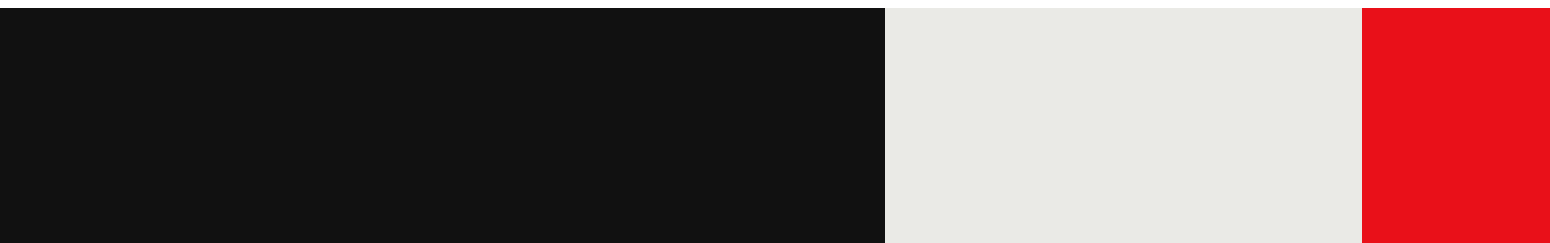



# What retail's Q1 2023 can tell us about Q2 and beyond

Article



From the explosion of ChatGPT to confusing economic indicators, the first quarter of 2023 has been a mixed bag for retail. We break down major developments and what they mean for the year ahead.

## 1. ChatGPT makes its mark

Generative AI solutions like ChatGPT exploded onto the scene, changing the way we work, search, and think about the power of AI.

- While Big Tech behemoths Microsoft and Google raced to incorporate generative AI into their search engines, companies like **Instacart, Shopify, Klarna**, and **streetwear company Snipes** were experimenting with how the technology could be useful to the retail industry.
- As more retailers jump on the generative AI bandwagon, **a few use cases for ChatGPT** have risen to the top, including writing product descriptions, providing real-time shopping assistance, and inventory management.

**Looking ahead:** We've only reached the tip of generative AI's potential.

According to our "**ChatGPT and Retail**" report, the **top three areas where generative AI** will have the greatest impact are mobile commerce, social commerce, and voice commerce.

But as adoption increases and the technology matures, retailers may eventually be able to use generative AI to create high-quality content, improve personalization, or accelerate product design.

## **2. Social platforms refined their social commerce strategies**

Social platforms like TikTok, Pinterest, and Instagram are figuring out how they can capitalize on growing social commerce sales in the US, which will reach \$68.92 billion this year and continue to grow by double digits through 2026, per our forecast.

- Despite a potential ban, TikTok is full-steam ahead when it comes to social commerce. The platform launched an **in-app checkout feature** in the US in February and has been **quietly testing an affiliate program** for US creators to boost adoption of its TikTok Shop program.
- Another platform going all in on social commerce is Pinterest. In February, CEO Bill Ready said the company plans to **embed shopping into every aspect of the core platform experience**. Eventually, Pinterest aims to make every pin, including those with video, shoppable.
- **Instagram is pulling back on its in-platform social commerce efforts** to focus on initiatives that drive ad revenues. However, this doesn't mean it's the end of Instagram's social commerce journey: The platform will continue to offer direct shopping capabilities.

**Looking ahead:** Social commerce is here to stay, but the way each platform handles it may continue to evolve.

If TikTok is banned, expect a flurry of activity from apps to cash in on its **massive number of social buyers** (33.3 million US social buyers ages 14 and older this year, per our forecast). And if it's not, we expect it to tie with Facebook for the highest social buyer penetration by the end of 2023.

### 3. Retailers and consumers struggled to make sense of economic indicators

- **US retail sales** started strong in January but slowed in February, per the US Commerce Department. Consumers still continued to spend despite inflation.
- The **consumer price index** was up 6% YoY in February as food and shelter prices rose sharply, per the US Labor Department.
- The **personal consumption expenditures price index**, a key inflation gauge for the Federal Reserve, decelerated slightly in February, giving some hope that interest rate hikes were working to ease inflation.

**Consumer sentiment has also been fluctuating**, falling for the first time in four months in March, according to the University of Michigan. Though the banking turmoil had a limited impact on consumer sentiment, the university said its data “revealed multiple signs that consumers increasingly expect a recession ahead.”

**Looking ahead:** While a recession may or may not be on the horizon, one thing is for certain—it's going to be a slow year for retail sales. We forecast that total US retail sales will grow just 3.3% in 2023, compared to last year's 8.1% growth. This year will be especially tough for brands that rely on consumers' discretionary spending, like **Best Buy or Macy's**.

But there are some bright spots. Discount and value-focused retailers, like Walmart and Dollar General, will continue to benefit from consumers trading down in the grocery category, while luxury retailers like **LVMH Moët Hennessy Louis Vuitton** and **Capri Holdings** are bullish as China recovers from pandemic lockdowns.

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