

Retailers challenged with roadblocks in near term

Article

The news: Many retailers have recently warned that a number of challenges—inflation, supply chain woes, and global unrest—are converging to make for a difficult near-term environment.

- **Costco Wholesale** noted it is combating growing labor and freight costs.
- **Gap** said shipping and rising prices will persist at least through the first half of the year.
- **Urban Outfitters** expects supply chain costs to remain elevated through the remainder of its fiscal year 2023.

More on this: This year may well be a tale of two halves, with a difficult environment in the first part of the year and easier terrain in the latter half.

- There are a number of **supply chain disruptions** ranging from the interrupted supply of basic materials to factory and port closures in China, as well as congested port operations and labor contract negotiations in the United States, [per](#) Barron's. That's left retailers such as **Best Buy** struggling to keep items in stock.
- While **inflation** was initially stoked by supply-chain problems during the pandemic, Russia's invasion may prolong those issues and push up energy costs, [per](#) The New York Times.
- The **tight labor market** is making it difficult to attract and retain retail and supply chain workers.
- Many workers have not seen their incomes **keep up** with inflation. Consumer prices rose **7.5%** in January from a year earlier, the fastest pace in four decades, [according to](#) the U.S. Bureau of Labor Statistics. And wages were **flat** in February.

While those challenges are likely to persist in the short term, retailers are increasingly optimistic about the latter part of the year as the pandemic subsides.

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Nancy Vanden Houten

Lead US economist, Oxford Economics

A reason for optimism: Americans in the aggregate have roughly **\$2.7 trillion** in “excess savings” accumulated since the pandemic began, thanks to a combination of government financial support and limited spending options during the pandemic, per the Times.

- **Companies are optimistic.** They’re spending to combat supply chain issues. For example, orders for **nondefense capital goods excluding aircraft**—equipment that corporations purchase to produce the goods they sell—are at a record high.
- “We should see better supply-side news as shipping bottlenecks slowly clear, input shortages diminish, and Americans return to the job market,” said **Nancy Vanden Houten**, lead US economist at Oxford Economics, in a research note **reported** in TKer.

The big takeaway: There’s no escaping the reality that the global landscape is causing significant uncertainty. But retailers can lay the groundwork for a strong second half.

- They can accelerate their planning to account for the possibility that elongated transit times will persist.
- By exhibiting inventory discipline, they can limit their excess inventory.