U.S. Data Review

- Retail sales: soft performance in December following downward-revised results
- Employment cost index: ongoing deceleration in compensation growth

Lawrence Werther
lawrence.werther@us.daiwacm.com
+1-212-612-6393
Brendan Stuart
brendan.stuart@us.daiwacm.com
+1-212-612-6172

Retail Sales

- Retail sales were unchanged in December from results in the prior month, well off the Bloomberg median expectation of an advance of 0.4 percent. Moreover, year-over-year growth moderated to 2.4 percent from 3.3 percent in November – the slowest advance since September 2024. Additionally, sales excluding autos were flat after a downward-revised increase of 0.4 percent in November (+3.3 percent in December versus +4.2 percent previously) and the retail control – which correlates with consumer spending on goods in the GDP accounts -- dipped 0.1 (+3.4 percent year-over-year versus +4.7 percent in November; chart). In essence, the latest data suggest that households were cautious in the final month of 2025 after relatively active spending in the pre-holidays period (which was boosted by seasonal discounting during Black Friday and Cyber Week). Thus, our calculations suggest that real consumer spending in Q4 was likely closer to 2 to 2-1/4 percent versus the firm 3.5 percent (annualized) growth rate in Q3. Furthermore, the outlook for early 2026 remains cloudy, as consumer sentiment is depressed and the labor market appears to have softened appreciably in recent months.

Retail Sales -- Monthly Percent Change

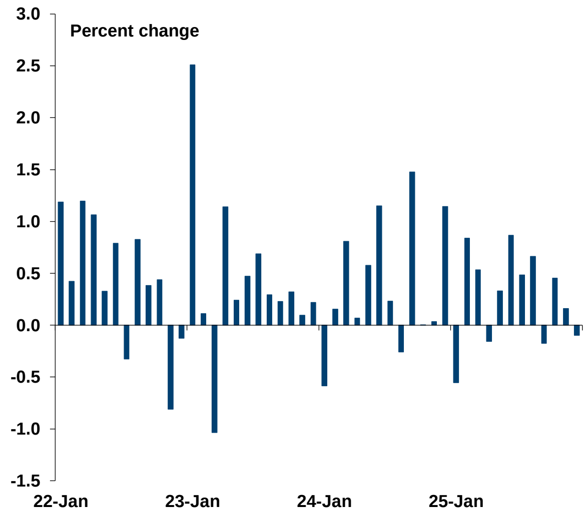
	Aug-25	Sep-25	Oct-25	Nov-25	Dec-25
Total	0.5	0.1	-0.2	0.6	0.0
Ex.-Autos	0.6	0.1	0.2	0.4	0.0
Ex.-Autos, Ex.-Gas	0.6	-0.1	0.3	0.3	0.0
Retail Control*	0.7	-0.2	0.5	0.2	-0.1
Autos	0.4	0.0	-1.5	1.2	-0.2
Gasoline	0.3	2.0	-1.4	1.7	0.3
Clothing	0.6	-0.8	1.4	0.5	-0.7
General Merchandise	0.1	0.0	0.4	-0.1	-0.1
Nonstore**	2.0	-0.7	0.7	0.0	0.1

** Retail sales excluding sales from motor vehicle dealers, gasoline stations, and building materials, garden equipment, and supply dealers.*

*** Primarily online and catalog sales; also includes sales by fuel-oil dealers.*

Source: U.S. Census Bureau via Haver Analytics

Retail Sales: Control Group



Source: U.S. Census Bureau via Haver Analytics

- Beyond the uninspiring headline, parsing the data by category yields few bright spots. On the plus side, activity at building materials, garden equipment, and supply dealers outlets jumped 1.2 percent (+0.5 percent year-over-year), although sales in this category had been unimpressive in recent months. Contrastingly, expenditures in many discretionary categories fell: sales at furniture and home furnishing stores dropped 0.9 percent (-5.6 percent year-over-year), activity at clothing and accessory stores eased 0.7 percent (although sales were up 5.1 percent year-over-year), and those at general merchandise outlets dipped 0.1 percent (+1.2 percent year-over-year). Additionally, sales at food services and drinking places (i.e., restaurants and bars) – the only service-related category in the report – slipped 0.1 percent (+4.7 percent year-over-year).

