2010 Holiday Retail Sales torecast

Holiday sales in 2010 will echo the tentative recovery taking foothold across the country. While the end of the recession has boosted prospects for the overall economy, consumer spending this holiday season will still be well below the 2007 level. Our model predicts this holiday season to be on most like the 2006 season, but will be a 2.3 percent improvement from 2009.

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THE RECESSION AND CONSUMER SPENDING

The recession formally lasted from Fourth Quarter 2007 through Second Quarter 2009. During this time, consumer spending on durable goods plummeted. This can be traced to the declines in wealth and incomes and by lower credit availability for many households. Household wealth was pummeled by the decline in home values and significant decrease in stock market returns. Roughly 1 in 20 workers remain unemployed solely due to the recession, resulting in lower incomes, while perhaps three times than number saw fewer working hours, less overtime or other reductions in household earnings. The tightening of credit standards, especially for low income households, also reduced demand for consumer goods. The declines in retail sales were particularly startling in some sectors. As Table 1 illustrates, holiday sales were down significantly in such sectors as clothing stores, automobile dealerships, furniture stores, and traditional department stores. However, the decline in sales overall was accompanied by a shift in spending patterns. Over the recession, US households shifted spending towards club stores (Costco, Sam's, etc.), which saw a 12.3 percent increase. Sales of

food items likewise continued to grow, but at a faster pace than population growth would suggest. While a portion of this could be attributable to higher food prices and the expansion of the club store format, at least a part of this shift in spending is a consequence of consumer behavior changes due to the recession. These changes include substituting the purchase of luxury good for staples and eating out less often.

Table 1: Retail Sale Changes December 2006 - December 2009

	Percent Change		
Automobiles	-18.9%		
Big Box Stores	-4.4%		
Clothing Stores	-40.0%		
Club Stores	12.3%		
Consumer Electronics	-13.8%		
Department Stores	-29.6%		
Drinking Places	-5.7%		
Food Stores	5.4%		
Furniture	-16.8%		
General Merchandise	0.7%		
Jewelry	-12.4%		
Used Goods Stores	7.1%		
Total Retail Sales	-2.0%		

Source: U.S. Census



Table 2: The Ball State Retail Forecast

	Percent Change from			
	Last Year	2008	2007	2006
Automobile Sales	5.3%	12.8%	-12.3%	-14.6%
Big Box Stores	-1.4%	1.1%	-3.9%	-5.8%
Club Stores	7.8%	10.3%	12.5%	21.0%
Clothing	26.9%	-10.7%	-21.9%	-23.8%
Department Stores	10.1%	-8.1%	-18.1%	-22.5%
Drinking Places	7.3%	-9.6%	-2.0%	1.3%
Consumer Electronics	9.1%	3.9%	-5.9%	-5.9%
Food Stores	2.4%	3.6%	3.5%	7.9%
Furniture	3.9%	-1.4%	-11.7%	-13.5%
General Merchandise	6.0%	7.2%	4.6%	6.8%
Jewelry	0.5%	18.1%	-7.8%	-11.9%
Used Goods	-5.1%	-1.5%	-6.1%	1.7%
Total Retail Sales	2.3%	7.7%	-1.7%	0.2%

Source: U.S. Census, Author's Calculator

THE 2010 FORECAST

For this year, we forecast retail sales based on a statistical model which accounts for seasonality, policy issues (such as the end of Cash for Clunkers and the first time home buyers tax credits), interest rates, the unemployment rate, consumer sentiment from the University of Michigan's Consumer Sentiment Survey and the Purchasing Managers Index from the Institute of Supply Management.

This forecast provides mixed hope for retailers. We expect automobile sales to be much better than last year, but still far behind both 2007 and 2008 levels. We also expect strong growth, as shown in Table 2, in drinking places, club stores, clothing, traditional department stores, consumer electronics, furniture, and general merchandise.

