



This Economic Outlook may include opinions, forecasts, projections, estimates, assumptions, and speculations (the "Contents") based on currently available information, which is believed to be reliable and on past, current, and projected economic, political, and other conditions. There is no guarantee as to the accuracy or completeness of the Contents of this Economic Outlook. The Contents of this Economic Outlook reflect judgments made at this time and are subject to change without notice, and the information and opinions herein are for general information use only. Regions specifically disclaims all warranties, express or implied, with respect to the use of or reliance on the Contents of this Economic Outlook or with respect to any results arising therefrom. The Contents of this Economic Outlook shall in no way be construed as a recommendation or advice with respect to the taking of any action or the making of any economic, financial, or other plan or decision.

Holiday Sales Outlook: U. S. Consumers Shutting Down?

It's the most wonderful time of the year. Unless, of course, it's not. Either way, it is time for the November *Monthly Economic Outlook*, which means it is also the time of the year when we take the pulse of the U.S. consumer, conduct extensive research, perform highly sophisticated statistical analysis, apply the collective force of our years of professional experience, and then basically guess how much consumers will spend over the holiday shopping season. One difference this year is that our guess is less informed than is typically the case given that the federal government shutdown has choked off the flow of economic data, which means that as of this writing we have data on retail sales only through August rather than through September as would normally be the case at this point. Moreover, the August data currently at our disposal reflect the initial estimates of sales across the various categories. Given the extent to which the initial estimates in any given month are prone to sizable revision, this means that we have even less to go on compared to a typical year.

Be that as it may, neither snow nor rain nor heat nor gloom of night nor government shutdown stays us from the swift completion of our appointed task. No, not producing a holiday sales forecast, of which, shutdown or not, there is no shortage of at this time of the year, but rather delivering the one thing our readers eagerly await each year and which we and we alone provide. That, of course, would be our festive chart of holiday season sales updated each year with our carefully crafted and rigorously tested forecast or, if we don't like that, updated with a set of numbers that works for us. Under the circumstances, we obviously have less confidence in our holiday sales forecast than we typically do which, in most years, is not a lot to begin with. When we do start to see the economic data flow again, we'll revisit our holiday sales forecast but would expect that to be more in the form of modest tweaks in certain categories of retail sales rather than wholesale changes to the overall forecast.

As our longer-term readers may recall, the theme of our 2023 holiday sales outlook was "a battle of wallet vs. will," meaning that while the various indicators of household financial conditions suggested consumers had ample wherewithal to spend during the holiday sales season, the various indicators of consumer sentiment raised the question of whether they actually had the will to do so. We also noted that the aggregate metrics on household financial conditions masked some clear divides across household income cohorts which likely in turn meant that there would be clear divides in holiday spending patterns. That none of these things had changed in the interim led us to dub our 2024 holiday sales outlook as "Wallet vs. Will – The Sequel." Under the heading of "third time's a charm, it just has to be, right?" we could note that while

overall financial conditions in the household sector remain strong, consumers remain notably downbeat, which would seem to set the stage for another "wallet vs. will" showdown.

We're not sure, however, whether a third time would actually be a charm. After all, one could argue that these battles haven't exactly lived up to the hype, with wallet easily winning out over will in both 2023 and 2024. In 2023, our measure of holiday sales rose by six percent before adjusting for price changes, and that was followed by a five percent gain in 2024. The battle was even more one-sided on a real basis, i.e., adjusting for price changes; real holiday sales rose by 5.4 percent in 2023 and by 5.2 percent in 2024. If anything, holiday sales in 2023 and 2024 would seem to affirm the adage "don't listen to what consumers say, watch what they do," which is often used to account for spending numbers outperforming confidence numbers.