- As noted above, the latest results do not derail expectations for a solid pace of real consumer spending in the fourth quarter of 2025, although it does raise concerns about the outlook for 2026. Substantial tax refunds on account of tax cuts ratified in the 2025 One Big Beautiful Bill Act (many of which were retroactive for all of 2025) could provide a tailwind to household spending, but we view the softening labor market and uncertain economic outlook (which is acknowledged in surveys of consumer attitudes) as likely exerting a more noticeable influence over the balance of next year. Furthermore, an observed pickup in consumer credit delinquencies and drop in the saving rate (3.5 percent in November 2025 versus 5.1 percent in January, with the latest reading below pre-pandemic norms) imply that many households are already stretched. All told, we anticipate that aggregate consumer spending will remain on a growth trajectory in 2026, but a sub-two-percent run rate appears more likely than the expected average of 2.9 percent in 25-H2 (3.5 percent annualized growth in Q3 and an assumed growth rate of 2.2 percent in Q4).

Employment Cost Index

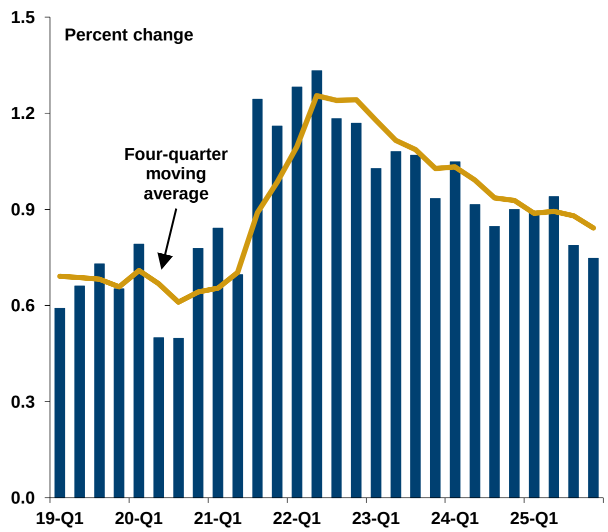
- Total compensation costs increased 0.7 percent (not annualized) in the final quarter of 2025 – one tick slower than the Bloomberg survey median forecast of +0.8 percent. The latest observation was only marginally below than that in the prior quarter (+0.749 percent, with less rounding, versus +0.788 percent in Q3), though compensation costs have moderated sharply as the labor market has cooled from previously tight conditions. Correspondingly, quarterly compensation growth averaged +0.9, +1.0, and +1.2 percent in 2024, 2023, and 2022, respectively, illustrating how demand for labor eased in response to previously restrictive monetary policy. On a Q4/Q4 basis, compensation costs in 2025 advanced 3.4 percent versus +3.8 percent in 2024 and the recent yearly high +5.1 percent in 2022 (charts, below).

- Wages, one of two key components of the ECI, rose a similar-sized 0.7 percent in Q4, slower than growth of 0.8 percent in Q3 and well off the cycle peak of 1.4 percent in 2022-Q2. On a Q4/Q4 basis, wage growth in 2025 moderated to 3.3 percent from 3.8 percent in 2024 and the recent yearly high 5.1 percent in 2022.

- Benefits costs also rose 0.7 percent in Q4 (versus +0.8 percent in Q3 and the cycle peak of +1.5 percent in 2022-Q1). Q4/Q4 growth, in turn, eased to 3.4 percent in 2025 from 3.6 percent in 2024 and 4.9 percent in 2022.

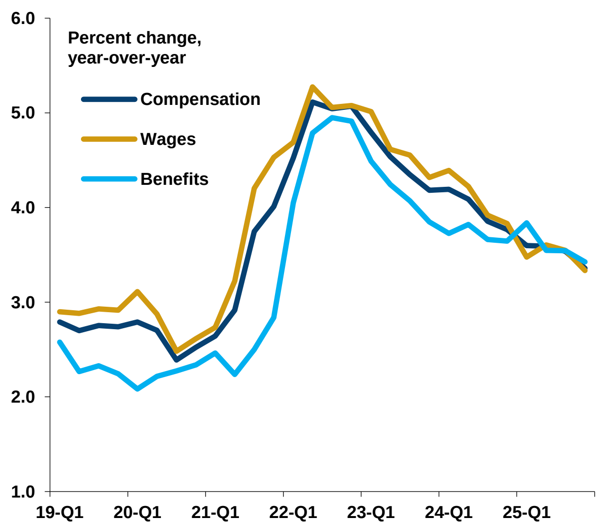
- The ECI report, while lagged versus average hourly earnings from the Employment Situation report (quarterly versus monthly release), can be viewed as a more reliable indicator of compensation trends and is thus often cited by Fed officials. In that regard, the measure is preferable on account of it being a fixed-weight measure, which prevents it from being subject to compositional shifts in hiring that affects measures like average earnings. With that in mind, the latest reading indicates that current compensation trends are no longer inconsistent with the achievement of the FOMC's two-percent inflation target.

Employment Cost Index



Source: Bureau of Labor Statistics via Haver Analytics

Employment Cost Index



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