

The most volatile period in 30 years

Analysis of consumer sentiment and retail sales, Q1 2021

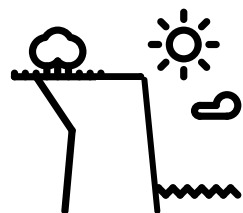


"And the wind catches your feet
And sends you flying, crying
Oooh, oo-oooh wee the wild night is calling"

John Mellencamp
Wild Nights

Why Can't I Find My Product?

The last 12 months of retail sales have been the most volatile of the modern era.¹ Sales during the Great Recession look like a peaceful ocean-view compared to the spikes of COVID-19. (I was personally affected by the Great Recession & dot.com bust. They both sucked.)



The Great Recession



COVID-19 Period

It's no wonder that delays and shortages remain while businesses struggle to anticipate consumer demand. Even today, 74% of companies report supply issues.²

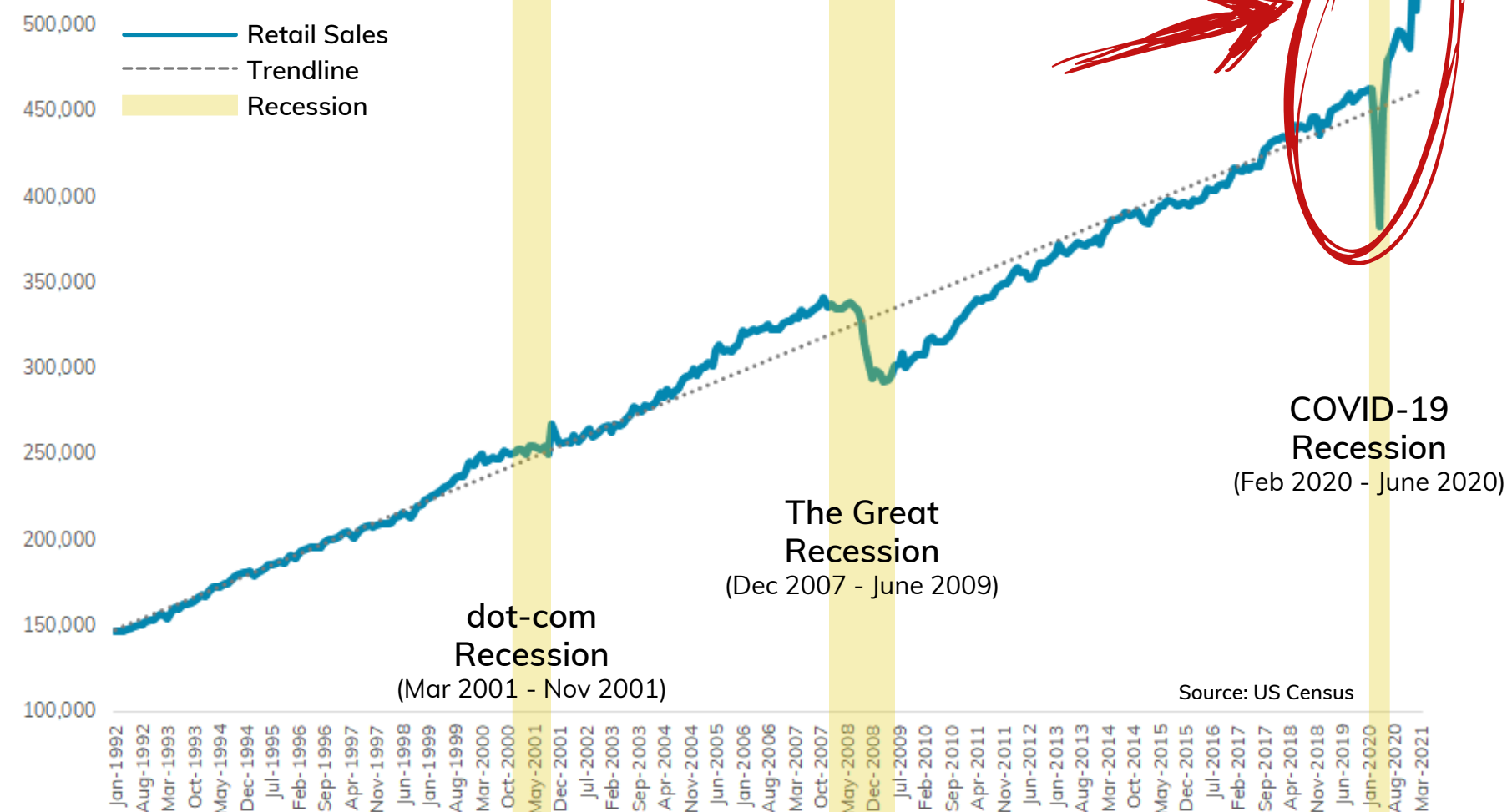
Companies radically cut back production when demand initially dropped. While economic spikes are typical after a recession (the Great Recession being different), very few were ready for the immediate whipsaw of demand that followed. Factories can't restart that quickly and transportation doesn't scale like that.

The immediate future beyond the spike looks positive. Moody Analytics estimates that households world-wide have \$5.4 trillion in pandemic-related savings. In the US, this amounts to \$2 trillion dollars.³ *But it's not over.*

Two-thirds of pandemic savings is held by the richest 40%. That group is inclined to save versus spend. Additionally, there are several risk factors from new variants, vaccination rates, and lack of vaccines in many countries. All of which could disrupt production and cause further changes in consumer buying behavior. Estimates put many developing countries' vaccinations are 2-3 years away. And even without the pandemic, companies can expect a major disruption to production every 3.7 years.⁴

Retail Sales

(1992 to Present)



Where will sales go? Given the current level of retail sales fueled by 3 rounds of stimulus, it seems unlikely for those levels to remain, especially for some verticals that benefited during closures.

On the other hand, consumer savings has increased for a segment of the population, and the surging stock market and home prices has people feeling wealthier, which could fuel continued retail spending.

It's never simple.

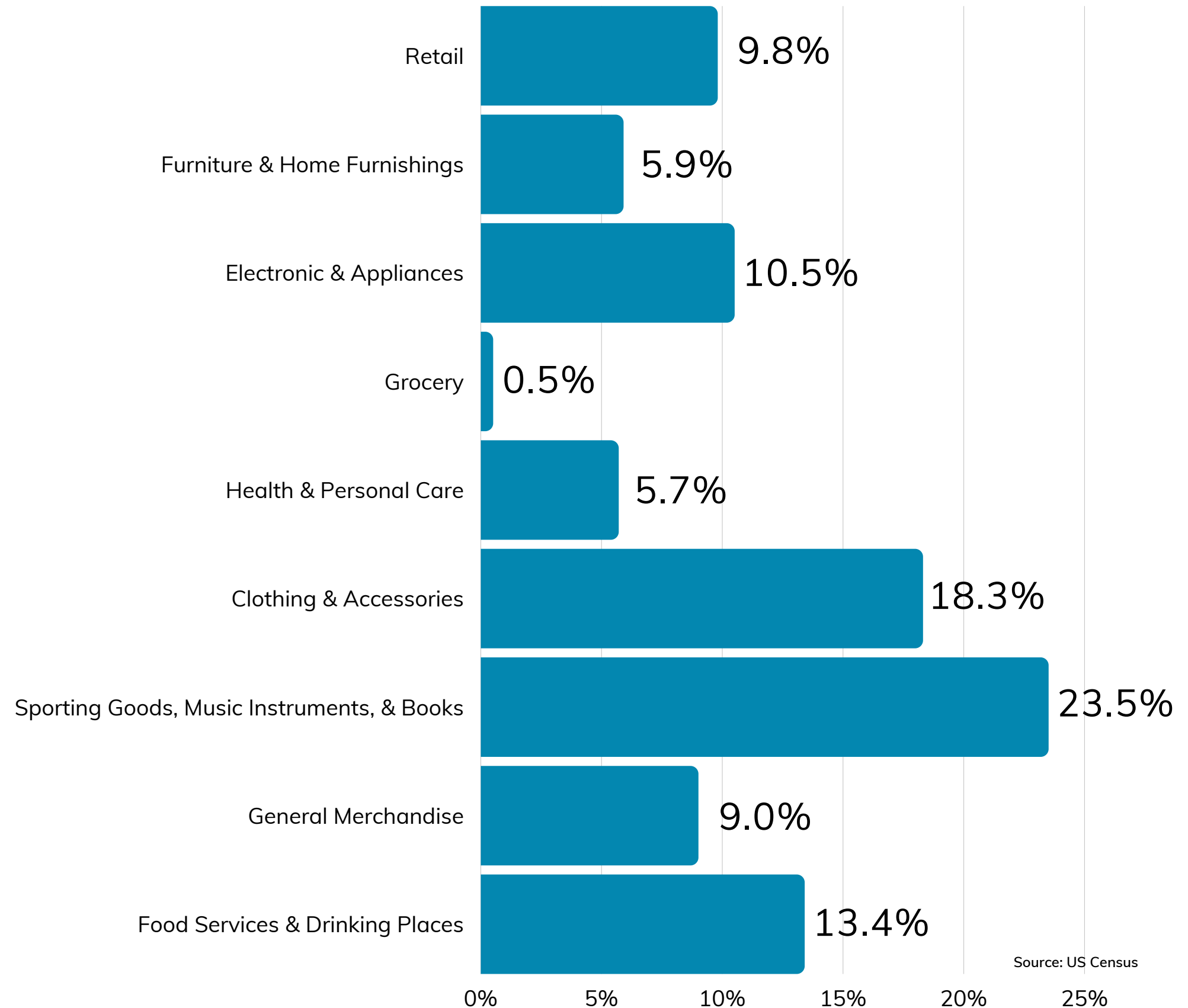
Where is the growth coming from?