Increases in consumer electronic sales bode well for some domestic manufacturers, though the bulk of consumer electronics are manufactured outside the United States. The increase in automobile sales also reflects a rebound, though quite tepid overall, for the automobile market in the U.S.

The robust growth in clothing sales represents a true rebound for specialty clothing sales in the U.S, such as Kohl's. A strong holiday showing here may spell the end of the ubiquitous advertisements for two for one suit sales that pepper any male oriented television event (e.g. Jos. A. Banks).

Big-box stores will have a difficult year in terms of total sales. Much of this will be due to continued flagging sales at many big-box stores which have been opened for more than one year. This problem has especially plagued Wal-Mart through this recession. However, Target and K-Mart as well as many regional big-box retailers will be responding with steep discounts this holiday season. A part of this shift may be due to the expansion of the club store format which may be pulling sales from traditional big-box stores. It is worth noting also, that a share of this change may be simply due to census classification of big-box stores which are increasingly selling food items in combination grocery-department store settings. So, even with what I predict as a difficult season for big-box stores, the format remains alive and well.

In one of the most telling recession related stories, we predict a decline in sales at used goods stores. While this is a small share of the overall retail economy, its growth outpaced all retail formats except for club stores over the recession. As unemployment fears have waned, so too have the fortunes of used goods retailers.

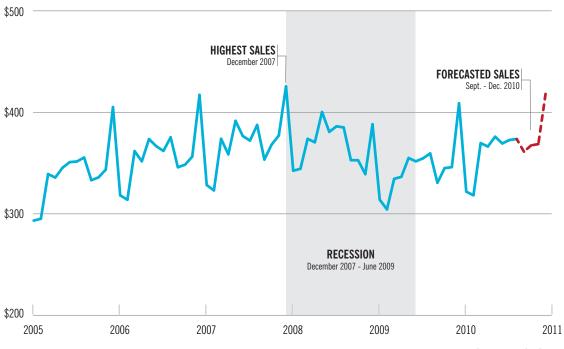
Overall, we expect retail sales to increase 2.3 percent this December from the same time in 2009. However, this is still below the level seen at the high tide of holiday sales in December 2007. Retailers have not yet recovered ground from this recession. Figure 1 shows both the seasonality and recent declines in retail sales.

A SUMMARY AND IMPLICATIONS THROUGH 2011

Retailers depend heavily on the holiday season, with some sectors seeing a full quarter of annual sales from Black Friday through New Year's Eve. The viability of many retail establishments depends upon a robust holiday season. The decline in retail sales is very consistent with the overall changes to the US economy and harmonizes closely with the shrinking US consumer debt that has accompanied this recession. Retailers face growing pressure to perform over this season as information technology permit more immediate analysis of their performance. Such issues as the level of in-store discounting and the expected size of post holiday sales keeps decision makers from retailers in small towns such as Bentonville, Arkansas closely monitoring the season.

The use of gift cards will continue to spread the season through the end of December, making retail stores busy

Figure 1: Monthly Retail Sales, 2005 to 2010 in millions



Source: U.S. Census

through the holiday season. A longer than usual holiday sales season (30 days from Black Friday to Christmas) will also mask the implications of daily revenue numbers.

The past two years, especially through 2009 have seen the closing of many retailers, especially in less populated areas. The loss of these establishments has largely run its course, and no such nationwide shrinking of the retail footprint should be expected in 2011.

Also, policy uncertainty continues to plague all sectors of the US economy. As of this writing, taxes on three-fourths of all American households will rise beginning January 1, 2011. While the largest total tax increases projected for 2011 fall in higher income categories, the largest percentage increase will occur in the lowest income households. For example, a household with income of \$40,000 could see its Federal income tax liability rise from zero to \$1,500 per year. This uncertainty may well weigh on the minds of consumers as they plan and budget their holiday sales.

This holiday season will see a much better retail environment as the economy continues to expand. If our predicted 2.3 percent growth for 2010 over 2009 is correct, the US retail sector will have its best showing since 2007, but will still not have recovered from the significant consumer spending declines that accompanied the recession.