Sara Lebow, Sky Canaves, and Zak Stambor

Reimagining Retail: US retail's physical exam—Inflation growth slows, a banking meltdown, and symptoms to watch

Audio

On today's episode, in our "Retail Me This, Retail Me That" segment, we conduct a physical examination of the US retail space: what do our new forecasts tell us, which categories are leading the charge (or struggling), and how is the banking debacle weighing on consumers purchasing decisions? Then for "Pop-Up Rankings," we rank the top four symptoms to pay attention to over the coming months. Join our analyst Sara Lebow as she hosts analysts Sky Canaves and Zak Stambor.

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Episode Transcript:

Sara Lebow:

Hello listeners. Today is Wednesday, April 12th. Welcome to Behind the Numbers: Reimagining Retail, an eMarketer podcast. This is a show where we talk about how retail collides with every part of our lives. I'm your host, Sara Lebow. Today's episode topic is US Retail's Physical. We're checking in on the overall state of retail, as well as what to watch out for moving forward.

But before we jump in, we are still running a contest. How does this work? For the past three weeks, we've asked a question and whoever sends in the right answer along with a screenshot of their podcast five-star rating or review wins a Reimagining Retail branded gym bag. Last week's question was name one of the two only double landlocked countries. A double landlocked country being a country that is surrounded by landlocked neighbors. The answers to that question are Lichtenstein and Uzbekistan, and the winner is Ratica J. Congrats for sending in your answer and winning that gym bag. Stu will be in touch with you via email for more details on claiming your prize.

Listeners still have one more chance to win. Here is this week's question. In March, an Australian startup made headlines for creating a meatball made out of the cultivated meat of what extinct animal? Email that answer to podcast@emarketer.com along with the screenshot of your five-star rating and/or review for a chance to win. Head over to our Instagram at BehindTheNumbers_Podcast for a picture of what those gym bags look like. Not a picture of me holding one though because Stu refuses to give me one.

Okay, let's meet today's guests. Joining me for today's episode, we have senior analyst, Sky Canaves. Welcome back Sky.

Sky Canaves:

Hey Sarah. It's great to be back.

Sara Lebow:

Also here is senior analyst, Zak Stambor. Hey Zak.

Zak Stambor:

Hey Sarah. Hey Sky.

Sara Lebow:

Okay, let's get started with our first segment: news and reviews, where I give the news and our guests tell me their reviews. Today's story is an April 4th story from The Verge titled Walmart's redesigned website looks better than Amazon. Walmart redid its previously cluttered and confusing website, which Verge reporter Emma Roth says now looks a lot cleaner than Amazon's. I agree. Amazon's website is also really cluttered and kind of confusing. Sky, your review of this headline in 60 seconds is ...

Sky Canaves:

Yeah. So I also went and took a look at Walmart's website and it does look much better. And my first thought was that it looks a lot like Target's website. So I looked and compared, and sure enough, they both look pretty identical with the same kind of minimalist pastel look for spring. If only it were so easy to do that with their stores where I know Walmart's also making efforts to refresh, but that's a much bigger overhaul.

And I also took a look at their apps 'cause to me that's long-term a lot more important than any website refresh, especially for Walmart, where the app also links to the store. And it does look much fresher than Amazon's now because Amazon for me is kind of a sad clutter of things I've bought before and abandoned product searches, while Walmart still has a really nice look. But again, compared to Target, I think it's not quite as good at doing that key task of bridging the online and shopping and the stores with its app, which I think is really key to its feature.

Sara Lebow:

Zak, your view of this headline in 60 seconds is ...

Zak Stambor:

I agree with Sky. It's a much, much, much better looking website and it's now a much better digital experience than Amazon offers. And one of the reasons for that is because Amazon's website is really cluttered with ads. Basically anywhere you look, you're bombarded with ads. And the ad load on Walmart's website and app for that matter is far less. Now that's a huge revenue stream for Amazon obviously and a smaller revenue stream for Walmart, but it really does make for a much better experience.

Sky Canaves:

Right. My huge frustration is when I search for a very specific product on Amazon, I know exactly what I want to buy, and I get competitors' ads for their products, which are not the brand names that I searched for.

Zak Stambor:

It's just frustrating.

Sara Lebow:

It's time for our next segment, Retail Me This, Retail Me That, where we discuss an interesting retail topic. Today's topic is US Retail's Physical.