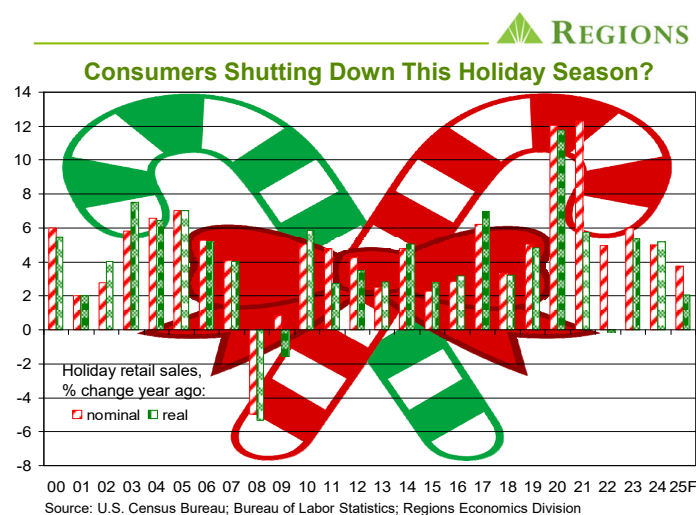
While that may again be the case this holiday season, our sense is that another triumph of wallet over will would not be nearly as decisive as those of the past two years. For many households, the stresses on wallets are even greater this year, particularly with prices for core (non-food, non-energy) consumer goods rising at a faster rate, which is at least in part a reflection of tariff pass-through. At the same time, while the longest government shutdown on record has ended, private sector workers, such as those employed by contractors with the federal government, impacted by the shutdown will be contending with lost earnings that won't be made up for by backpay as will be the case with furloughed government workers. As for will, concerns over inflation, the labor market, and costs for housing and insurance are, to varying degrees, further weights on what was already notably low consumer confidence.

In other words, it seems that the stresses on both wallets and wills are more intense this year than was the case during the past two holiday seasons. There does seem to be a different, and not in a good way, vibe around this year's holiday shopping season. To be sure, it is still early and concerns over the impacts of the shutdown are likely to fade, and lacking the usual data on retail sales and total consumer spending makes it hard to know if the "watch what they do" adage is still holding true. The various spending trackers we follow suggest that to some extent that is the case, though the pace of spending growth does seem more sedate than has been the case over the past couple of holiday seasons.

That is also the case with our holiday sales forecast, but before we get to that, we'll offer the usual housekeeping notes. First, our measure of holiday season sales consists of combined November and December retail sales excluding drug store, grocery store, motor vehicle, gasoline, building material, and restaurant sales. Though differing from other measures of holiday season sales, we've always excluded these categories from our measure on the grounds that these are not typically things given as holiday gifts. We do, however, have a long-standing offer; should anyone either

find, or know anyone who finds, a neatly gift-wrapped new car or truck in their driveway, let alone out in the middle of the woods during a romp with an adorable, gift-wrapped puppy, we'll happily add motor vehicle sales into our measure of holiday season sales.

Second, while no index of goods prices totally conforms to our measure of holiday season sales, we have to pick one in order to deflate our forecast of nominal holiday sales and arrive at a forecast of real (i.e., adjusted for price changes) sales. Given the wild swings in prices for used motor vehicles since the onset of the pandemic, we prefer to use the measure of core goods prices excluding used motor vehicles published by the Bureau of Labor Statistics. While not perfect – this measure includes prices of new motor vehicles, which are not included in our measure of holiday season sales (pending our standing offer, of course) – we find it to be the closest available match. Goods prices figure to weigh more heavily in holiday spending decisions this year given the acceleration in core goods price inflation seen over recent months, in stark contrast to the core goods price deflation seen over the course of the 2024 holiday shopping season.

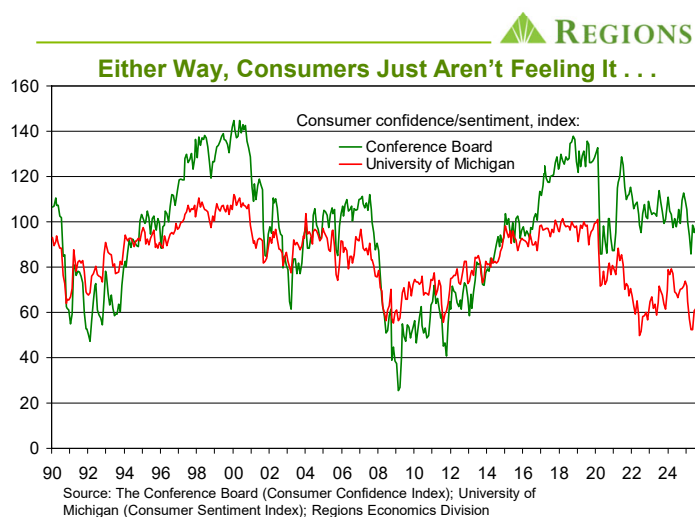


Our less informed than typical still somewhat tentative and not all that inspiring forecast for 2025 holiday season sales has sales up 3.8 percent on a nominal basis, with real sales up 2.1 percent. As seen in our festive holiday-themed chart, our forecast would yield the smallest increase in nominal holiday season sales since 2018 – also a shutdown year for those who do not remember – and, save for the modest decline seen in 2022, the weakest showing for real holiday sales in a non-recession year in our series, which dates back to 1997. By way of comparison, our forecast of 2024 holiday season sales had nominal sales up 4.0 percent and real sales up 4.2 percent, while nominal sales actually rose by 5.0 percent and real sales rose by 5.2 percent.

