# The 2009 Holiday Retail Sales to recast

Holiday spending typically accounts for more than one out of every six dollars spent on retail items. For some items like jewelry and consumer electronics, nearly a quarter of annual spending occurs in November and December. The holiday season is important to retailers, and it also provides important insight into the overall performance of the economy.

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This report provides a forecast of retail activity in 2009 as the U.S. economy slowly recovers from the recession of 2008-9. We do so by first outlining the major components of retail spending along with the history and forecasts for the entire retail sector and eleven sub-sectors. We begin with a recent history.

# **RETAIL SALES IN 2008**

Though the U.S. slipped into recession during the fourth quarter of 2007 it did so with a whimper, not a bang. That changed in September 2008 as the emerging financial crisis led to a speedy and deep decline in Gross Domestic Product in 4th quarter 2008. As a consequence, the 2008 holiday sales period was dismal; led by a 24.7 percent decline in auto sales, 2008 holiday retail sales declined by 9.4 percent. While some sectors, like discount club stores (e.g. Sam's and Costco) saw increases, general merchandisers, big box stores, clothing and consumer electronics saw significant holiday season sales declines. Some individual retailers, most noticeably Wal-Mart fared much better, but the sector as a whole had its worst performance in more than five years. Indeed, of the major retail stores only Wal-Mart, Kohl's and Target saw an increase in sales over the Christmas season of 2008, while JC Penny, GAP, Costco, TJ Maxx related companies (including Marshall's) and the Limited Brands set of stores

all experienced declines in total sales. Of those stores that saw growth in 2008, only Wal-Mart experienced same store sales increases, with the other chains expanding sales through new store placement.

## FORECASTING RETAIL SALES IN 2009

This report outlines our expectations for the holiday seasons. The forecasts are based on a series of econometric models which are based upon monthly retail data from the U.S. Census. We report data on the holiday season (November and December) and December only sales for key retail sectors. Our definition of retail is much broader than that typically reported by industry trade groups.

In order to predict economic activity in retail sales in the coming months we rely upon additional indicators upon which to base our econometric model. In particular we look to the University of Michigan's Consumer Sentiment Survey to gauge consumer expectations. We employ the Purchasing Managers Index (PMI) from the National



Figure 1: PMI and Consumer Sentiment Survey, 2005-2009

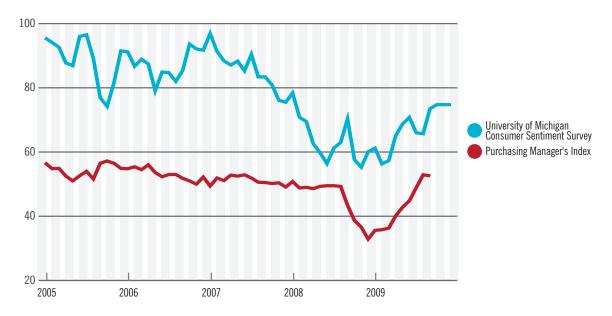
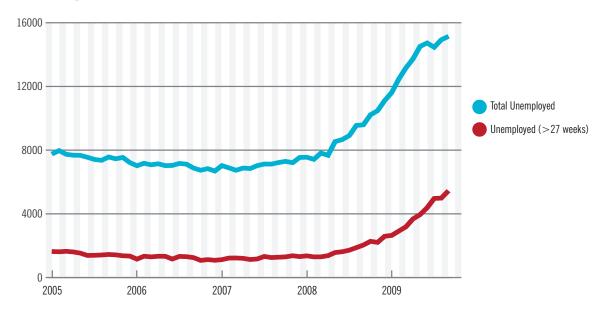


Figure 2: Unemployment, 2005-2009



Association of Purchasing Managers to judge business expectations about the retail season. To this we include data on the prime rate (which influences credit card and other borrowing rates) and measures of unemployment. For this latter variable we use both the total level and the number experiencing long term unemployment (over 27 weeks). Retail inventory levels and variables that account for the holiday shopping season and historical trends round out the data used in our models.

Of particular interest are the PMI, Consumer Sentiment Survey, which have both seen recent upturns through the end of the 2009 recession. Unemployment, a lagging economic indicator and a prime influencer of retail sales has

not yet seen the rebound experienced by leading economic indicators.