The graph on the right shows that every sector's sales grew in March 2021 compared to February 2021. The stimulus received in March, vaccinations, spring fever, and retail openings fueled a 9.8% MOM. February was -2.7% lower than January, but it was not unexpected as January sales were exceptional.

- Consumers received a round of stimulus in January
- January sales increased ~7% compared to December 2020 and ~13% above Jan 2020 levels [not shown in graph]
- February is typically a down month or flat, but saw ~2.8% decrease in sales compared to January, but was still ~10% higher than February 2020 sales [not shown in graph]

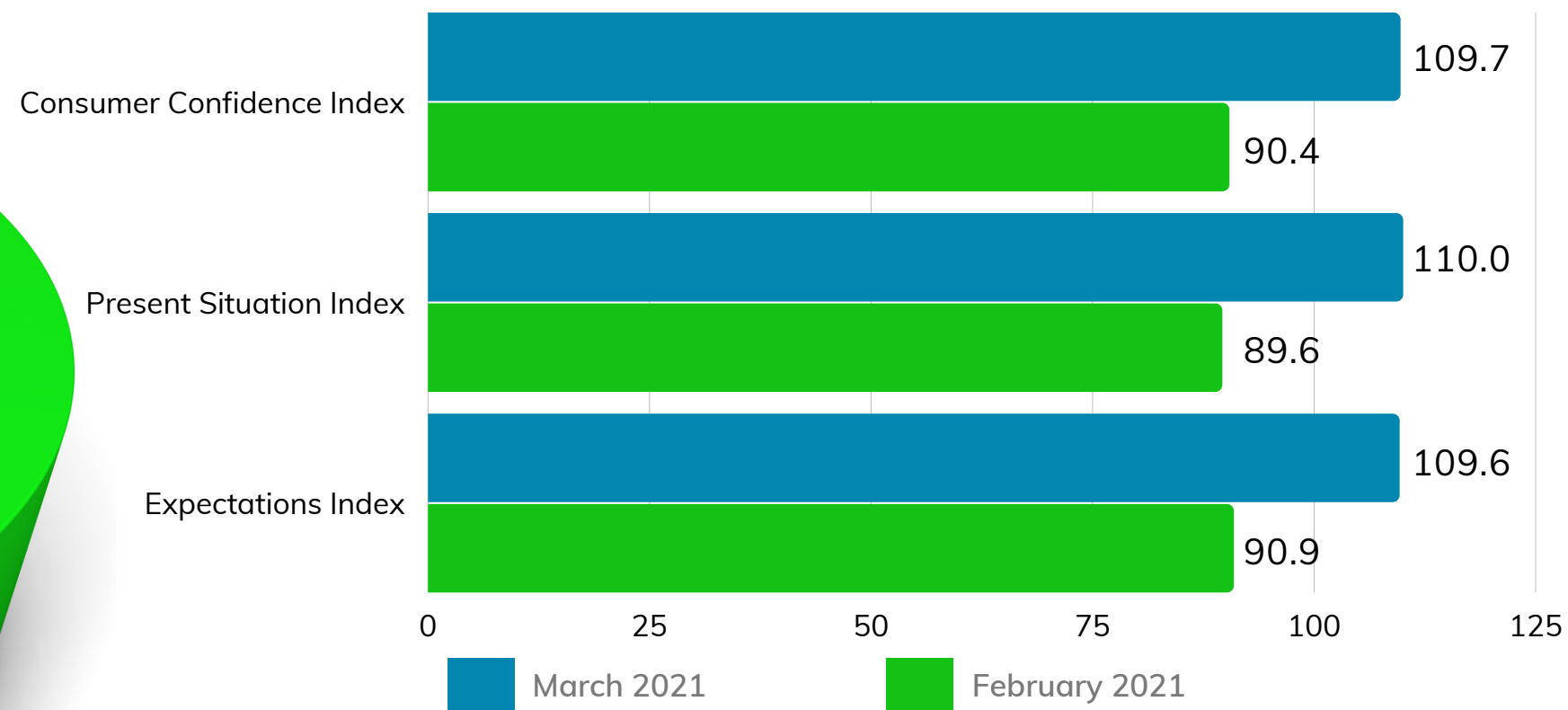
The graph to right shows other positive gains for longer term health. Sales for Clothing, Sporting Goods, and Food Services & Drinking Places are up 18.3%, 25.3%, and 13.4%, respectively. What's more impressive is Grocery still gained 0.5% while more restaurants are opening, which is counterintuitive and will be discussed more. The question becomes, will consumers keep up this spend?

Percent Change in Sales (March 2021 compared to Feb. 2021)



Consumers have mixed feelings on long term and short term prospects

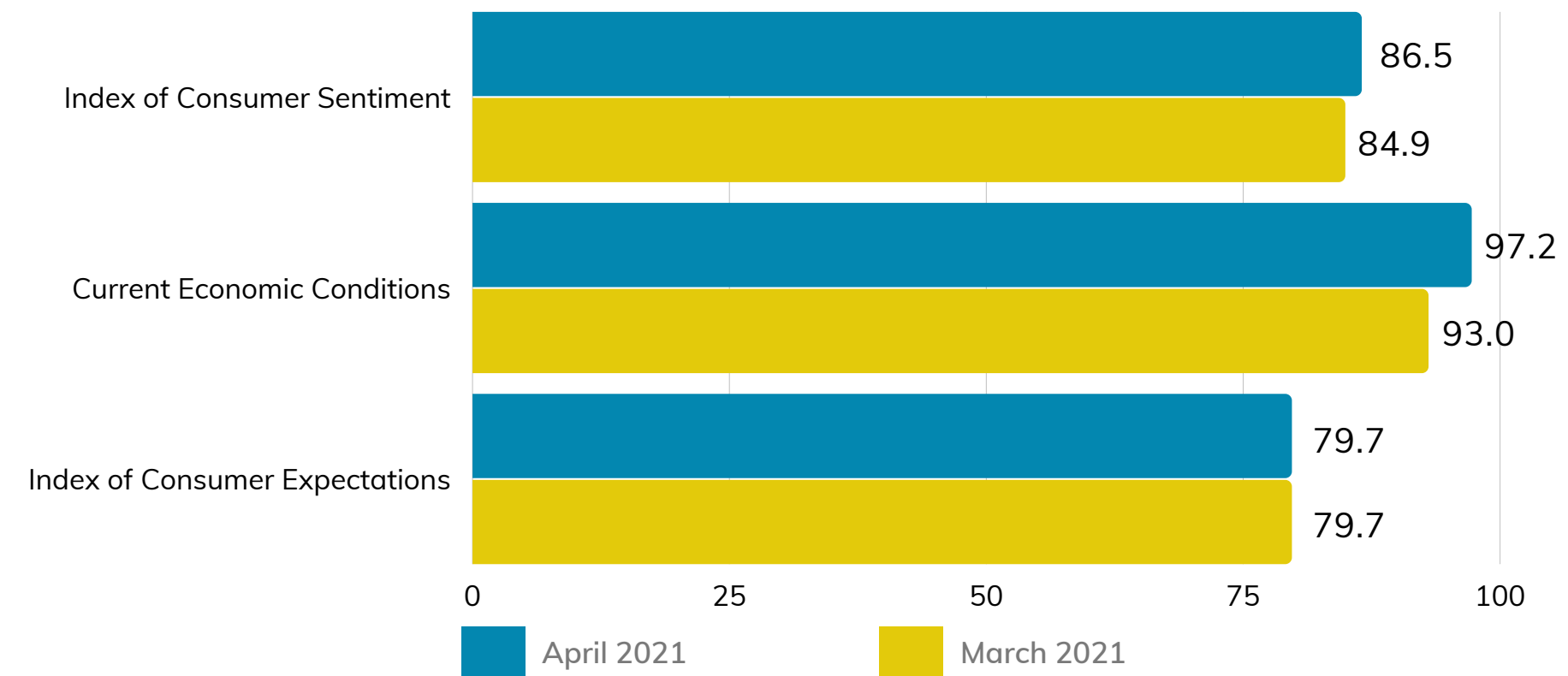
Indexes from the Consumer Confidence Board



Surging Consumer Confidence⁵

The Consumer Confidence Index® surged in March posting the highest number since the pandemic started. Consumers are feeling better about business and the labor market [Present Situation Index], and their immediate income opportunities [Expectation Index]. But looking at the Survey of Consumers' Indexes [to the right] highlights some consumer hesitations about the long term future.