Though both nominal and real sales were stronger last year than our forecast anticipated, one thing we got right was the extent to which core goods prices excluding used vehicle prices would fall relative to where they were during the 2023 holiday shopping season. Pricing figures to be an entirely different story this year. Save for the spikes seen in 2021 and 2022 amid the not all that transitory wave of rapid inflation, our forecast anticipates the largest year-on-year increase in our preferred price deflator for the November-December period since 2011. As noted above, prices

for core consumer goods, whether including or excluding prices of used vehicles, have firmed up considerably over the past several months despite what thus far remains highly uneven tariff pass-through. To that point, the measure of core goods prices excluding used vehicles rose by 0.31 percent in September, which was the largest monthly increase since March 2023. Our forecast anticipates a like-sized October increase followed by a smaller November increase and a basically flat December read, all of which would leave the index of core goods prices excluding used vehicles for the November-December period up 1.7 percent year-on-year.

Recall that the several years prior to the pandemic were characterized by falling goods prices, including over the holiday sales season, reflected in our chart by larger increases in real sales than in nominal sales in those years. That we expect a fairly flat read on core goods prices in December largely reflects the typical holiday season discounting, but one risk to our forecast is that holiday season discounting may be less generous this year than is typically the case. Retailers contending with the effects of tariffs may be less inclined to resort to discounting than they would otherwise be and have been in the past. The counter to that argument, however, is that if the overall tone of holiday spending is as weak as some are expecting, discounting may be the only way retailers avoid sitting on unwanted inventories at the end of the holiday season. One issue we'll have to contend this year is the likelihood that the CPI report for the month of October will not be produced even though the shutdown is over, as the in-person price observations that are the bulk of the CPI reports will not have been done. We'll adapt once we know how the October data will be treated, but the broader point is that we look for pricing to work against consumers this year rather than for them as had typically been the case in the (pre-pandemic) past.



We've argued that the effects of cumulative price increases over the past few years have left consumers price fatigued which, in turn, has weighed on consumer confidence/sentiment. The chart above goes to our point, and while depressed reads on consumer moods don't seem to have had much of an impact on holiday season spending over either of the past two years, note that the measures of confidence/sentiment are even lower heading into this holiday shopping season than in either of those years. One way we reconciled strong holiday season sales with those low reads on consumer confidence/sentiment is that consumers still

held notably upbeat assessments of labor market conditions, as measured in the Conference Board's monthly consumer confidence survey. We've always looked to this assessment as being the more reliable guide to consumer spending, on the premise that how one feels about their own job and income prospects is more relevant to their spending decisions than their assessments of overall economic conditions. To the extent that is true, it does not bode well for this year's holiday season sales, as the Conference Board's measure shows consumers' assessments of labor market conditions are far less favorable – on net, barely positive – than was the case at the same point of either of the past two years.

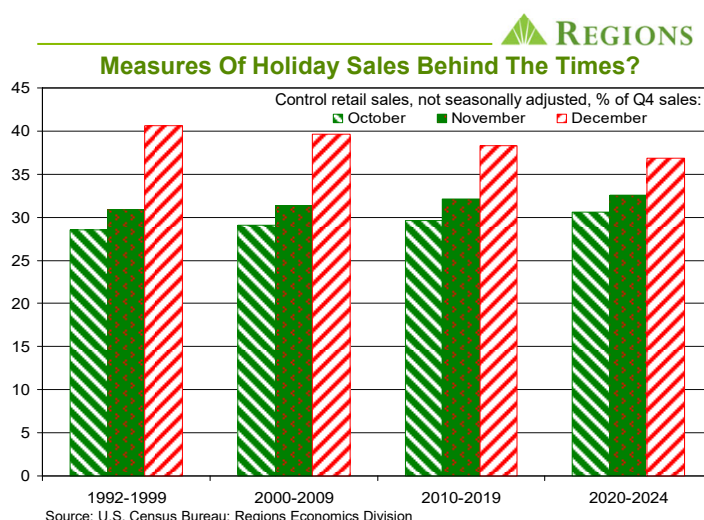
Whether, or to what extent, the recently ended shutdown of the federal government will weigh on holiday season spending remains to be seen. One could argue that if federal government workers see backpay in fairly short order then there are unlikely to be significant disruptions in holiday spending patterns, though it could be that sales in November are weaker and sales in December are stronger than would otherwise be the case. But, impacted private sector workers, such as those employed by contractors reliant on the federal government, will not receive backpay and there could be a more pronounced impact on their spending.