The National Retail Federation announced a new forecast at the end of March, projecting a 12% rise in online retail sales this year for a total of 1.3 trillion in US retail e-commerce sales. Our own forecast, which we released in February, has growth at about 10% and total retail e-commerce sales at about 1.1 trillion. So just a bit under. Our overall forecasts are a bit different because we also include auto sales and the NRF does not. But tell me more about what these two forecasts are showing.

Sky Canaves:

So I think there's still a lot of uncertainty and that's the greatest challenge by far, that we're in very unpredictable, unprecedented times with this high inflation, high interest rates, but still low unemployment and consumers are still spending for now. And all of that is for now. And I think retailers are feeling very vulnerable to these forces and trying to take protective measures. We see cutting costs, layoffs, maybe pulling back on some investments and innovations due to all of this uncertainty. And some of these measures will help. Some of them may backfire over the long term, but there's very much a wait and see approach.

Zak Stambor:

And what does seem clear is that where we're headed is something of a new normal of slower growth. There's still growth, people are still spending, but that growth isn't quite where it was over the past few years.

Sara Lebow:

That makes sense. Growth was really fast over the past few years and now it's sort of normalizing.

Zak Stambor:

Particularly online and particularly online in 2020 and 2021.

Sara Lebow:

Let's talk about this by category. We forecast that total retail sales growth by product category will be quite high for food and beverage, apparel and accessories, and health and personal care. All of those are around 7% growth for this year. Whereas computer and consumer electronics are much lower at 2.5%. So Zak, can you talk about this trend as it relates to CPG and grocery?

Zak Stambor:

Yeah. So time and again with each earnings call from CPG brands, we've heard the same sort of storyline, which is that volumes are actually down or flat, but their revenues are generally doing fairly well. And that's just because they've hiked prices. But the thing about it is there's only so long you can do that. So we'll see 7% growth with roughly 6% inflation means that people are roughly keeping pace. It's not huge growth or anything like that.

Sara Lebow:

So people are buying the same number of products just for more. Eventually they'll probably cut back if prices-

Zak Stambor:

Exactly. Yeah.

Sky Canaves:

Yeah. I'm concerned about the long-term sustainability of these kinds of strategies especially, or as we see more headlines around these companies where they're posting bigger than expected products due to price hikes, and some are even hinting that they'll raise prices further. And that kind of talk, I think will alienate consumers who are really struggling with their budgets right now. Even those who aren't paying attention to the headlines, for example, will do a double take when they see how much things cost in stores and compare it to the cheaper options like private label brands or other options or whatever's on sale, because unlike something like gas where your only option is really to maybe drive less when prices go up, with CPG brands are always other options. And I think this is something that these companies really have to look out for long-term.

I don't think that higher prices and lower unit sales is a sustainable long-term strategy when you're a mass market CPG brand. It can work for luxury, but if the consumers you depend on to grow your brand are rejecting you based on price, that's really kind of dangerous territory.

Zak Stambor:

We saw that with Procter & Gamble, which hiked prices like 10% across the board and they had a really bad quarter as a result. People did just go elsewhere because they didn't want to spend that much when there are alternative options.

Sky Canaves:

And for some consumers there may not be substitutes for particular brands and products, but for many products there are substitutes, and consumers will really pick and choose what they spend their money on.

Sara Lebow:

Yeah. I saw Walmart a few weeks ago announced that they weren't going to be raising prices on private label goods, right?

Sky Canaves:

Right. And then you can see some of the CPG competitors now have products on the shelves next to Walmart's private label goods that are maybe close to twice the price. And for a store that emphasizes value, when consumers see that, they see why is this brand of snack twice as much as the Walmart brand? I'm going to buy the Walmart brand instead.

Sara Lebow:

Sure, that makes sense. I mean it's incredibly frustrating as a consumer to feel like price inflation of groceries is artificial. It's just something that these companies are doing and that they have control over.

Sky Canaves:

Right. And some of these prices might not ever come down. They'll remain at a higher level because unlike produce or meat or even eggs where the prices will fluctuate based on market conditions, I think CPG brands will be a lot more hesitant to bring price levels down. They might rely more on discounts and promotions or those might be, they might see pressure from retailers not to raise prices further.

Sara Lebow:

Okay. And then on the flip side of this stat, we had consumer electronics growth at about 2%. Can you tell me more about that trend?

