

Soaring prices aren't providing the boon off-price and discount retailers expected

Article

The trend: Economic uncertainty tied to record inflation hasn't been the **boon** that many discount and off-price apparel and household goods retailers had expected, per Quartz.

- **Five Below's** net sales rose 3.5% in Q2 year-over-year (YoY), but comparable sales fell 5.8%.
- **Ross Dress for Less'** Q2 sales fell 4.2% and comparable store sales were down 7.0%.
- **TJX Companies**, parent company of **TJ Maxx**, **Marshall's**, **HomeGoods**, and other off-price retailers, reported a 2% YoY decline in Q2 sales.

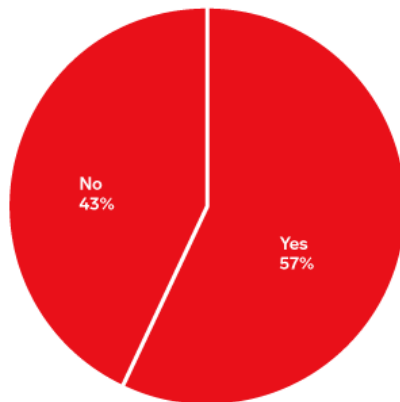
Even **Nordstrom**, which reported its **Nordstrom Rack** net sales rose 6.3% in Q2, said demand among its lower-income customer segments began decelerating significantly starting in late June.

What's going on? As rent, gas, and electricity costs continue to rise, more consumers—particularly those at the lower end of the income spectrum—have had to cut spending elsewhere.

- While Nordstrom has seen a small share of its upper-income customers shift their spending to Rack, it has seen a much larger share of the company's lower-income off-price customers stop shopping altogether, said CEO **Erik Nordstrom**.
- **Wage growth is slowing in many sectors.** For example, the average hourly earnings in leisure and hospitality, which rapidly grew last year, fell in July, **per** the US Labor Department. With prices continuing to rise, lower-income consumers' spending power has decreased.
- **That's forced consumers to be judicious in their spending with some having to pull back on food.** Among US households, 11.5% were struggling to get enough to eat in early July, up from about 9.8% roughly a year earlier, **per** the US Census Bureau.
- The situation has **benefited Dollar Tree** and **Dollar General** as some consumers have traded down to lower-priced food retailers. However, even those two merchants have seen a shift in spending patterns: Dollar General reported a 21.4% decline in apparel sales and Dollar Tree noted consumers had shifted more of their spending to need-based purchases such as food during Q2.

US Adults Who Are Concerned About Their Job or Income Security due to Inflation, April 2022

% of total



Note: ages 18+

Source: First Insight, "The State of Consumer Spending: Inflation Impacting Consumer Confidence," May 5, 2022

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Addressing the challenge: Each retailer is taking a different approach to the situation.

- Nordstrom is overhauling its merchandise mix to appeal to higher-income shoppers with added premium brands, while Ross is taking the opposite approach by becoming more aggressive with markdowns and increasing its selection of affordable lines.
- Both Five Below and TJX are adding more physical locations. However, the former is leaning into on-trend items, while the latter is buying other retailers' excess inventory in order to offer an eclectic merchandise mix.
- Both Five Below and Ross expect comparable store declines for the remainder of the year, while Nordstrom and TJX are more bullish about YoY growth.

The big takeaway: The divide between upper- and lower-income consumers is growing. With inflation continuing to rage, a growing number of consumers are struggling to make ends meet. That's leaving them less inclined to go shopping even at off-price merchants where they can stretch their dollar.