

Retailers stocked up for the holidays earlier than usual this year, which could lead to challenges ahead

Article

The situation: Retailers have swallowed rapidly rising spot freight costs to ensure their shelves are full during the crucial holiday season.

- **The cause:** Houthi attacks on cargo ships in the Red Sea forced shipping companies to take longer routes, adding time and cost during a pivotal moment when retailers are stocking up for Q4.
- **The cost:** The World Container Index is up 298% year over year to \$5,868 per 40-foot container, per Drewry Supply Chain Advisors, and several carriers warned freight rates could climb even higher.
- **The effect:** Those supply chain disruptions (and, to a lesser extent, holiday creep) drove retailers to shift the peak shipping season to as early as April and May, rather than the July to October window that was typical prior to the pandemic, per the Financial Times.

Why it matters: While it is always tough to forecast demand, the earlier start to the peak shipping season increases the difficulty of that challenge.

- That problem is compounded by the uncertain political climate and the massive shadow it casts over consumer spending. For example, **60% of consumers say their next vehicle purchase will be influenced by the November election** due to the flawed, but prevailing, opinion that the US presidential election will have a direct impact on interest rates (the president has no impact on interest rates, which are controlled by the US Federal Reserve), per a recent Cox Automotive study.
- While the economy remains solid with wages rising faster than inflation, spending patterns are shifting as consumers pull back on some discretionary purchases and focus on value—defined as the amalgam of price and quality.
- That presents a challenge for smaller retailers that have to determine whether to fully or partially pass the higher supply chain costs to consumers, given that they're competing with large importers such as **Walmart** and **Target** that have multiyear contracts with carriers to lock in below-spot market prices.
- Those same large merchants will also lean heavily on discounts throughout Q4 to capture a large share of consumer spending early in the season. Target, for example, launched its holiday sale on October 1 last year. That early start to the holiday season is unlikely to change this year.

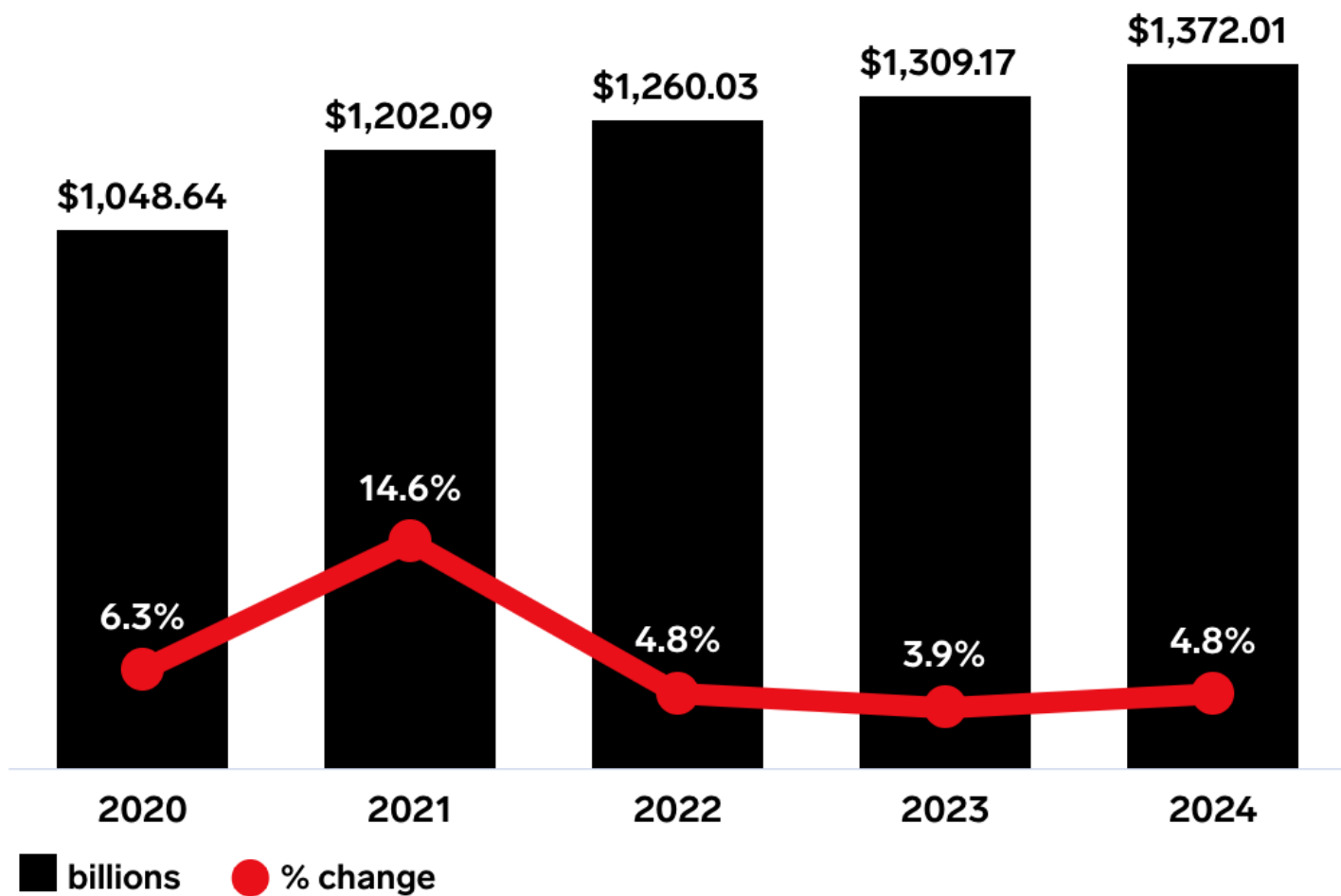
The big takeaway: Retailers are betting on a strong holiday season; the [National Retail Federation](#) expects US imports to rise to their highest levels in two years this summer.

- [We expect](#) a solid holiday season as well, with growth accelerating to 4.8% this year, up from 3.9% last year.
- But the early start to the shipping season, and the uncertain macroeconomic climate, means that some merchants that play the percentages may still miss the mark.

Go further: Read our [US Holiday 2023 Recap and 2024 Preview](#)

Holiday Retail Sales

US, 2020-2024



Note: sales are for Nov and Dec of each year; excludes travel and event tickets, payments such as bill pay, taxes, or money transfers, food services and drinking place sales, gambling and other vice goods sales

Source: EMARKETER Forecast, February 2024