Indexes from The Surveys of Consumers



Improving Consumer Sentiment⁶

The consumer sentiment index improved but did not surge, gaining 2% to 86.5 in April's report. While this is the best level in a year, it's still well below prior pandemic levels (between 90 & 100). Also, there is little change in long term expectation [Consumer Expectation] - a peculiar anomaly as highlighted by Richard Curtin below.

Highlights from The Survey of Consumers' chief economist, Richard Curtin⁶

The Sentiment Index rose to its best level in a year on the strength of recent gains in current economic conditions, while future economic prospects remained unchanged from March. This is **opposite of the usual pattern over the past fifty years**, when recoveries were paced by larger and earlier gains in expectations.

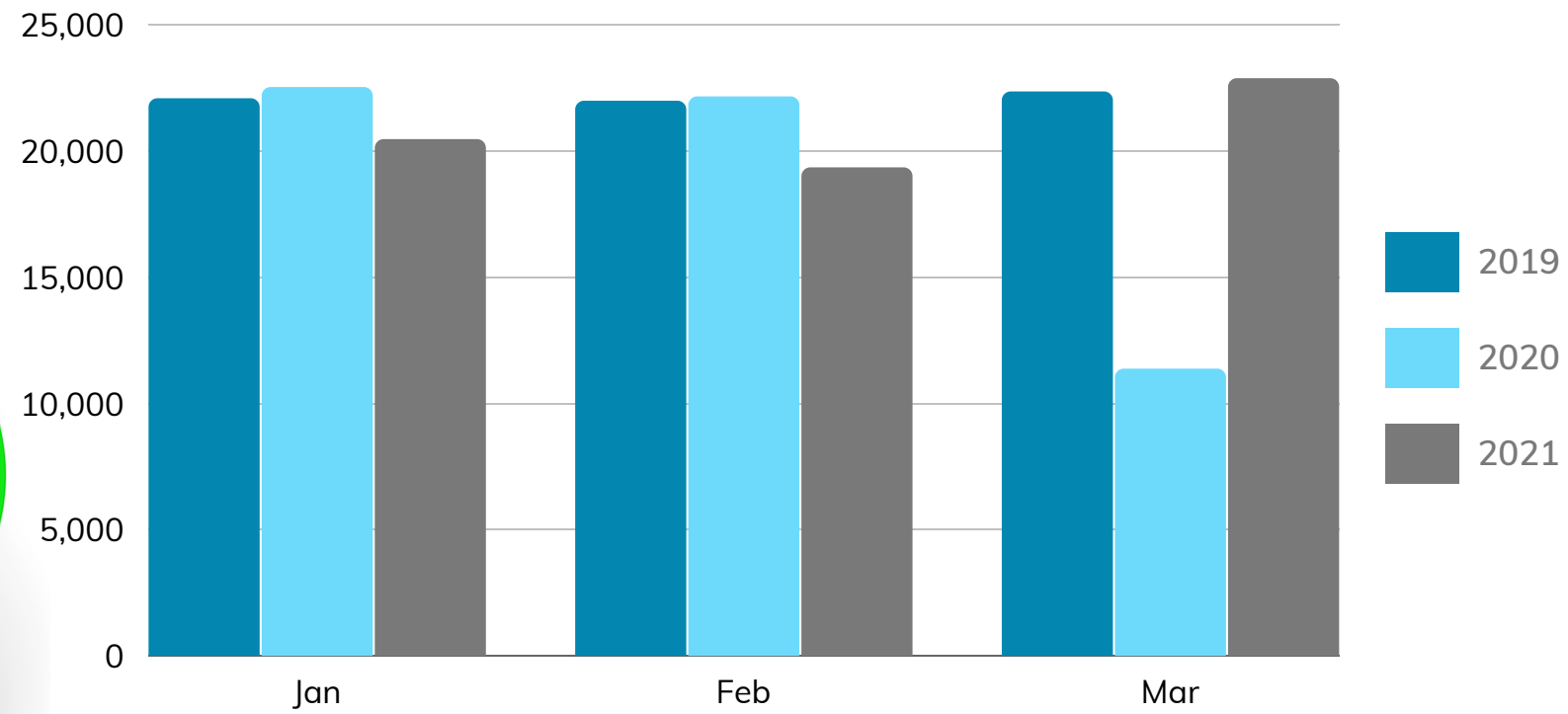
The strength in current economic conditions reflects much larger than usual stimulus payments during the past year, and much larger than usual economic gains due to comparisons with last year's shutdowns. Other factors suppressed the pace of expected gains, including persistent concerns with vaccine safety as well as a surge in year-ahead inflation expectations to 3.7%, the highest level in nearly a decade. Fortunately, this surge in inflation expectations was still well anchored by much lower inflation expectations over the next five years (2.7%).

Overall, the data support an ongoing surge in consumer spending, but given persistent uncertainty about the course of covid-19 and inflation, **cautious drawdowns of savings can be anticipated**. This shift has increased the reliance of the recovery in consumer spending on actual gains in job and incomes.