Though some have tried to draw parallels with 2018, a year in which a partial shutdown began on December 22, we're not sure it's an apt comparison. Considering that this year's shutdown was a full shutdown, meaning far more workers saw disruptions in income, temporary or otherwise, it may seem reasonable to think that the hit to retail sales this year will be far more pronounced than was the case in 2018. That seems somewhat ominous given that by any measure – total retail sales, control retail sales, our measure of holiday sales – 2018 is the weakest December in the life of the current series on retail sales based on the percentage change in not seasonally adjusted sales from November.

That "weakness," however, took the form of our measure of not seasonally adjusted holiday sales rising by 14.5 percent in December 2018, well smaller than normal, which turned into a 3.9 percent decline when seasonally adjusted. Moreover, there was more than a partial government shutdown behind the weaker than normal December sales print. Though not on the whole colder than normal, December 2018 saw several incidences of harsh weather, including heavy snow in parts of the South/Southwest, tornadoes across parts of the Midwest, heavy rains and flooding across parts of the South, and a late-month blizzard across the plains states. These weather events almost surely disrupted spending patterns, contributing to the weaker than normal December sales print; that spending in January 2019 was stronger than is typical for the month of January despite the partial shutdown not ending until the twenty-fifth of that month supports our premise. This isn't to say that this year's shutdown will not impact holiday season sales, but instead to caution that 2018 is not a very useful guide.

To the extent it does so, the shutdown isn't the only factor which could disrupt holiday spending patterns. As we and others have documented over the course of the year, consumer spending patterns have been impacted by the potential for/implementation of higher tariff rates. Consumers have timed purchases of goods, particularly consumer durable goods, to beat tariff-related price increases, which in many cases has meant altering the timing of purchases more so than altering the overall level of spending. That said, to the extent consumers purchased things like electronics,

furniture, clothing, toys, household equipment, and recreational goods earlier in the year than they otherwise would have, that could siphon off expenditures from the holiday sales season. The same applies to motor vehicle purchases even though those are not included in our measure of holiday season sales. Indeed, consumer spending has been somewhat uneven over the course of this year, and this is one likely culprit. It could also be that, to the extent goods purchases were made earlier in the year than would otherwise have been the case, those households with untapped spending capacity could opt to spend on "experiences," including travel and entertainment, rather than on goods. As services spending is not captured in our measure of holiday season sales, or others that we are aware of, this could make holiday sales look weaker even as total consumer spending looks healthy.



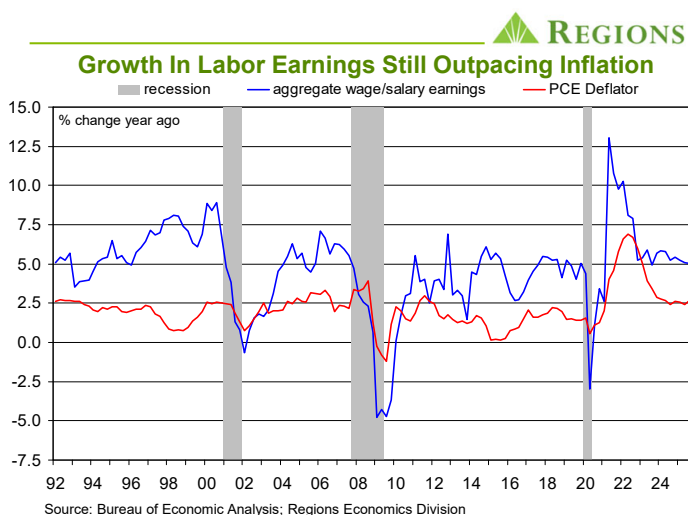
Tariff-related shifts in the timing of purchases tie in with a more general point we raised in last year's holiday sales outlook. As can be seen in the above chart, the month of October has captured a progressively larger share of total Q4 spending. We use control retail sales here rather than our measure of holiday season sales to take advantage of the longer history, but the same general patterns would likely hold. To some extent, October's gain has come at December's expense, though November's share of total Q4 control sales has risen modestly over time. Though this shift has been long running, the largest increase in the October share came over the 2020-2024 period. While the shorter time horizon could be unfairly impacting the results, we think this shift at least to some extent reflects October having over the past few years become a more promotional month, with the addition of a second Amazon Prime event which other retailers have countered with online promotions of their own, many of which are touted as chances to kick off holiday season shopping.

