

Goldman Sachs The Markets

What Black Friday numbers say about the US consumer

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Chris Hussey: The retailers have been rallying. Will the holiday shopping season give investors a new reason to buy? This is The Markets. I'm Chris Hussey with Goldman Sachs Research, and my guest this week is Scott Feiler, Consumer Sector Specialist in our Global Banking and Markets business. Scott, great to have you again.

Scott Feiler: Thanks for having me, Chris.

Chris Hussey: All right, let's talk about the retailers. Many of the stocks have rallied over the past month, even more than the market. What's been driving their performance? The election, earnings, Santa Claus? What is it?

Scott Feiler: Yeah, I mean, honestly, it's a combination of all the above. I'd say most importantly, it's been a good set of corporate earnings. Most companies, not all, but most companies surprised to the upside on third quarter results, top line, better than expected margins, much better than expectations. And importantly, those who've spoken about fourth quarter/quarter date, especially as we've moved past the election, I've talked about a strong start, the further we went through November and to start December.

So, Top line trends are good. Good set of corporate earnings. And then on the macro front as well, gas prices are still at eight month lows. Jobs data has been pretty good. And so it's a

combination of micro/macro and just moving further past the election.

Chris Hussey: All right, as we sit here in the first week of December, obviously people have holidays on their mind. Let's frame that conversation a little bit. How important is holiday shopping season to these companies? Give us some numbers. It as big as people think?

Scott Feiler: Yeah. I mean, it's a really big deal. Black Friday week alone can make up two and a half to 6 percent of annual sales for many of these companies. So it's significant. And then for holiday in total fourth quarter, you know, is by far the biggest quarter for most of these companies in retail. So it sort of makes or breaks their annual budget.

So it's a really big deal. And then lastly, it's just a good read on sort of consumer sentiment and spending intentions as we get to the rest of the holiday season into next year. So what we learn over these few weeks is usually a pretty good tell for how consumers are thinking about their, spending intentions for next year as well.

Chris Hussey: All right, terrific. Let's unpack what we've learned so far. Black Friday was last week. What early indicators have we gotten about what consumer spending is looking like here in the holiday season? Also maybe Cyber Monday, which is also this week. What are we learning, across the online spending side?

Scott Feiler: Yeah, very strong reads from Black Friday so far, both from online and in store. We've come to expect the last few years where online sales are going to be very strong and brick and mortar lags behind. This year, we're getting strong reads from both, which I think has been the surprise for me and many, sector observers this week is online trends through the weekend and, into cyber-Monday upload double digits, above where, many of the trackers were expecting, importantly, the mall traffic.

Some of the biggest malls there are out there have given us mall traffic reads and have talked about mid to high single digit traffic growth for all three days. Friday, Saturday and Sunday of Black Friday weekend. That's a significant acceleration relative to the negative low single digit traffic growth that we've seen for much of the year.

So strong reads for online, but also for brick and mortar, which is important.

Chris Hussey: Yeah, it's fascinating. Even I, not the most seasoned shopper in the world, found myself in a mall. The mall seems to have been back a little bit, but let's talk about that a little bit. When all is said and done, which retail concepts do you think will be the winners here? Is it the mall, department stores, discounters, maybe get into, category sportswear, home stuff?

What are you looking at?

Scott Feiler: Yeah, I think department stores are the one sector that probably have continued to lag. We've definitely seen that from earning season, and, -from some of the mall traffic numbers we've seen. It's been more about pure mall as opposed to the department stores.

Where we're seeing strength, -by sector for sure is apparel. Apparel is definitely the winner of the holiday season. So far, and we haven't been able to say that a prior year. So good set of 3rd quarter results that we heard from many of these apparel companies and most of the category call outs that we've seen have been strength in apparel.

Apparel and footwear strong jewelry. We've also heard strong sporting goods, relatively strong, but not as strong as apparel the areas that are a little bit more mixed. I would call it home type purchases. Electronics type purchases, and then by concept, -it's

definitely the department stores lag a little bit relative to the specialty mall-based concepts that are winning.

Chris Hussey: It sounds like still people have had their fill from the pandemic and all the home and the electronic stuff. Maybe I have to wait a few more years on that. All right. As always, people are fretting about the health of the consumer with particular concern about the low-end consumer being voiced in some corners.

But this week, we've actually seen discounters report good results. Is your read on the consumer? Is the core story of the U.S. consumer resilience still intact ahead?

Scott Feiler: Yeah, I think it is. I think the consumer is fine. And that's definitely a different viewpoint than this summer when us and other people were worried about consumer. But right now, the consumer is definitely fine. It's not so strong that it's a rising tides lift all boats scenario, nor is it so challenged that we're looking for a coordinated slowdown.

The winners are going to continue to win and win more than ever. In this opportunity setting, consumers strong enough for companies that are offering, value, and good proposition to the customers to continue to do well. So we continue to think you're going to see this dispersion theme.

But in general, the consumer is strong for sure. Not so strong that everybody's doing well, but definitely strong enough, for the winners to continue to win.

Chris Hussey: All right, let me follow up on that then, Scott. Because, again, the low-income consumer really been out of favor in the last few months, yet we saw some good results this week. Is it time to lean into these low-income consumer concepts as we go into 2025?

Scott Feiler: Yeah, I mean, we're definitely less negative on the low-income consumer. then we've been over the last year. I mean, gas prices, obviously, as we've talked about our eight month lows and moving lower, hopefully, we'll continue down this path of disinflation. And many of these low-income consumer names are just not calling out the incremental headwinds that they called out earlier this year.

So we're getting selectively more constructive on some of these names within the low-income consumer. I wouldn't say it's all systems go yet on it, but we're definitely much less negative. And you can selectively pick away at some of these underperformers that are exposed to the low-income consumer.

And we probably wouldn't have said that 6 to 9 months ago.

Chris Hussey: Great stuff. last question for you. I got a daughter at Oregon. I'm all fired up about the Oregon Ducks going into college ball season. Do you got a horse in the ball season?

Scott Feiler: Yeah, I mean my wife went to University of Texas So I'm in big trouble if I don't call for UT to beat the bulldogs this weekend and then to win it all, come January. So, uh, go horns go.

Chris Hussey: All right, here's hoping the ducks take on the horns for the national championship in January. Scott, thanks for joining us here this week.

Scott Feiler: Thanks for having me.

Chris Hussey: Hey, that does it for this week's episode of The Markets. I'm Chris Hussie, and thanks for listening. And if you want to hear more from Goldman Sachs, listen to Exchanges, our weekly podcast about the long-term trends impacting the economy and investors' portfolios.

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