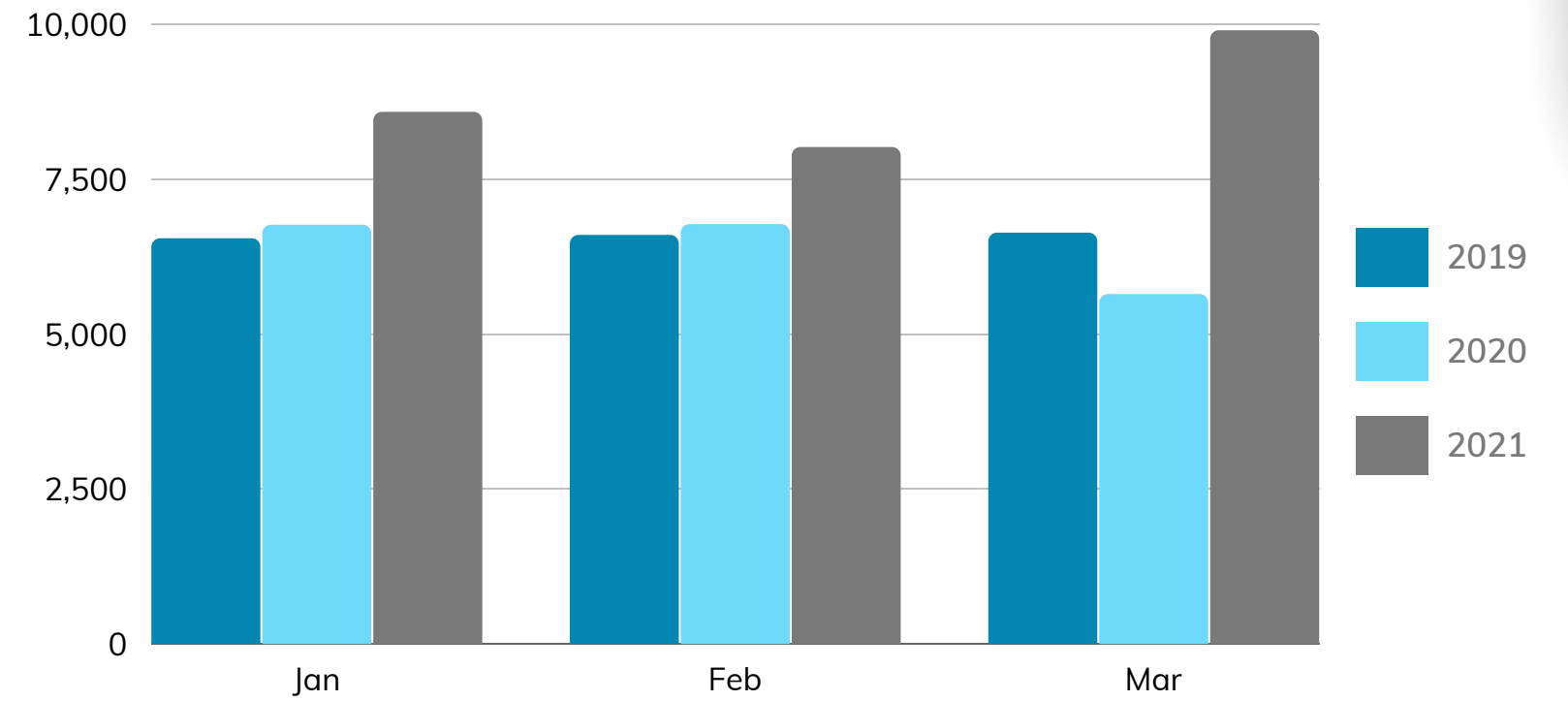


Q1 Sales Comparison (2019 - 2021)

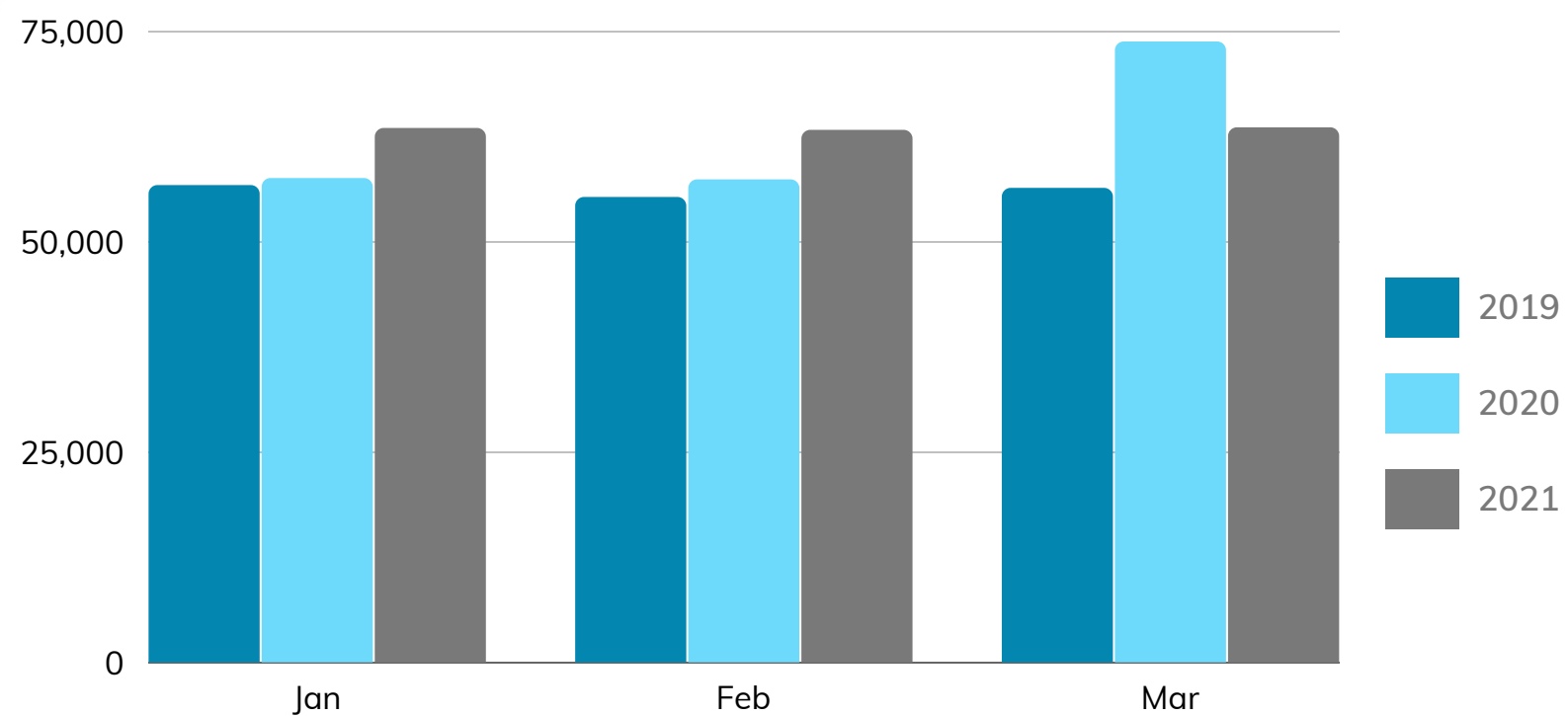
Clothing & Clothing Accessories



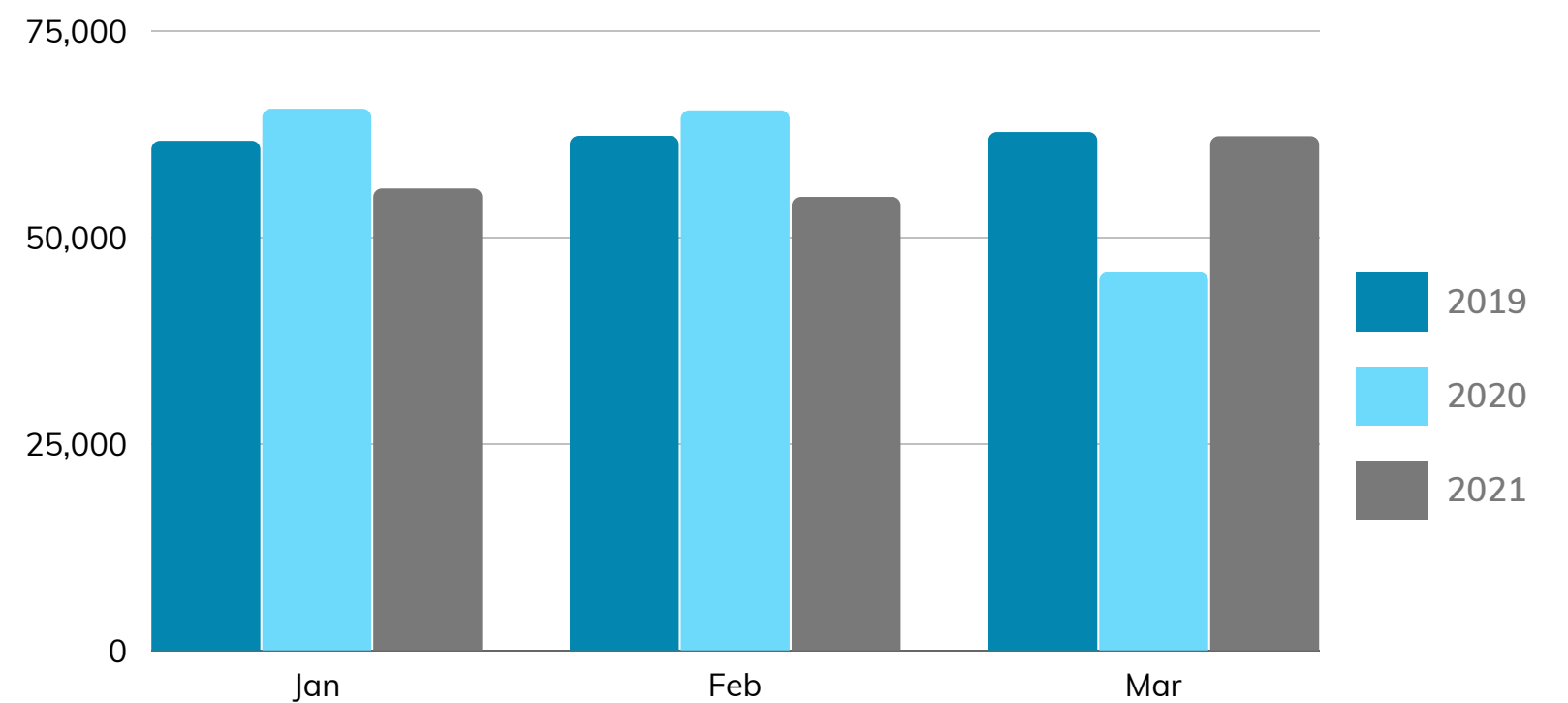
Sporting Goods, Music Instruments, & Books



Grocery



Food Service & Drinking Places



Source: US Census

Fashion is clawing back

In March, clothing stores experienced their best month since before the pandemic. This is exceptionally good news as a short-term indicator of economic health and consumer confidence.