To the extent these October online promotions siphon off spending from November and/or December, that acts as a drag on measures of holiday season spending, ours and others. Keep in mind that this effect would not be a constant across years but instead is a function of how successful, or not, the October promotions are. For instance, this year's October event was Amazon's most successful one to date, and other retailers posted strong results as well. As such, it could be that spending over November/December will be less robust than would otherwise have been the case, and while this would yield a less impressive picture of 2025 holiday

season sales, it would not necessarily say all that much as to the state of U.S. consumers, though we'd advise against holding your breath waiting for any such effects to be put in proper context.

While the various aggregate measures show household financial conditions remain healthy, those measures miss distributional effects and mask differences in financial conditions across the various household income cohorts. We've routinely noted that younger and lower-income households are more likely to have been under financial stress from the cumulative increases in prices seen over the past few years, and what is now a significantly slower pace of job growth could be broadening out the range of households feeling financial stress.

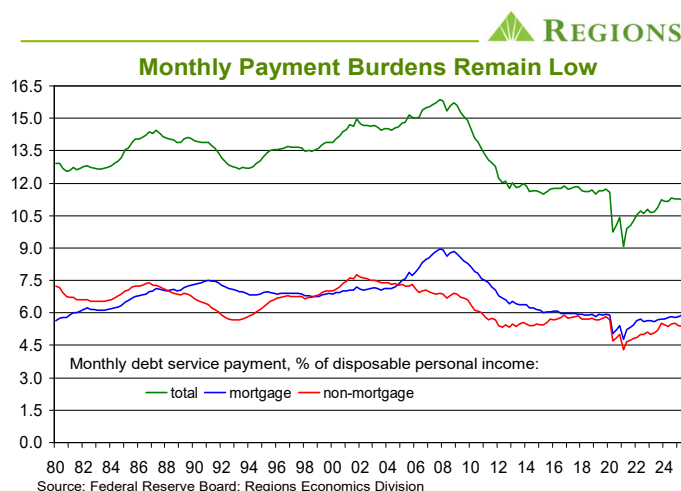
To our earlier point, meaningfully less upbeat assessments of labor market conditions could weigh on spending even those still with job. Still, growth in overall consumer spending remains solid; real control sales are up over four percent on a year-to-date basis and real consumer spending was on course to grow at an annual rate of better than three percent in Q3 based on the data available prior to the shutdown. Though there is to some extent a divide between higher and lower income cohorts in terms of spending growth, the various trackers we follow suggest that gap has not widened.



We've routinely pointed to growth in aggregate wage and salary earnings easily outpacing inflation as a key support for consumer spending. The chart above is based on the data at our disposal through the third quarter of 2025, and it is likely the gap will be a bit narrower when the Q4 data make their appearance, with slower growth in labor earnings and faster inflation, but the bottom line will remain the same. This goes to a point we've frequently made about the slower trend rate of job growth being more of a labor supply story than a labor demand story; were it the latter, we'd argue there would have been a much more pronounced slowdown in earnings growth than that seen to date.

To be sure, that growth in labor earnings continues to outpace inflation doesn't ensure robust growth in holiday season spending this year, but it does suggest spending may hold up better than many anticipate will be the case. We can point to other financial metrics that support the contention of healthy household financial conditions. Some of these metrics, however, are skewed to higher-income households, such as the ratio of household net worth-to-after-tax income, and to the extent these factors are supporting

spending, they are likely more of a support for discretionary services spending than on goods spending, holiday season or not. Other metrics, such as household debt-to-income ratios and monthly debt service burdens, are more relevant to a wider swath of households. For instance, the Federal Reserve's measure of monthly debt service burdens, i.e., principal and interest payments as a share of after-tax income, remains at what would be an all-time low were the income data from 2020-2022 not distorted by the pandemic-related transfers to the household sector, as can be seen in the following chart.

