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Even if the US avoids a recession, it may not steer clear of the return of the retail apocalypse

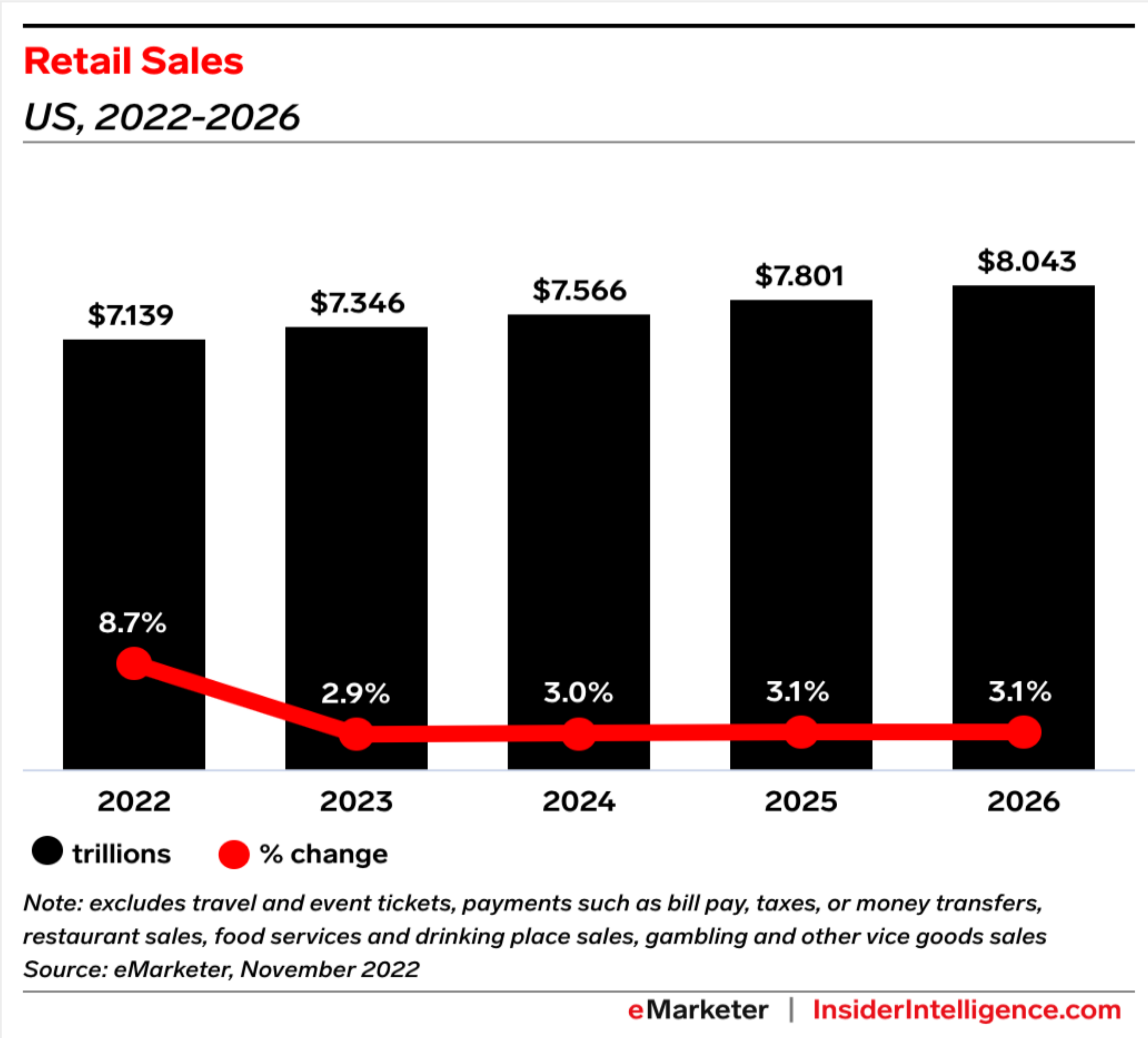
Article

The situation: One potential casualty of an expected economic slowdown in 2023 may be steep sales declines at mid-tier retailers that lead to the shuttering of some or all of their brick-and-mortar stores, per Insider.

- That would mark a return of the so-called retail apocalypse (or retailpocalyse), when retailers such as **Bon-Ton** (parent company of merchants such as **Carson Pirie Scott** and **The Boston Store**), **Toys R Us**, **JCPenney**, and others closed thousands of stores.
- It would also mark an abrupt shift in the retail environment. US net absorption of retail real estate has been positive for seven straight quarters, per JLL's Q3 Retail Outlook.

Too much stuff: One catalyst that could spur some mid-tier retailers to close stores is the massive amount of excess inventory that they are struggling to sell.

- The combination of an abrupt shift in consumer spending patterns, supply chain disruptions, and reduced foot traffic to malls and other retail corridors has hurt retailers' ability to sell through merchandise as anticipated.
- The average amount of inventory held by the 20 biggest public apparel companies in the US was up 26% compared with pre-pandemic 2019, per an AlixPartners analysis reported in Bloomberg.
- Discounts will only help them move so much inventory given that a significant share of consumers are pulling back on spending. We expect **US retail sales to grow 2.9% next year**—a steep deceleration from 8.7% this year.



Mid-tier retailers are at risk: Despite the stiff economic headwinds, we expect personal luxury sales **will grow by a healthy 13.3%** this year thanks to a core consumer base that has been less affected by inflation. At the same time, **value-oriented retailers have benefited from consumers trading down from more expensive alternatives**. That's left mid-tier retailers feeling the brunt of the challenging economic climate.

- Many of those mid-tier retailers have stores located in malls, which have seen foot traffic decline even as shoppers returned to in-person shopping.

- On Black Friday foot traffic was down 2.3% year-over-year (YoY) at indoor malls, 3.9% at outlet malls, and 0.5% at open-air lifestyle centers, per Placer.ai. That's particularly notable given that many consumers were avoiding in-person shopping in 2021 due to rising COVID-19 cases and several retailers were shifting focus away from the sales holiday to ensure they had adequate inventory levels.
- The declines are even more pronounced when compared with 2019. Indoor mall foot traffic was down 14.2% compared with the last pre-pandemic holiday season, while outlet malls declined 17.8%, and open-air lifestyle centers dipped 11.7%.
- Those shifting patterns are why retailers are aggressively seeking to "rightsize" their store counts. **Macy's**, for example, is closing about 125 Macy's stores and expanding its smaller format, off-mall stores.

The big takeaway: Retailers with a strong brand and clear positioning should be fine even if the US falls into a recession. However, shoppers have far less reason to visit retailers that lack a distinct identity, particularly if they can find the same, or similar, products elsewhere.

- As a result, those undifferentiated retailers will likely close stores as they struggle to survive.

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