Zak Stambor:

Yeah. So I've touched upon this in the past. Consumer electronic sales spiked early in the pandemic when people were stuck at home and they bought new TVs and stereos and whatnot. And these products just have a longer lifespan. So it's roughly four to 10 years that you have a TV. So once you've bought a TV, you're not buying another TV. And so that largely explains what's going on here is the demand just isn't there.

Sky Canaves:

Yeah, I think there's a combination of demand that was pulled forward during the pandemic, as well as now as people scrutinize their budgets a little more closely, they may just want to extend the lifespan of a good, maybe instead of replacing your computer after three or four years, you'll wait five or six years to try and save some money there.

Sara Lebow:

Yeah. I mean if your TV stops working, you don't necessarily need to buy a TV right away versus if your groceries expire, you kind of need to buy new groceries right away.

Sky Canaves:

Or even just a lot of the upgrading that takes place is not necessarily because your product is broken and needs to be replaced, but you feel like, "Oh, computer's slowing down a little. Maybe I'll get a new one," versus, "Oh, computer's slowing down. Maybe I'll kind of delete all my extra files and try to keep making it work for a little longer."

Sara Lebow:

One last thing to talk about before we take a short break. We've already touched on inflation as it relates to CPG. Inflation is obviously playing a big factor in retail. Inflation growth did slow some in February, but overall it's still really high. Are consumers feeling inflation ease at all or are we still just seeing the same fatigue we've been seeing since summer of last year? I guess it's already summer of this year.

Zak Stambor:

Is it summer?

Sara Lebow:

It's April and it's really hot in New York City today.

Zak Stambor:

April is not summer, especially here in Chicago where it has just been raining nonstop.

Sky Canaves:

But I was just thinking like Memorial Day is the start of the summer season and driving season and now that's next month. So it feels closer, what, six weeks away?

Zak Stambor:

It is closer, but yet not here.

Sky Canaves:

Oh yeah.

Sara Lebow:

The question that I just asked, we just decided it's not summer. The question is are consumers feeling inflation cool a bit or are they still under the same fatigue that they were facing last summer?

Zak Stambor:

Inflation's still high, and it feels high even though it is at its lowest point in a year because many of us, including myself, just haven't been through a high inflationary environment in our lives. And so when inflation is at 6% or 5.5%, if you're looking at the core number, that's a lot. That's really high.

Sky Canaves:

Right. And we're now looking at the rate of inflation slowing, but prices are not coming down across the board in a lot of categories. And we also have to consider inflation in now in two year terms because if we're adding 5%, 6% and last year we were adding 8%, 9%, we're looking at prices that are 15% more than they were two years ago overall. And that's significant. And I think consumers will increasingly start to be fatigued.

Summer is coming, not yet, but we'll see more driving, we'll see what gas prices do over the summer. And we might start to see pullbacks on travel. People might have already satisfied some of their travel demand last summer, but prices for travel, hotels, airfare, all of that is going up. So I think there's only so much that's sustainable right now.

Sara Lebow:

So inflation is high. We're still feeling the fatigue. And I must admit that the beginning of April is not summer, as much as I would like it to be summer. We're going to take a short break and then we're going to talk about some things to watch out for. But first a quick message.

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Welcome back. Now it's time for popup rankings, where we take a look at specific examples and we rank them. Today we'll be ranking four factors to watch out for as the year progresses. So let's start off with the first factor we should be looking out for. What is it Zak?

Zak Stambor:

So inflation, which we were talking about just a few moments ago, is really I think one of the key factors that will determine where spending goes. And it's been on a downward trajectory. It's still a far ways from the 2% Fed target, but there are a number of things that could cause potential hiccups, most notably gas prices. And OPEC+ said it's cutting output and that's going to raise gas prices and could really throw a wrench in consumer spending.

Sara Lebow:

Do you think that we'll see the same sort of shipping breakdown that we saw a couple years ago?

Zak Stambor:

It could be, but I think the bigger effect is just the price at the pump. And when the price at the pump goes up, that causes people to pull back in other areas.

Sara Lebow:

So funny. Now that I don't own a car, I only see the price at the pump in relation to the price of other things. So really downstream for me.

Zak Stambor:

It may be downstream, but the thing about gas prices is that they're just in your face. So even if you don't have a car or you don't drive much, I don't drive much, but I do see gas station prices when I go out, when I go for a walk. And when prices inch up, you notice it and it's just unavoidable and it has a psychological impact on consumers.