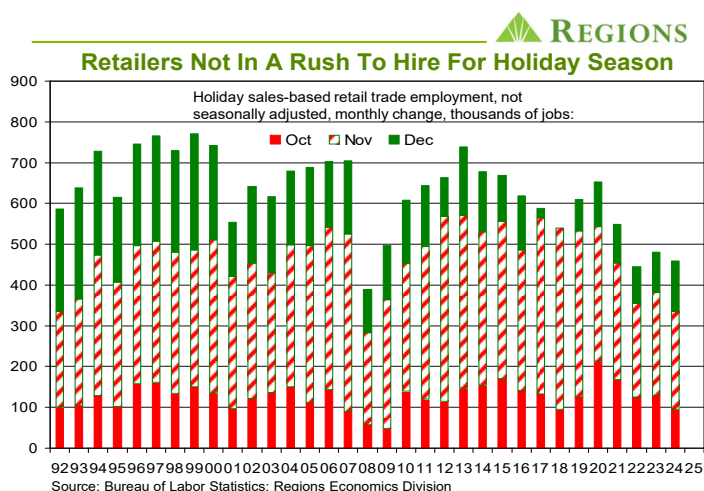


In any given year, forecasting how consumers, and retailers too for that matter, will behave over the holiday season is always a risky endeavor. That seems doubly the case this year given the array of factors weighing on both wallets and wills. Even under more, for lack of a better term, normal circumstances, we would not have expected growth in holiday season sales to be as robust this year than was the case over recent years. Though our forecast anticipates a milder increase in holiday season sales, it still seems as though the risks to our forecast are weighted to the downside. That said, U.S. consumers have proved to be notably resilient over the years, and this year's holiday shopping season may prove that to yet again be the case.

A Weak Year For Holiday Season Hiring?

As we do each year when discussing our outlook for holiday season sales, we also offer some thoughts on holiday season hiring. Our rationale for doing so is that there are distinct and well-established patterns in hiring around the holiday season in retail trade and warehousing and delivery services which are tied to expectations of holiday season spending. As the manner in which consumers spend has shifted over the years, away from in-store shopping toward online shopping, so too has the mix of holiday season hiring, though this has led to little net change in overall holiday season hiring amongst these two sectors. There is a clear sequential pattern in hiring, i.e., in a typical year, holiday season hiring kicks off in October followed by a much larger increase in November and a smaller increase in December, with the increases seen in Q4 of any given year followed by sharp declines in January of the subsequent year.

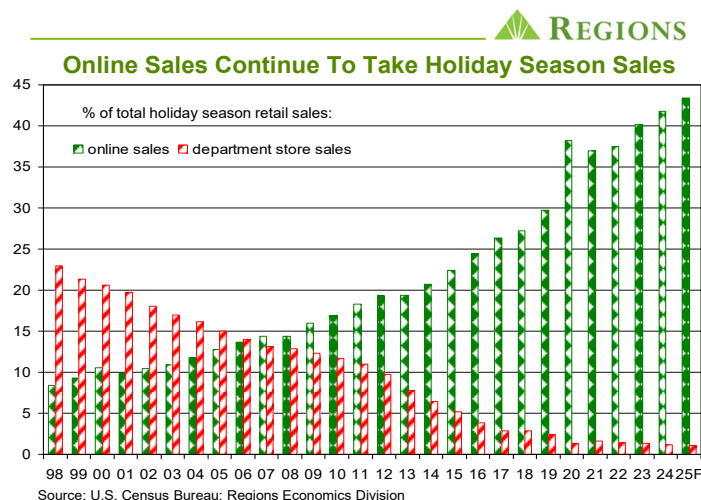
One thing that is different this year is that we do not have the October data on nonfarm employment, or the September data for that matter, nor is it clear when we will. In a typical year, we have the October data at our disposal when we do our holiday season sales and hiring outlook. While a relatively small share of holiday season hiring occurs in October, the October employment data at least serve as a first check on our outlook for holiday season hiring. We also rely on public comments from retailers and providers of warehousing and delivery services as to their holiday season hiring plans, but thus far there has been notably little guidance along these lines. To some extent, this lack of guidance could reflect firms in these industry groups either lacking confidence in their outlooks for the holiday sales season or waiting for greater clarity around how the holiday sales season will play out before making the commitment to add to headcounts. That, in turn, leaves us with less confidence in our outlook for holiday season hiring.



