December sales slump reflects precarious economic conditions facing US households

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The US Census Bureau reported Wednesday that retail sales fell by 0.9 percent in December, a key holiday shopping month, in the largest sales drop in nearly a year. The decline, which took economists by surprise, reflects the persistent financial distress confronting US households amid stagnant wages and the continuing prevalence of long-term unemployment.

The December sales figure is a closely-watched barometer of the economic health of US households, in a holiday shopping season in which stores can make up to 40 percent of their annual sales.

It follows last week's announcement that JC Penney and Macy's, two of the largest retailers in the US, would close dozens of stores and lay off thousands of workers. JC Penney is expected to cut about 2,250 jobs and 40 stores, and Macy's said it would close 14 stores and could lay off up to 2,200 workers. Also this month, teen fashion outlet Wet Seal announced plans to close 338 stores and lay off nearly 3,700 employees.

"This is a reminder that the U.S. economy is not as strong as people thought it was," Sung Won Sohn, an economist at Cal State Channel Islands, told the *Los Angeles Times*. "In this case, consumers were saying, 'Wait a minute, let's hold back.'"

Analysts at Bespoke Investment Group noted that the drop in retail sales was the "biggest miss" relative to expectations in more than 4 years. Economists had predicted a fall of 0.1 percent, far less than the 0.9 percent reported by the Commerce Department. The sales drop followed a lower-than-expected increase of 0.4 percent in November.

Some commentators were quick to call December's sales figures a mere fluke, resulting from lower gas prices, which have fallen below $2 per gallon in much of the United States. But this argument was upended by the fact that, leaving gas aside, retail sales still declined by 0.3 percent.

The sales drop extended to nine out of 13 sectors included in the survey. Among those posting the largest declines were electronics retailers, auto dealers, and department stores.

According to the consulting group Challenger, Gray & Christmas, retail stores hired 4 percent fewer employees in 2014 compared to the same period in 2013. "The challenges that some retailers faced over the holidays are having negative consequences as the new year begins," noted the report.

That prediction proved correct Thursday, when the Labor Department announced that weekly initial jobless claims had unexpectedly climbed by 19,000 to 316,000 last week, the highest figure in four months, as companies let go of temporary workers hired for the holiday shopping season.

Last week, Howard Levine, the CEO of the low-income retailer Family Dollar Stores, explained the difficulties facing low-income US consumers despite nominally improving unemployment figures. "Macro challenges including lack of wage growth, persistent low labor force participation and rising housing and health insurance costs may continue to adversely impact low- and middle-income customers," he said, adding: "When we look at the Family Dollar shopper, it is clear that she has continued to face economic headwinds even as the broader market has experienced a recovery."

The Labor Department said in its monthly jobs report last week that average hourly wages for private-sector workers fell by five cents in December, a reduction of 0.2 percent. The wages of nonsupervisory and production workers dropped even more, by six cents. Over the last 12 months, wages have risen by 1.7 percent, but these small gains have largely been erased by inflation.

The latest jobs report also showed that the percentage of working-age adults in the labor force fell to 62.7 in December, the lowest labor force participation rate in 38 years, after 273,000 workers left the labor force.

Even as the official unemployment rate continues to fall, millions of people have simply given up looking for work, dropping out of official unemployment rolls. According to the Economic Policy Institute, the number of such "missing workers" hit 6.1 million in December. If they were counted in the unemployment rate, it would be 9.1 percent instead of 5.6 percent.

The combination of falling wages and chronic mass unemployment has had a devastating impact on the living standards of US consumers. Last year, the US Federal Reserve's Survey of Consumer Finances revealed that median household income plunged by 12 percent between 2007 and 2013, with more than 5 percent of the decrease coming during the so-called "recovery" years of 2010-2013. Meanwhile, the total wealth of the 400 wealthiest people in the United States has nearly doubled, according to *Forbes* .

The disastrous December sales figures came amid a string of job cuts in the broader US economy. On Thursday, Schlumberger, the Texas-based oilfield services company, announced plans to cut 9,000 jobs, or 7 percent of its workforce, in response to slumping oil prices.

Crude oil prices have plunged by more than 50 percent, leading oil companies, including BP, Royal Dutch Shell, and Suncor Energy, to delay or cancel projects and lay off workers. The Calgary-based Suncor Energy said earlier this week it plans to lay off 1,000 of its 14,000 employees.

On Thursday, the aerospace and transportation company, Bombardier, announced 1,000 job cuts, including 620 employees in Wichita, Kansas and 380 in Mexico.