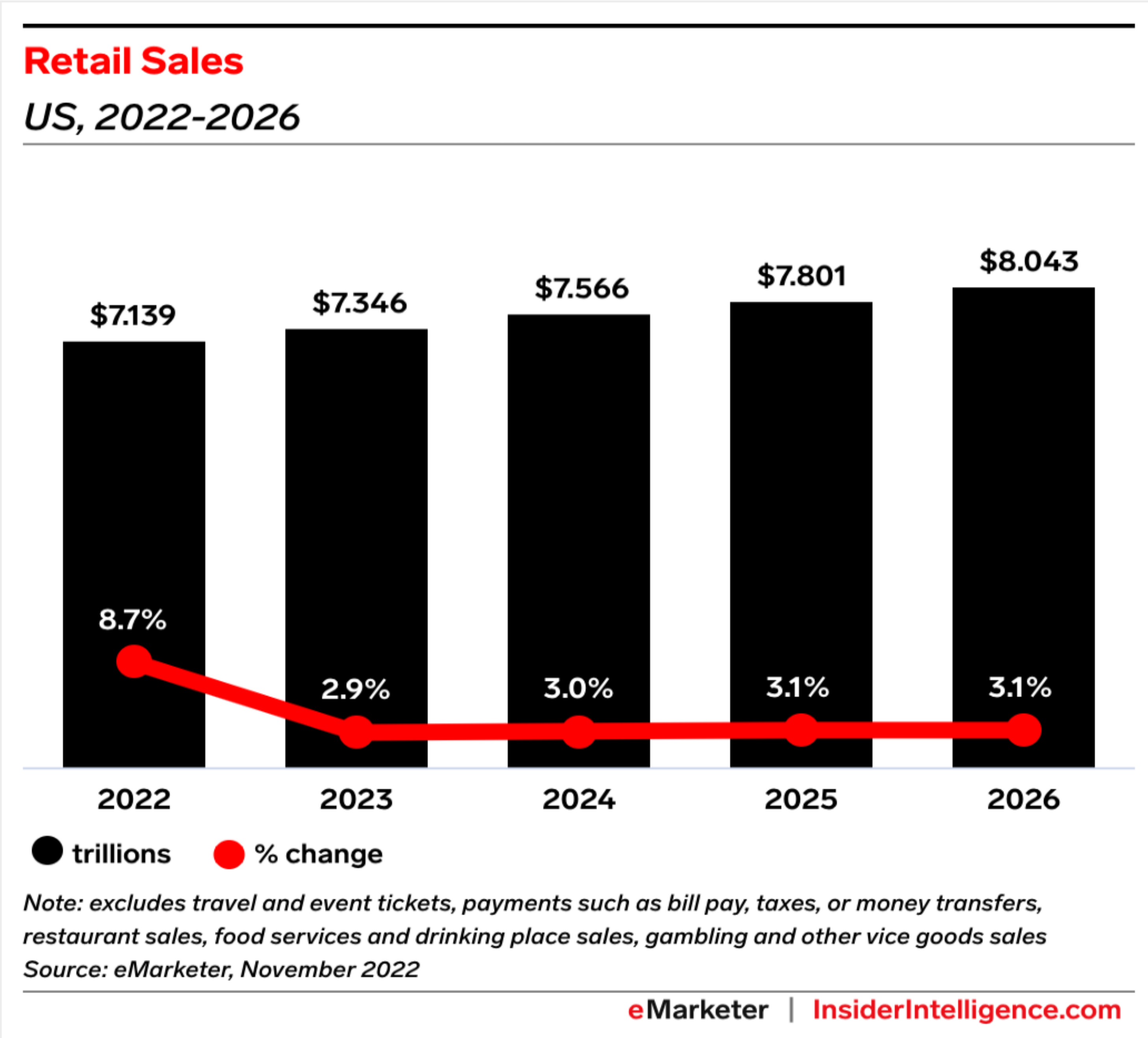
Slowing sales growth drives retailers to cut their workforce

Article

The trend: **Consumers are pulling back on spending.**

- **US household spending fell 0.2% month-over-month (MoM) in December**, per the US Commerce Department. After adjusting for inflation, spending fell 0.3% MoM.

- That followed a downwardly revised 0.1% MoM decrease in November (or 0.2% after adjusting for inflation).
- **That cooldown comes even though inflation continues to ease**; the core personal consumption expenditures (PCE) price index, which removes volatile food and energy prices, rose 0.3% MoM in December and 4.4% year-over-year (YoY). In November, core PCE was up 0.2% MoM and 4.7% YoY.
- **We expect US retail sales growth to slow to 2.9% this year** as consumers grow more conservative in their spending.



Adjusting to the new normal: The pandemic caused retail sales to soar, which drove many merchants to rapidly hire staff. For example, **Amazon** more than doubled the size of its global workforce between Q4 2019 and Q4 2021. But **with retail growth slowing and operating expenses rising, companies of all sizes and business models are making structural changes** as they realize that the halcyon days of pandemic-fueled expansion are in the rearview mirror.

- Amazon is laying off more than 1% of its headcount (about 18,000 employees), online furniture retailer **Wayfair** is cutting around 10% of its workers, and **H&M** is eliminating about 1% of its jobs.

- Direct-to-consumer (D2C) basics retailer **Everlane** is cutting 17% of its corporate employees, D2C athletics brand **Gymshark** is laying off more than 7% of its staff, and subscription apparel retailer **Stitch Fix** is reducing its salaried headcount by 20%.
- Luxury retailer **Saks.com** plans to cut around 3.5% of its staff, while sportswear retailer **Foot Locker** is eliminating "a number of" corporate and support roles (it did not reveal the number in its SEC filing).
- Toymaker **Hasbro** is laying off 15% of its workforce and consumer packaged goods conglomerate **Helen of Troy**—parent company of brands like **Oxo** and **Vicks**—is cutting roughly 10% of its staff.

Slimmer profits: While there is growing optimism that the US can avoid a recession, that doesn't mean companies are in the clear.

- **Costs are rising** due to commodity price spikes, lingering supply chain challenges, and rising labor fees. That's driven down gross margins at **Clorox** to about 36% from 45% before the pandemic, per The Financial Times.
- **Competition is steep** given that many shoppers are trading down to lower-priced products or stores.

The big takeaway: While it seems increasingly unlikely that the bottom will fall out of the economy, slower growth will likely be the new normal for some time.

- Retailers would be wise to adjust by looking for ways to streamline their operations as long as those cost-cutting measures don't come at the expense of the customer experience.

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