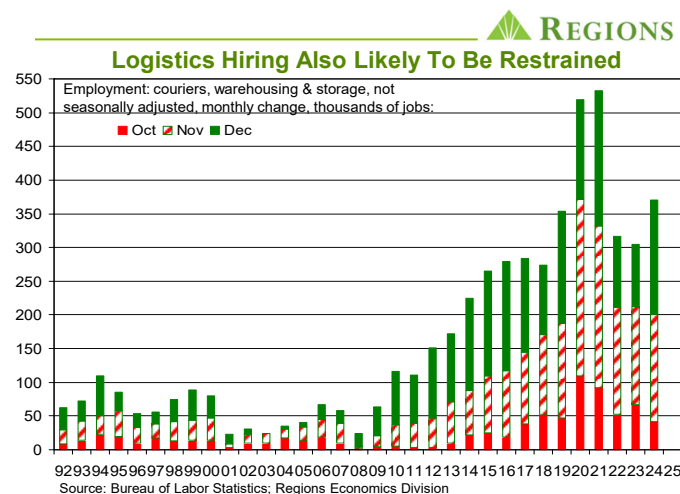
We look for 2025 holiday season hiring in retail trade to be one of the, if not the, softest year in the life of the data. While 2008 would be a high bar to clear, or would it be a low bar to maneuver under, in terms of holiday season retail hiring, 2025 may prove to be not too far from that dubious marker, but considering the 2008 holiday season came at the depths of the 2007-09 recession, even coming close to that low-water mark would be telling. As a side note, we tailor our measure of holiday season hiring in retail trade to our measure of holiday season retail sales, omitting the corresponding categories from the employment data.

Our somewhat dim outlook for 2025 holiday season hiring is a function of two things, our less than inspired holiday sales outlook and the share of holiday season sales accounted for by online sales which, to our earlier point, impacts the composition of holiday season hiring regardless of the level of that hiring. It helps to recall that the baseline for firms assessing the need for temporary help over the holiday season is the current level of staffing, with firms then making calls on how much additional labor will be required to meet the expected increase in demand. Based on the year-to-date data through August, retail hiring had been stronger over the course of 2025 than had been the case in either 2023 or 2024, which in part reflects how well consumer spending has held up this year, even if the month-to-month swings have been a bit more pronounced. As such, that we have fairly low expectations for this year's increase in holiday season sales accounts for why we have

even lower expectations for holiday season hiring in retail trade. Moreover, to the extent retailers are looking for ways to absorb higher tariff costs, holding the line on holiday season hiring might be seen as at least somewhat of an offset.



If we are correct in expecting online sales to capture a higher share of holiday season sales – our forecast puts that share at 43.6 percent of our measure of sales this year, up from 41.8 percent in 2024 – that would also argue for more restrained hiring in retail trade. As our chart of retail hiring shows, barring 2008, the past three years were the slowest years in the life of the current series, and we look for this year's tally to challenge 2008 as the lowest.



Even if we are correct in expecting online sales to capture even more share, that does not necessarily mean there will be more holiday season hiring in warehousing/distribution services. Indeed, we expect the least hiring in any year this side of the pandemic, particularly as hiring in this segment has slowed considerably over the past several months. Many firms have been adjusting staffing levels lower, in part to reverse what they now see as overly aggressive hiring over prior years and in part to offset higher labor costs. As such, it figures that they'd be less inclined to add to those headcounts, even temporarily, with holiday season hires. Not that they won't take on temporary seasonal help, but likely not as much as has been the case over the past several years.