Early research predicted that 2021 world-wide fashion sales would be between 0-15% lower than 2019 levels.⁷ This assumption is holding for US sales, yet it's a good sign seeing monthly sales exceeding 2019 levels early in the year.

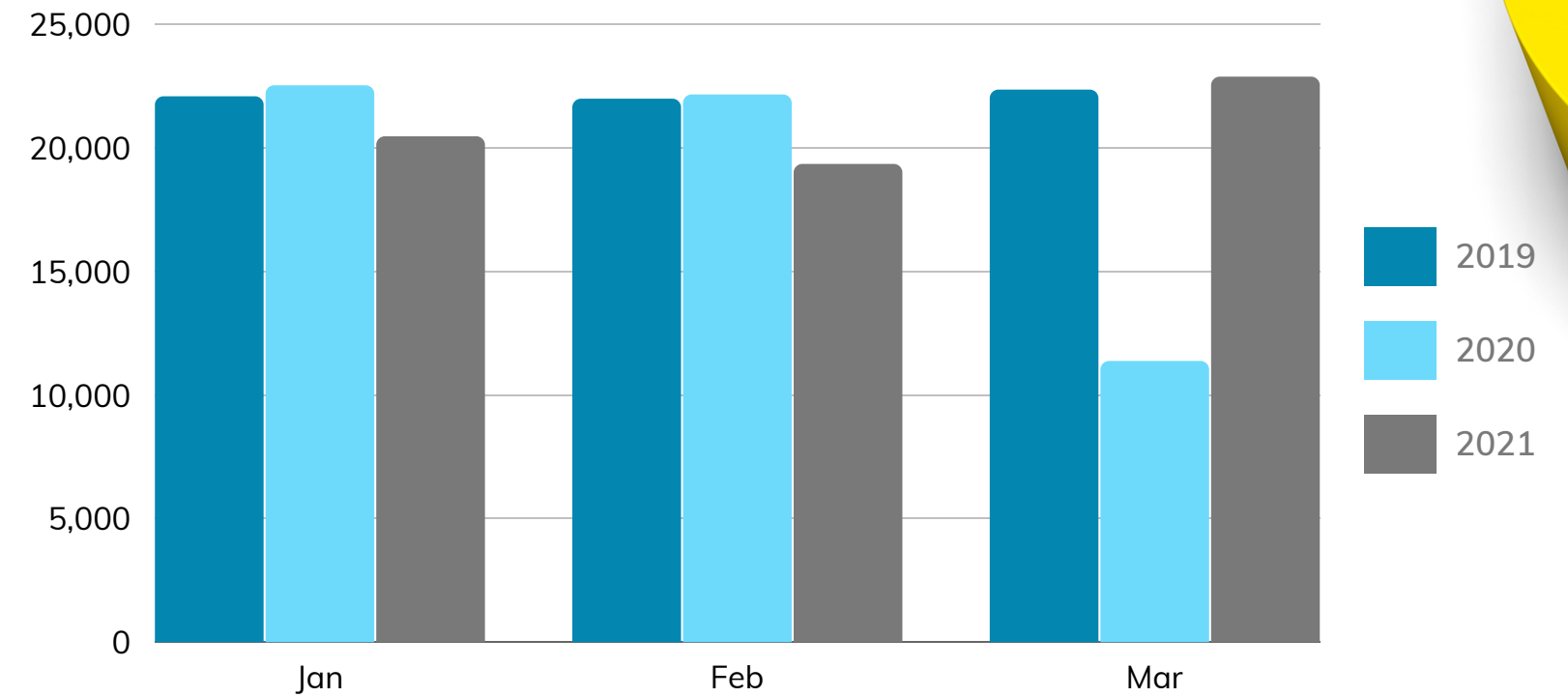
	2019 Sales	2021 Sales	Pct Change
Q1	66,844 M	62,646 M	-6.3%
March	22,338 M	22,862 M	+0.9%

These gains are all the more important as fashion retailers had a dreadful holiday season with sales down ~16% YOY while overall retail holiday sales were up 6%.¹

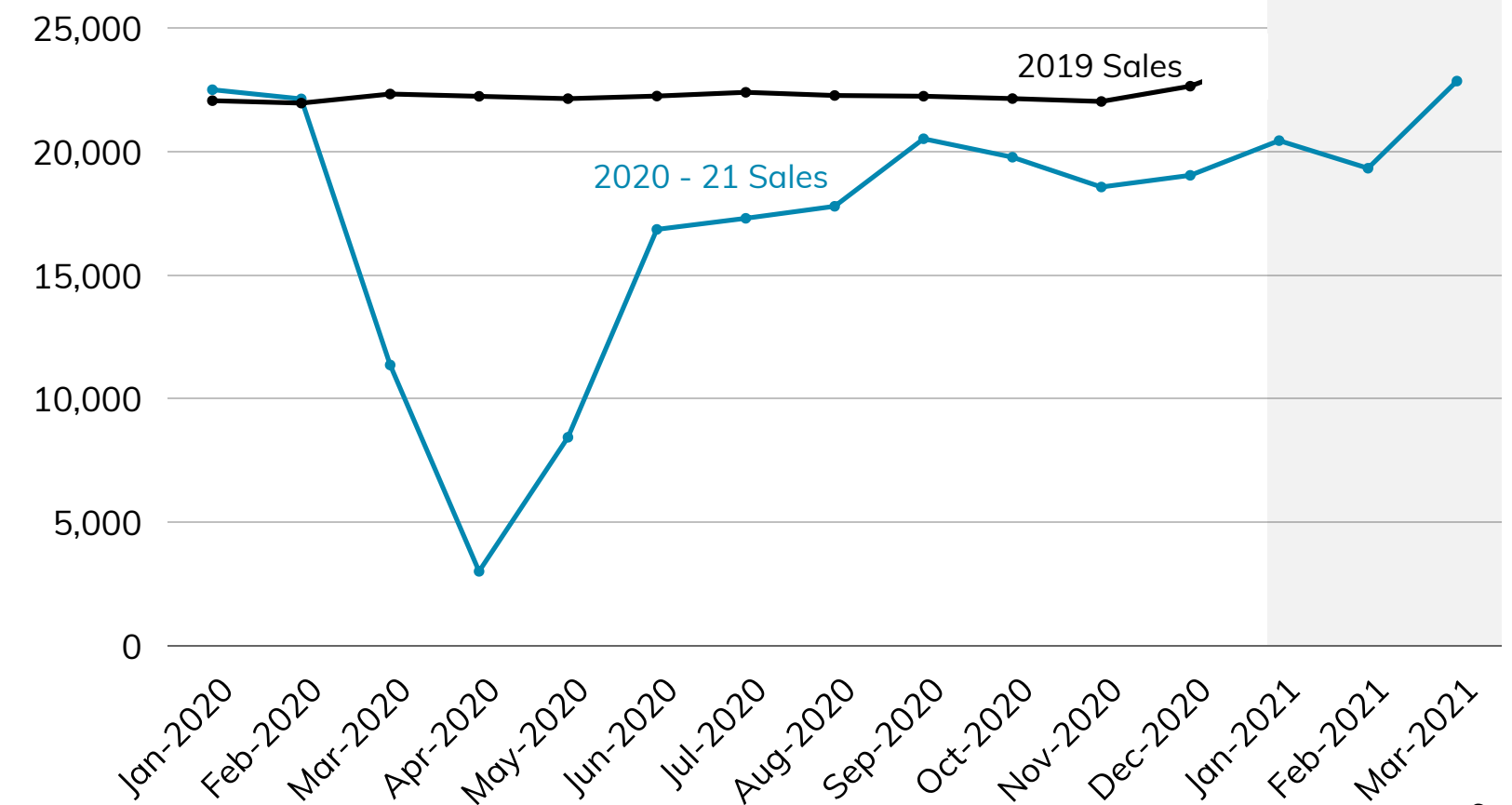
Despite these gains, clothing stores are facing headwinds.

