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Market View

The economics of Black Friday: what it tells us about consumer trends

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At a glance

- The post-Thanksgiving period often offers positive results for stock markets, a phenomenon commonly referred to as the “Santa Claus rally”.

- Black Friday is an annual indicator for consumer optimism and spending habits.
- Consumers expected to break spending records this holiday season.

Historically, December is one of the strongest months for stock markets. For example, in recent years the S&P 500 has registered gains in four of the past five Decembers.¹ This is often attributed to the so-called “Santa Claus rally”, which buoys stocks in the weeks leading up to Christmas. What’s sometimes overlooked, however, is that the rally starts before December, right after Thanksgiving.

Black Friday origin

The term “Black Friday” was not always associated with consumerism. It was originally coined in the 1950s when police officers in Philadelphia used it to describe the chaos and heavy traffic that followed Thanksgiving. By the 1960s, retailers saw an opportunity, and many stores were able to use the post-Thanksgiving foot traffic to turn a profit, also known as going “into the black.” (in contrast to when a company reports a loss, they are “in the red.”). In the 1980s, Black Friday evolved into a major retail event where large companies such as Walmart offered significant discounts to lure shoppers, officially kickstarting the holiday season. The rise of online shopping expanded the holiday with the emergence of Cyber Monday. Although the exact dates have become less defined, with Black Friday often lasting a week or more, this shopping week has evolved into a global phenomenon, not only for consumers but also for companies worldwide.

Black Friday acts as an important barometer for the broader economy as it provides early insights into consumer spending patterns and economic sentiment. A combination of retailers releasing their first holiday sales data, along with consumer spending reports, will give investors a sense of how these factors may impact sentiment.

Consumer optimism

Whilst many higher income consumers may not have the same financial surplus that they experienced during the pandemic, reports indicate that consumers are gearing up for significant spending this holiday season. Consumers spent \$13.3 billion on Cyber Monday, according to Adobe Analytics, a 7.3% increase on last year.² In the peak hours between 8pm to 10pm, consumers spent a total of \$15.8 million every minute, taking advantage of discounts in electronics, toys, apparel, televisions, and computers. Cyber Week—the five days from Thanksgiving through Cyber Monday—brought in \$41.1 billion online, an 8% increase over the prior year.³

As further evidence of the theory that consumers feel wealthier and more willing to part with their cash, National Retail Federation (NRF) data shows that they each spent \$235 on average on gifts, \$8 more than in 2023. NRF has forecast that holiday spending between 1 November and 31 December 2024 will reach record levels and total as much as \$989 billion.

This surge in consumer spending has provided a boost to retail and e-commerce stocks, signalling a strong holiday shopping season. Notably, the Magnificent 7 Index rose 3.3% during Cyber Week, compared to just 0.81% for the S&P 500 Index.⁴ Robust online sales are expected to positively impact future earnings for the sector, with Amazon notably leading the way. Renowned for its extensive product range and unparalleled convenience, Amazon reported record-breaking sales and units sold from 21 November through 2 December,⁵ likely setting the stage for a strong start to their fourth quarter results.

Deals are expected to linger from now until the end of the month. Discounts may come down from their peaks, but shoppers can expect to find good bargains through December in computers, toys, electronics, televisions, apparel, sporting goods and appliances.⁶

Conclusion

Black Friday and Cyber Monday have evolved from marking the start of the Christmas season to representing important, global indicators for consumer sentiment and economic health. Consumers are preparing to spend generously this holiday season. Sales from the past week, along with forecasts for record-breaking holiday spending, signals optimism for retail and e-commerce stocks generally.

[1] Bloomberg

[2] Adobe: <https://news.adobe.com/news/2024/12/120324-adi-cyber-monday-recap>

[3] Adobe: <https://news.adobe.com/news/2024/12/120324-adi-cyber-monday-recap>

[4] Bloomberg

[5] Bloomberg

[6] Adobe: <https://news.adobe.com/news/2024/12/120324-adi-cyber-monday-recap>

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