ECONOMIC OUTLOOK



REGIONS

November 2025

Q2 '25 (a)	Q3 '25 (p)	Q4 '25 (f)	Q1 '26 (f)	Q2 '26 (f)	Q3 '26 (f)	Q4 '26 (f)	Q1 '27 (f)		2023 (a)	2024 (a)	2025 (f)	2026 (f)	2027 (f)
3.8	3.3	0.3	2.6	2.0	2.1	1.9	2.1	Real GDP ¹	2.9	2.8	2.0	2.1	2.0
2.5	3.2	1.9	2.3	2.4	2.4	2.3	2.3	Real Personal Consumption ¹	2.6	2.9	2.6	2.4	2.3
7.3	2.4	0.2	1.4	2.2	3.7	4.1	4.4	Real Business Fixed Investment ¹	7.3	2.9	3.9	2.3	4.1
8.5	4.7	-1.3	1.3	2.0	4.9	4.7	4.9	Equipment ¹	2.9	3.5	7.9	2.5	4.6
15.0	3.6	3.7	3.7	4.0	4.7	5.1	5.3	Intellectual Property and Software ¹	6.2	3.5	5.3	4.6	5.1
-7.5	-5.2	-5.0	-4.0	-1.9	-1.2	0.1	1.0	Structures ¹	16.7	1.1	-5.2	-3.6	0.5
-5.1	-5.3	-3.6	-2.9	-2.0	-0.5	0.5	1.3	Real Residential Fixed Investment ¹	-7.8	3.2	-2.1	-2.8	1.0
-0.1	0.0	-6.2	7.0	1.3	0.6	0.4	0.3	Real Government Expenditures ¹	3.5	3.8	0.8	0.8	0.3
-1,058.0	-1,002.5	-1,034.8	-1,064.9	-1,088.6	-1,112.0	-1,131.4	-1,149.8	Real Net Exports ²	-925.2	-1,032.6	-1,119.0	-1,099.2	-1,177.1
941	916	886	890	899	907	913	918	Single Family Housing Starts, ths. of units ³	947	1,016	939	902	926
413	427	403	408	413	417	422	423	Multi-Family Housing Starts, ths. of units ³	473	355	407	415	426
1.8	1.2	0.3	-0.3	-0.3	-0.2	0.5	1.7	CoreLogic House Price Index ⁵	4.0	4.3	1.4	-0.1	2.9
16.1	16.3	15.7	15.8	15.9	16.0	16.0	16.1	Vehicle Sales, millions of units ³	15.5	15.9	16.2	15.9	16.1
4.2	4.3	4.6	4.4	4.4	4.4	4.4	4.3	Unemployment Rate, % ⁴	3.6	4.0	4.3	4.4	4.2
1.0	0.9	0.6	0.4	0.4	0.5	0.6	0.7	Non-Farm Employment ⁵	2.2	1.3	0.9	0.5	0.7
3.1	0.2	0.0	4.3	1.2	1.4	1.6	2.8	Real Disposable Personal Income ¹	5.7	2.9	1.9	1.8	2.0
2.5	2.7	2.9	2.6	2.7	2.5	2.2	2.1	GDP Price Deflator ⁵	3.7	2.5	2.7	2.5	2.0
2.4	2.7	2.9	2.7	2.8	2.7	2.4	2.3	PCE Deflator ⁵	3.8	2.6	2.6	2.6	2.2
2.5	2.9	3.0	2.8	3.2	3.0	2.8	2.6	Consumer Price Index ⁵	4.1	3.0	2.8	2.9	2.5
2.7	2.9	2.9	2.8	2.8	2.7	2.4	2.3	Core PCE Deflator ⁵	4.2	2.9	2.8	2.7	2.2
2.8	3.1	3.1	3.1	3.3	3.1	2.8	2.6	Core Consumer Price Index ⁵	4.8	3.4	3.0	3.1	2.5
4.38	4.34	3.95	3.66	3.38	3.38	3.38	3.38	Fed Funds Target Rate Range Mid-Point, % ⁴	5.07	5.19	4.26	3.45	3.38
4.36	4.26	4.10	4.14	4.16	4.21	4.29	4.34	10-Year Treasury Note Yield, % ⁴	3.96	4.21	4.29	4.20	4.41
6.79	6.57	6.29	6.29	6.26	6.28	6.33	6.38	30-Year Fixed Mortgage, % ⁴	6.81	6.72	6.62	6.29	6.44
-5.9	-3.3	-3.5	-3.8	-3.7	-3.6	-3.5	-3.5	Current Account, % of GDP	-3.8	-3.3	-4.0	-3.9	-3.6

a = actual; f = forecast; p = preliminary

Notes: 1 - annualized percentage change 2 - chained 2017 \$ billions 3 - annualized rate 4 - quarterly average 5 - year-over-year percentage change

Regions Financial Corporation, 1900 5th Avenue North, 17th Floor, Birmingham, Alabama 35203

Richard F. Moody
Chief Economist

Greg McAtee
Senior Economist