Sara Lebow:

That's a really great point. It's a billboard in the sky that tells you how much things sort of cost right now. Okay. Sky, give us the next factor to watch out for as the year progresses.

Sky Canaves:

Sure. This one is kind of related to the gas prices. I have a sense we might see it come down as gas prices go up, but consumer confidence. It's been a little up and down. It's been certainly stronger than expected given inflation and rising interest rates.

We saw in March that consumer confidence was up a little above February, which was a little surprising because retail sales were down a little in February. At the same time it's still below where it was last year on average, but there's still I think confidence in the job market and labor market and that inflation is starting to ease. Again, I think consumer confidence might come down as we start to head into summer and gas prices typically go up. And depending on other conditions, interest rates and what the Fed does and where the job market goes, we might start to see that tick down as well.

Sara Lebow:

So we're watching out for higher gas prices, we're watching out for lower consumer confidence. Could be a gloomy summer. Zak, what's another factor that consumers should be watching out for as the year progresses?

Zak Stambor:

The employment numbers. One of the weird things about this moment in time is that the labor market has just been red hot, but it's been starting to cool. And we saw that with the JOLTS numbers that came out recently where there's now 1.7 jobs for every person looking for a job, which is still a lot. I mean, there's still a lot of demand for workers, but that's a tick down from the 1.9 or two jobs for every people looking for a job.

Sara Lebow:

So we're watching employment numbers. Do you think that we are going to see that labor market cool down?

Zak Stambor:

I do, and I think that's both because it's just the natural course of things. It's because the Fed has been hiking interest rates. It's because banks have been tightening their lending standards in the wake of the banking meltdown that we've seen lately. And that's also by design. I mean that's what the Fed has been seeking to do as they've been raising interest rates. So that could be part of the soft landing that the Fed is seeking, but it's also just where things might be headed anyway.

Sara Lebow:

Yeah. I mean we don't even have time to get into the banking crisis on this podcast, but obviously that's also had both direct and a ton of indirect impacts on retail and consumer spend.

Zak Stambor:

It was a massive shock to the system.

Sara Lebow:

Okay. And for our last factor to watch out for as the year progresses, Sky, what is it?

Sky Canaves:

I'm looking at consumer credit data in particular. We know that during the pandemic, Americans accumulated more than 2 trillion in excess savings, but right now, only about a third of that is left. And my sense is that is largely concentrated in the more affluent households where it's more likely to stay as savings and not be spent, especially if consumers are feeling less confident over the economy.

We're seeing things now like increased credit card debt, more defaults, interestingly, even among American Express card holders who tend to be a more wealthy consumer, and increases in the use of Buy Now, Pay Later services, even for things like paying for groceries, using credit cards to pay rent for example. And then looking at the defaults there as well, because I think that's kind of showing how sustainable or not sustainable the current level of spending among consumers is.

I think we'll also see an increase in different payment plan options because with high interest rates, it's not really sustainable to take on credit card balances where you're paying like 20% interest and Buy Now, Pay Later options tend to be very short term for payments over six weeks. So I think we'll see more expansion of these three to 12 month payment plans with fixed fees that are essentially much lower interest rates and maybe more affordable for consumers.

Sara Lebow:

I'm interested in how those Buy Now, Pay Later stats become maybe in the next few years, more of an economic indicator, especially if we'll be able to see where people are using Buy Now, Pay Later. So for instance, groceries, gas, as opposed to bigger items like furniture or even apparel if we'll be paying more attention to how those categories of Buy Now, Pay Later uses shift.

Sky Canaves:

And I know regulators are paying attention to how Buy Now, Pay Later is being used and how sustainable it is for consumers to use. If they start racking up a lot of defaults and debts, well that's bad for consumers. It's also bad for the Buy Now, Pay Later companies who are already under a lot of strain with rising interest rates as well.

Sara Lebow:

Okay, well that is all we have time for today. So thank you for joining me today, Sky.

Sky Canaves:

Thanks Sarah. Great to be here always.

Sara Lebow:

And thank you, Zak.

Zak Stambor:

Thank you.

Sara Lebow:

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Thank you to listeners and to Victoria who edits the podcast and is also a force to watch out for this year. We'll be back next Wednesday with another episode of Reimagining Retail, an eMarketer podcast. And tomorrow join Marcus for another episode of Behind the Numbers daily.