- Digital sales doubled during the pandemic, and now consist of >50% of total sales for many fashion retailers. Executives expect another 20% increase in 2021.⁷
- Fulfilling digital orders is costing up to 8 percentage points of margin as retailers operations aren't optimized for omnichannel.⁸
- Sustainability efforts are a high concern for consumers when choosing brands, adding additional challenges, especially when incorporating the growing returns due to increased online orders.
- Consumer demand is still uneasy as January and March sales were fueled by stimulus and vaccination optimism.⁶

Clothing & Clothing Accessories
Q1 Sales 2019 - 2021



Clothing & Clothing Accessories
Sales Jan 2020 - March 2021



Source: US Census

Good Luck Buying a Bike

Unfathomable Demand Swing

April 2020 **-44%** YOY June 2020 **+24%** YOY

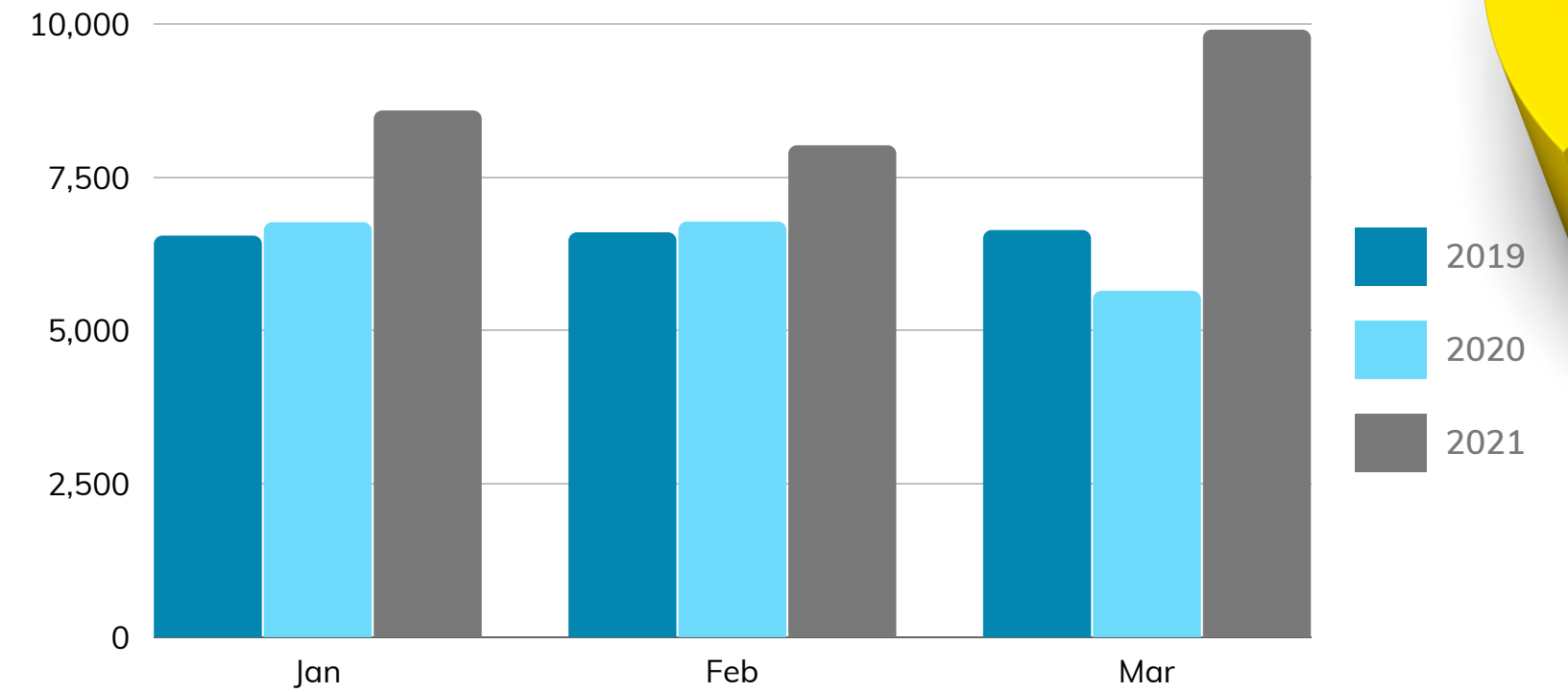
The Sporting Goods industry is a perfect example of today's demand shortage.

- In March 2020 and April 2021, demand plummeted, orders were canceled and factories shut down.
- In summer, demand snaps back and remains ~20% higher than normal earning record sales.
- Production is unable to restart quickly. Transportation is backed-up, hence, shortages are excessive.
- It's not easing up as March 2021 was ~75% higher than March 2020, and ~25% higher than February 2021.

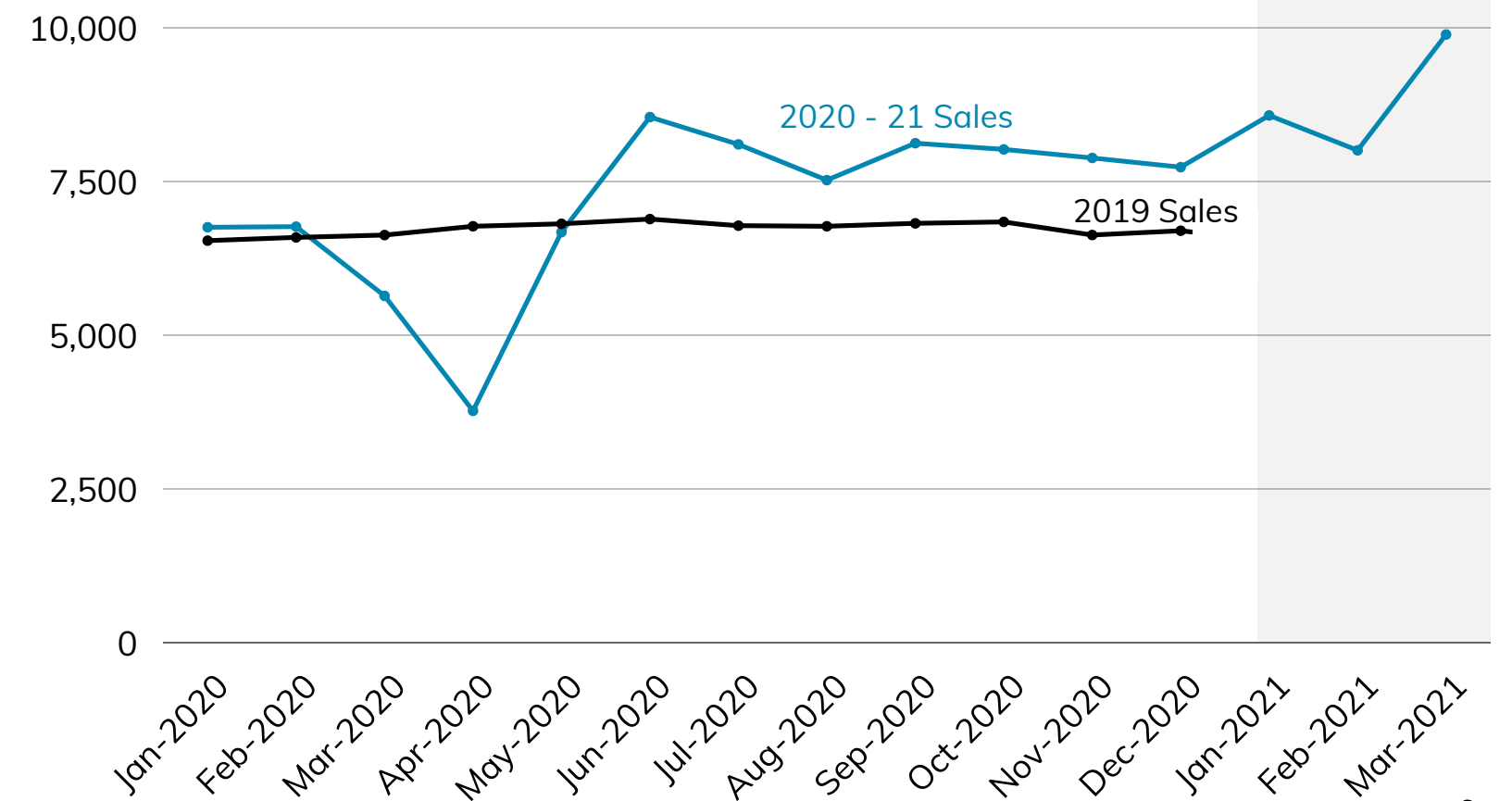
YOY Change

Jan - Mar 2020	Apr - Jun 2020	Jul - Sep 2020	Oct - Dec 2020	Jan - Mar 2021
-3%	-7%	+17%	+17%	+38%

Sporting Goods, Music Instruments, & Books
Q1 Sales 2019 - 2021



Sporting Goods, Music Instruments, & Books
Sales Jan 2020 - March 2021



Source: US Census





THE WALL STREET JOURNAL.

