

Fallout from First Government Shutdown Leaves Retailers Wary of Another

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The agreement deadline before the next potential government shutdown is fast-approaching, and the repercussions for the economy are very real. While Congress considers several proposed bills to avert a shutdown over budgetary battles, hundreds of thousands of federal workers—many of whom live paycheck-to-paycheck or close to it—face the possibility of a second painful round of temporarily going without a paycheck for an undetermined length of time.

A shutdown represents a short-term squeeze on consumer spending, and potentially much worse longer-term effect on the psyche of American consumers. The University of Michigan Consumer Sentiment Index dropped to 90.7 in January, down from 98.3 in December and well below the consensus estimates of 96.8 with concerns over the partial government shutdown weighing on consumers' minds.

In an ideal scenario, a deal is struck this week and crisis is averted. The effects of the first shutdown are soon forgotten and it not only gets shrugged off as a short-term blip, but even provides retailers a ready-made excuse for Wall Street in the event of any Q1 revenue shortfall.

Still, retailers may wonder if, or how, they should respond to the prospect of a shutdown. It's a direct threat to their business, with consumer staples and other discretionary purchases facing the most imminent peril. And the uncertainty of the situation can be paralyzing. Should retailers react proactively, or hope for the best and react only if a shutdown actually materializes?

Some brands have sprung into action and seized the microphone, though more to support their community and engender goodwill. Kraft opened a pop-up grocery store in Washington DC in mid-January that provided government workers affected by the shutdown with free macaroni and cheese and other staples. "During the government shutdown, parents should not have to worry about putting dinner on the table because they aren't receiving a paycheck," said Sergio Eleuterio, Kraft's head of marketing, in a press release announcing the promotion.

Kraft was able to spin up this initiative in short order and with minimal investment that likely paid for itself many times over in free PR. But this was not a long-term business strategy in preparation for a record-screaming halt to consumer spending. For that, retailers should be thinking more about what happens in a post-shutdown economy, six to nine months down the road, after consumers and retailers have sustained a second punch to the gut. Even if a deal is struck quickly and the direct effects are minimized, consumers will be more likely to prioritize savings, cut back on discretionary spending and delay large purchases going forward. Retailers may need to dust off their 2009 marketing playbook, which employed heavy discounting and guided shoppers toward smaller basket purchases (rather than settle for no purchases at all).

This is an especially tough reality to confront for many retailers already on the ropes, despite a strong 2018 spending environment. In just the first month of 2019, more than 1,600 retail store closings have been announced, and retailers like Gymboree, Charlotte Russe and Shopko have initiated bankruptcy proceedings, according to Coresight Research. Others hoping to survive will need to carefully navigate all threats, particularly unanticipated ones like a government shutdown.

Top 10 US Retailers, Ranked by Store Openings vs. Closings, Jan 1-Feb 1, 2019

Openings		Closings	
1. Dollar General	975	1. Gymboree	749
2. Aldi	159	2. Ascena Retail	400
3. Ulta	80	3. Destination Maternity	117
4. Sprouts Farmers Market	30	4. Shopko	105
5. Murphy USA	27	5. Chico's	83
6. Costco	20	6. Sears	72
7. Casey's	20	7. Vera Bradley	50
8. Indochino	20	8. Kmart	48
9. Shopko	20	9. Lowe's	20
10. Dry Goods	19	10. Macy's	8

Note: total store openings=1,399; total store closures=1,678; closings/openings are calendarized to attribute them in the year in which they fell or are expected to fall; totals include retailers that have announced multi-year store opening plans which have been recorded based on an estimate for each year; includes Aldi's 5-year plan for openings until 2022
Source: Coresight Research, "Weekly Store Openings and Closures Tracker 2019 #5," Feb 1, 2019

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Because of the shutdown risk—combined other volatile economic conditions like trade wars with China, rising interest rates and a shaky stock market—we are tempering our retail and ecommerce growth forecast for 2019. Coming off a 2018 where US total retail sales jumped 5.3% to \$5.343 trillion, we see the growth rate moderating in 2019 to 3.2%.

In the latest episode of "Behind the Numbers," we investigate the impact of the government shutdown on the retail sector. Will the 35-day shutdown have a longer-term impact on the economy? What did smart retailers do in response to the closure?

Our complete 2019 US retail and ecommerce forecast can be [found here](#). Not sure if your company subscribers? [Check here](#).