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Data Summary: December Retail Sales; Q4 Employment Cost Index

As forecasting performances go, our forecast of **December retail sales** seems more along the lines of how the New England Patriots' offense performed in Super Bowl LX rather than how the Seattle Seahawks' defense performed. After all, total and ex-auto retail sales were flat in December while control retail sales, a direct input into the GDP data on consumer spending on goods, fell by 0.1 percent, compared to our forecast of increases of 0.6 percent, 0.5 percent, and 0.7 percent, respectively. But, while there is little, if any, consolation for the Patriots' offense, we can at least console ourselves by looking at the not seasonally adjusted December retail sales data, which were much more in line with our forecast. For instance, on a not seasonally adjusted basis control retail sales rose by fifteen percent in December, only slightly below what we anticipated and the largest December increase since 2020, and that this translates into a decline of 0.1 percent on a seasonally adjusted data says everything about the December seasonal factors deployed by Census while saying absolutely nothing about the state of U.S. consumers. That's something to keep in mind as you process what are already countless takes on the dour state of U.S. consumers and how spending stalled out at the height of the holiday sales season. The data that show how much consumers actually spent in December tell quite a different story.

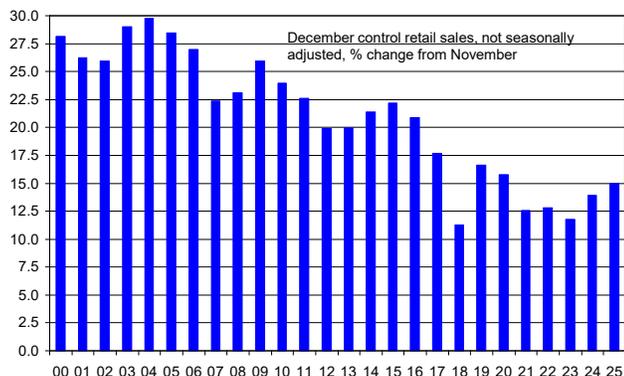
We'll focus on a specific example to illustrate our point. On a not seasonally adjusted basis, sales by nonstore retailers, a category dominated by online sales, rose by 17.1 percent in December, the largest December increase since 2019 yet on a seasonally adjusted basis sales by nonstore retailers are reported to have been flat in December. By way of comparison, unadjusted sales by nonstore retailers rose by 15.1 percent in December 2024, leaving them up 1.3 percent on a seasonally adjusted basis. The seasonal factors applied to any given data series in any given month change from year to year, and there are a number of factors that go into that. None of that, however, is the issue here. Instead, we're merely pointing out how those basing their assessments of the state of U.S. consumers based on the seasonally adjusted data are reacting to what amounts to no more than noise in the data. Clearly, there are pockets of stress in the household sector, but, on the whole, there is nothing in the raw data to support the narratives emerging in the wake of the retail sales data. There is also little in the retail sales data to support the narrative that upper income households are the sole driver of spending growth.

There are a few other points worth making here. On a not seasonally adjusted basis, total retail sales rose by 10.9 percent in December, easily above the average for the month of December and the largest December increase since 2020. One factor behind that, however, is that goods prices were rising over the final months of 2025, whereas in years prior goods prices tended to be flat-to-lower. Going back to our 2025 holiday sales preview, we noted that we expected less seasonal discounting than has traditionally been the case, which we attributed to the impact of higher tariffs. Either way, pricing was more of a support for Q4 2025 retail sales than had for some time been the case. Also, we've noted that intra-quarter spending patterns during the fourth quarter had shifted over recent years, reflecting October having become the de facto start of the holiday sales season thanks to aggressive online promotions. When looked at as a whole, growth in Q4 2025 control retail sales was not out of line with the prior few years, though, again, pricing acted as somewhat of a support.

The **Employment Cost Index** (ECI) increased by 0.7 percent in Q4 2025, below what we and the consensus forecast anticipated. In an odd quirk, the total ECI, the wages component, and the benefits component each increased by 0.748 percent. For full-year 2025, the total ECI was up 3.6 percent, with the wages component up 3.5 percent and the benefits component up 3.6 percent. Recall that the ECI is generally considered to be the most reliable gauge of changes in labor compensation costs, as it is not impacted by changes in the mix of jobs across industry groups in any given period, a bias inherent in the more widely followed average hourly earnings metric. As would be expected given the marked deceleration in the pace of job growth, wage growth slowed over the course of 2025. But, were the slowdown in job growth driven solely by diminished demand for labor, there would have been a more pronounced slowdown in wage growth than what the data show. We've long argued that wage growth would settle somewhere between the rates seen over the few years leading up to the pandemic and the frenzied pace seen in the years immediately following the pandemic. That seems to be the case, but should there be a sustained increase in layoffs, wage growth would slow further. As it is, faster productivity growth and moderating wage growth are making labor costs less of a factor in firms' pricing decisions. That said, we expect faster growth in benefit costs to be an added source of upward pressure on labor costs in 2026.



This Is Stall Speed – Really?



Settling Into A New Normal, Or Set To Slow Further?