West Looks Past Covid-19 and Sees Economic Resurgence⁹

After the worst year for the global economy since the Great Depression, the U.S. is set to lead a vigorous rebound in the West as mass vaccination against Covid-19 propels a return to more or less normal life.

The revival will come in stages, with the U.S. and countries such as the U.K. recovering faster than those in the European Union, as the timing and speed of recoveries will depend largely on the pace and reach of vaccination, economists say.

Economies in North America and Europe are expected to fire up as shops, restaurants and hotels throng with newly inoculated consumers armed with savings they amassed during the long pandemic. Moody's Analytics estimates households world-wide had \$5.4 trillion in pandemic-related savings at the end of the first quarter.

Countries such as the U.S. and the U.K. are expected to enjoy quicker consumer-led recoveries as their governments close in on vaccination goals. Data Thursday are expected to show the U.S. growth accelerated in the first quarter as coronavirus-related restrictions eased and vaccination coverage increased.

In Europe, where vaccination drives have been beset with supply hiccups and worries over side effects, economies are likely to take longer to shake off their lockdown-induced torpor. Data Friday are expected to show the 19-nation eurozone shrank in the first quarter as the currency area reimposed public-health restrictions to stave new waves of infections. More up-to-date business surveys suggest growth was already coming back in April.

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(subscription required)

FMCG FMCG MAGAZINE

From 'Available to Promise' to 'Intelligent Order Promising'¹⁰

Patrick Smith, Chief Customer Officer, antuit.ai



It is human nature to hold onto things that don't work very well, rather than throwing them out and replacing them with something better. It's easier with stuff – a broken phone is replaced with a new phone. But, when it comes to processes, or ways of working, it's much harder. All professions are filled with outdated, inadequate or even downright dangerous processes, and because they all worked once, we all think that they still work, preferring to blame external factors rather than our own or the shortcomings of the business.

Well now most consumer packaged goods companies (CPGs) are at least aware that these external factors have gone way beyond the ordinary and weigh so heavily on the company and its brands, that new ways of doing things are now a matter of survival.

This much has been said before and will again, but the difference this time is that the single most reliable indicator of demand on which forecasts have been built since forever is no longer reliable. The history of consumer demand now looks like a lost golden age that is never to return. Demand patterns have gone haywire, particularly since Covid, and even once useful indicators given off by customer baskets cannot be trusted, particularly as they change so often.

Hopes for a return to the old sanity already looks as if they are going to be dashed on the rocks of blind optimism, especially once other trends are factored in, notably fragmenting diet types, new life and work models, health and safety concerns, and of course competition from younger disruptor brands and private label.

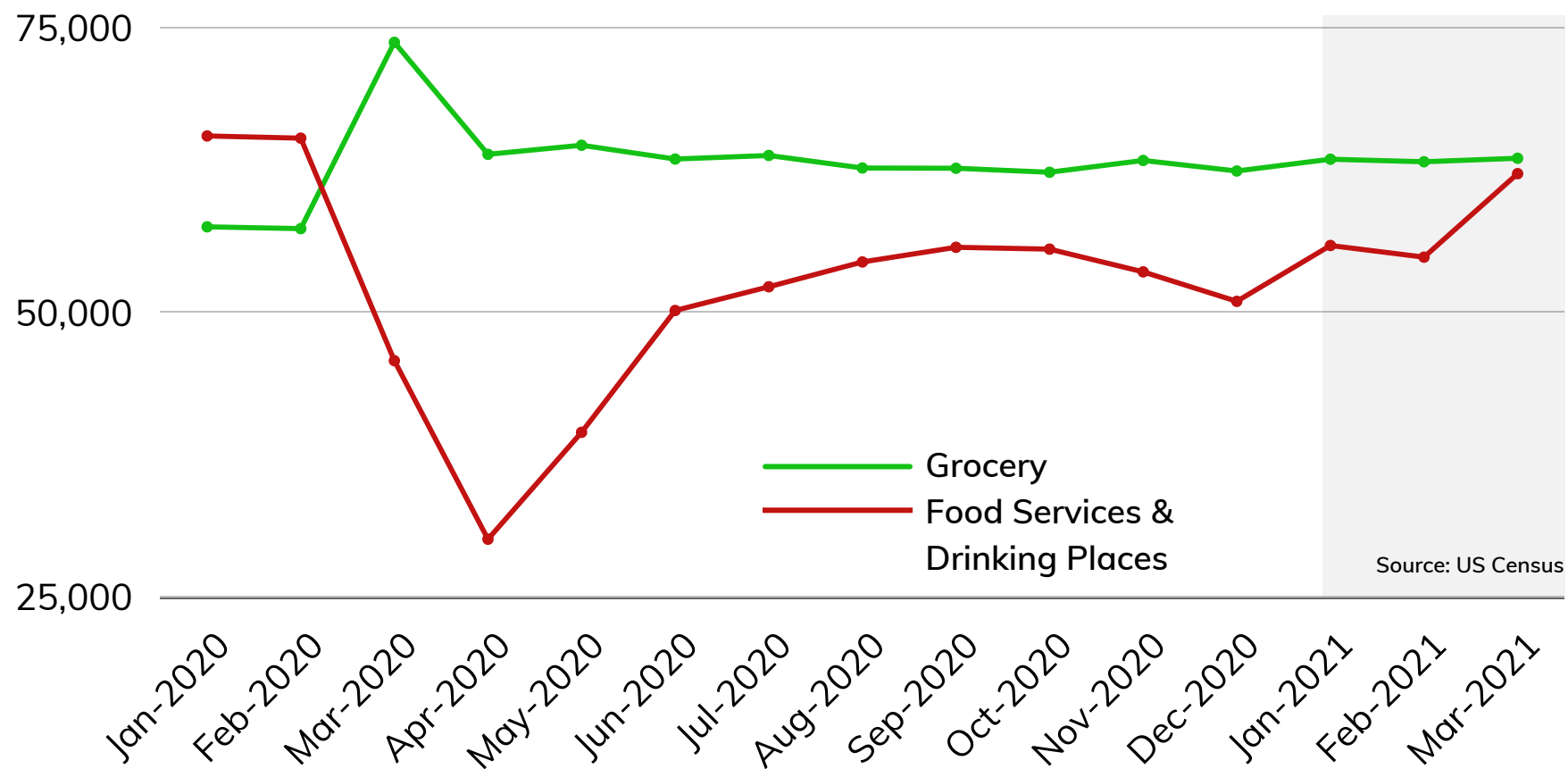
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Where are we eating tonight?