These data paint a mixed signal for the U.S. economy this season. While some key indicators are rising through third quarter the employment outlook remains poor. The deepest dip in this recession occurred during last holiday season and immediately thereafter. Virtually every measure of economic activity declined in the winter of 2009. By second quarter (April through June) personal income had rebounded, albeit weakly, even though job losses continued through the summer. Gross Domestic Product, our broadest measure of economic activity declined at 5.4 percent and 6.4 percent in 4th quarter 2008 and 1st quarter 2009. The deep decline moder-

Table 1: Holiday Sales (November & December Sales)

	2009 Change (from 2008)	2007 to 2008 Change
Total Retail Sales	-0.9%	-9.4%
Automobiles	1.5%	-24.7%
Big Box Stores	-4.0%	-5.4%
Clothing Stores	0.7%	-10.7%
Club Stores	-7.6%	4.2%
Consumer Electronics	-14.3%	-8.6%
Department Stores	-15.7%	-9.2%
Drinking Places	3.2%	7.3%
Food Sales	3.0%	1.3%
Furniture	-11.5%	-10.9%
General Merchandise	-4.8%	-0.9%
Jewelry	0.6%	-20.7%
Used Goods Stores	-2.0%	-1.6%

ated in 2nd quarter with losses totaling only 0.7 percent of economic activity. The recently released 3rd quarter data showed a robust 3.5 percent growth. The combination of high unemployment and solid growth in other components of the US economy make this the most difficult holiday retail forecast in recent memory.

### THE 2009 FORECAST

We predict total retail sales nationwide to decline by 0.93 percent from 2008 in November and December. This estimate is nearly identical to predictions offered by the National Retail Federation who predict a 1 percent decline during the same period. In addition to our aggregate predictions, we offer selected sub-sector forecasts.

December monthly sales are expected to be somewhat better. However with the sole exception of food and drink we see no significant increases over the 2007 December sales. Several big ticket items including automobiles, furniture and consumer electronics will continue to be well below the 2007 holiday sales level.

### **RETAIL IMPLICATIONS**

Our forecast has some implications for retail behavior and the supply chain. We believe that some of the increase in manufacturing activity in recent months has reflected inventory declines and a belief that this holiday season will be less severely affected by the economic downturn than the past. However, we anticipate many retailers, most especially those high end department stores and specialty stores to offer significant discounts this year to move inventory through the season.

**Table 2:** December Sales Only

	Change from 2008	Change from 2007	2008 Change
<b>Total Retail Sales</b>	0.5%	-8.3%	-8.8%
Automobiles	-3.0%	-24.6%	-22.3%
Big Box Stores	4.4%	-0.7%	-4.9%
Clothing Stores	10.2%	-3.5%	-12.4%
Club Stores	-4.2%	-2.3%	2.0%
Consumer Electronics	-3.1%	-12.3%	-9.5%
Department Stores	0.5%	-10.4%	-10.9%
Drinking Places	1.5%	10.0%	8.4%
Food Sales	5.1%	4.9%	-0.1%
Furniture	-2.9%	-13.1%	-10.5%
General Merchandise	2.6%	0.1%	-2.4%
Jewelry	13.4%	-11.5%	-21.9%
Used Goods Stores	1.0%	-3.7%	-4.7%

We also believe some changes are somewhat 'artificial' in the sense that they reflect changes to underlying commodity prices or public policy. We believe automobile sales will suffer in the 4th quarter (and holiday season) as a result of compression in purchases motivated by the Cash for Clunkers program. Though total holiday sales should see an increase from last year, total sales will still be nearly a quarter below the 2007 level in the most intensive gift purchasing season (gift automobile purchases are understandably concentrated in the days immediately prior to Christmas).

Jewelry sales, which we forecast to grow modestly over the holiday, incorporate significant year-to-year changes in the price of precious metals. Interestingly, we expect jewelry sales to accelerate in December, perhaps as jewelry represents a last minute purchase. However, this will not necessarily translate into higher profits for retailers.

In summary, retail sales in this holiday season reflect a moderating of the decline in economic activity as this recession begins recovery. However, even with relatively good news in many economic sectors, the sluggish labor markets suggest retail sales will decline by nearly 1 percent this season, offering total sales worse than any of the past five years.