly low. Many on Wall Street state that resilient employment trends are the reason why a recession will be avoided. Interestingly though, Erik Lundh, Principal Economist at the Conference Board, recently pointed out that although it is true that people are not having trouble finding jobs, they are having trouble getting jobs. This highlights a mismatch in the economy between skilled labor and job openings, a dynamic that could eventually weaken the labor market and dampen consumer confidence. This trend is starting to be seen in recently published data surrounding consumer expectations. Even though consumer confidence about the present rose, consumer expectations of the future dropped, as people cited uncertainty surrounding high interest rates, inflation, the possibility of recession, and geopolitical tension. In fact, consumer expectations of the future remain mired at levels that have been historically correlated with a high probability of recession over the next year.

So, consumer confidence is high, and if this past weekend serves as evidence, consumer spending is certainly high, yet consumer expectations of the future are low? To say that this idea is incongruent is an understatement. If the consumer confidence surveys are correct, it would appear as if consumers were acting on impulse, disregarding any future expectations and thinking only in the present. A possible explanation could be that consumers are still spending some of the excess stimulus injected into the economy during the pandemic. The CEO of J.P. Morgan, Jamie Dimon, stated this week that the economy is still feeling the "sugar high" brought about by the largest injection of fiscal and monetary stimulus in years.

Another explanation could be that consumers may be spending money they simply do not have. Both theories have merit, and the answer is most likely a combination of various factors.

There is some evidence, however, that people may be spending money they do not possess, bringing future consumption forward, and increasing future levels of debt. Online shoppers on Thanksgiving weekend used “Buy Now Pay Later”, or BNPL, features to carry out transactions in record levels, effectively increasing consumption in the present and deferring payment to the future. In fact, according to Adobe Analytics, BNPL shopping reached \$940 million this weekend, rising a record 43% on a year over year basis. Stocks for companies that support BNPL platforms like Affirm Holdings (AFRM) and PayPal Holdings (PYPL) moved higher on the week based on this spending pattern. Another company that benefited from increased online shopping was Amazon (AMZN), stating that it sold over one billion individual items this past week alone. At the same time credit card balances continue to rise. The Federal Reserve recently reported that credit card debt rose an astounding 5% in the third quarter of this year compared to the previous quarter. In fact, the Fed indicates that credit card debt is reaching record levels nearing \$1.1 trillion. This is likely due to a decrease in post-

pandemic household savings, which, eroded by higher inflation, are driving consumers to turn to credit for consumption. According to the U.S. Bureau of Economic Analysis, household savings as a percentage of disposable income has decreased from approximately 14% at the end of 2021 to 4% at the end of the second quarter of this year. At the same time, delinquency rates are moving higher, albeit from historically low levels.

The U.S. consumer is responsible for nearly 75% of the country's economic activity, so its health is critical to the overall health of the economy. Unprecedented levels of spending fueled by rising levels of debt are concerning trends that merit close monitoring. This week’s post-Thanksgiving spending binge appears to indicate that the consumer is alive and well. However, let us hope that, just as it can sometimes happen at the Thanksgiving table, it has not consumed more than it can handle.



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