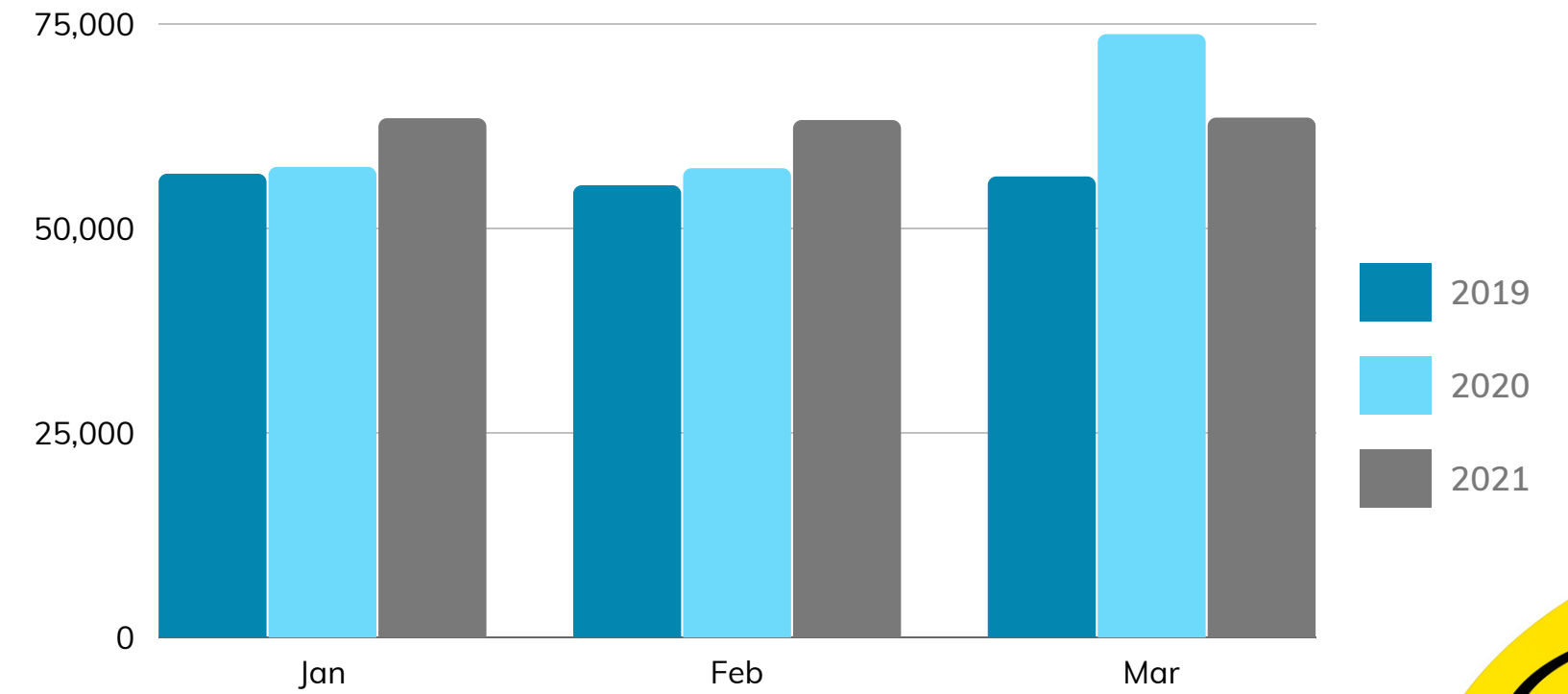
Bars & Restaurants [Food Services & Drinking Places] posted their highest sales in March since the pandemic, on par with 2019 March levels. Grocery has been running higher sales since the pandemic, and managed to keep those gains as restaurant sales have been increasing.

Maintaining these gains in grocery will be difficult as the tailwinds are easing up. Additionally, businesses are facing cost increases which they want to pass onto their customers. To maintain profitable growth they must determine, "How much is too much?" Additionally, to maintain the customer, trade promotions will be restarted, yet companies must look beyond their pre-pandemic promotional calendar. Two-thirds of those were unsuccessful.¹¹ Plus, the consumer has changed. COVID handed companies a reset opportunity in their pricing and trade strategies. They must take it or risk squandering a golden opportunity.

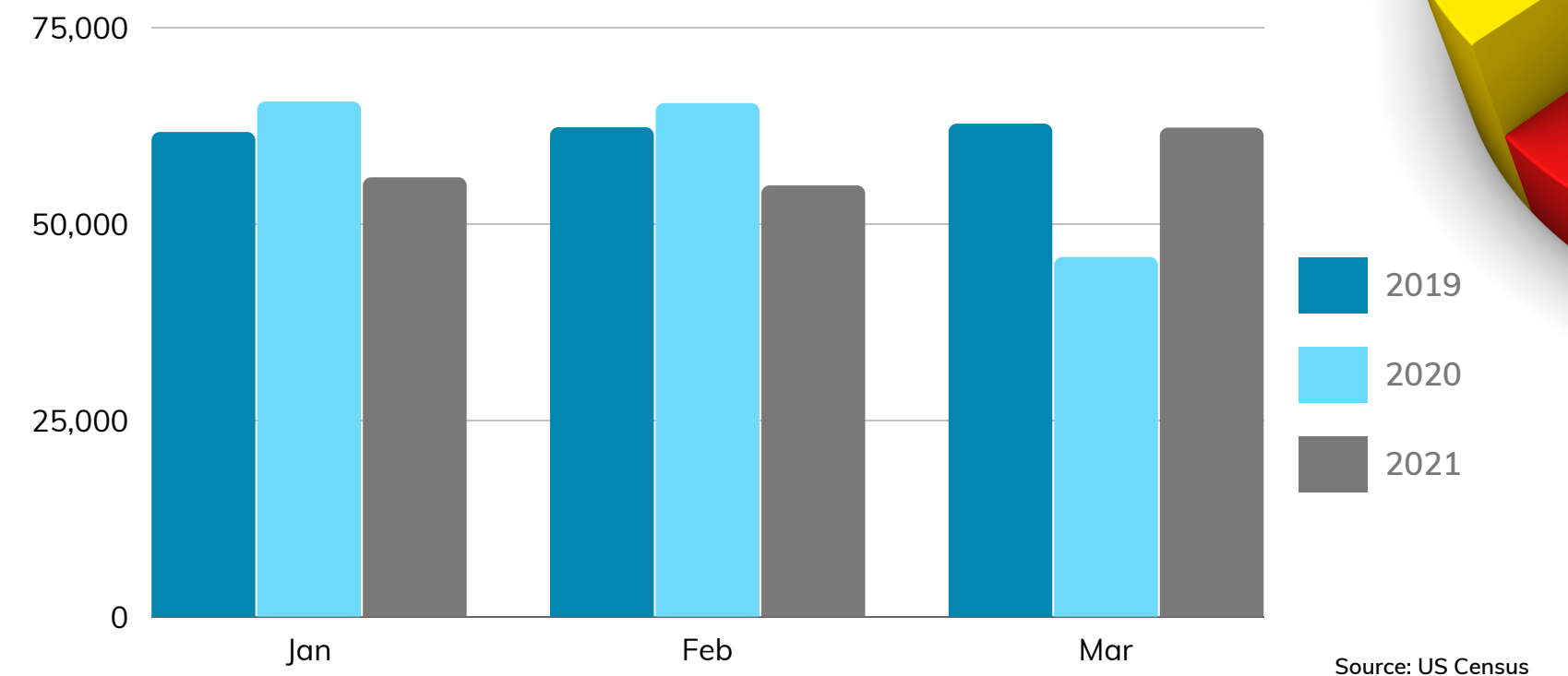
Grocery Sales compared to Food Services & Drinking Places Sales



Grocery Sales Q1 Sales 2019 - 2021



Food Services & Drinking Places Q1 Sales 2019 - 2021



Predictions

Total Retail sales will come down

January and March sales, fueled by stimulus, outpaced historical averages. Pent-up savings and the summer season will result in a solid spring & summer YOY growth but total sales will taper off towards historical norms.

Guess: Total sales decline 8% to ~\$515B by September

Shortages will continue

Production disruptions, excessive demand, and transportation delays means product companies will continuously manage inventory shortages of specific products. Retail partners will be less forgiving to their suppliers on OTIF as the initial pandemic shock is over forcing companies to upgrade their Available to Promise and allocation capabilities.

Guess: No panic buying, but expect more news stories about shortages

Strong summer for fashion

Fashion sales are going to continue to rebound. Short-term optimism will spur people to get out and spend on discretionary items.

Guess: US fashion summer sales will beat 2019 levels by 5%.

Grocery declines, but still holds gains

Tailwinds behind grocery sales will lighten up. Due to increased vaccination rates and better weather, consumers will seek alternatives. As a consequence, trade promotion spend will increase as consumer products & grocers look to hold onto their pandemic gains.

Guess: Grocery sales decline by 5%, losing about 1/2 of its pandemic gains based on historical averages.



"At least you're not in pajamas"

SOURCES

- 1 - US Census Bureau as of April 16, 2021
- 2 - Capgemini Research Institute, Supply Chain Survey, August–September 2020
- 3 - Financial Times. Global savers' \$5.4tn stockpile offers hope for post-Covid spending. April 18, 2021
- 4 - McKinsey Global Institute, Risk, resilience, and rebalancing in global value chains, Aug 2020
- 5 - The Consumer Confidence Board as of April 20, 2021
- 6 - The Surveys of Consumers as of April 1, 2021
- 7 - McKinsey & Company. The State of Fashion 2021
- 8 - IHL Group. 90% of Retail Sales in 2021 to go through local stores. Jan 12, 2021
- 9 - WSJ.com - West Looks Past Covid-19 and Sees Economic Resurgence. April 25, 2021.
- 10 - FMCG Magazine - From 'Available' to 'Promise' to 'Intelligent Order Promising'. March 11, 2021.
- 11 - Nielsen. Changing your trade promotion trajectory.

AUTHOR



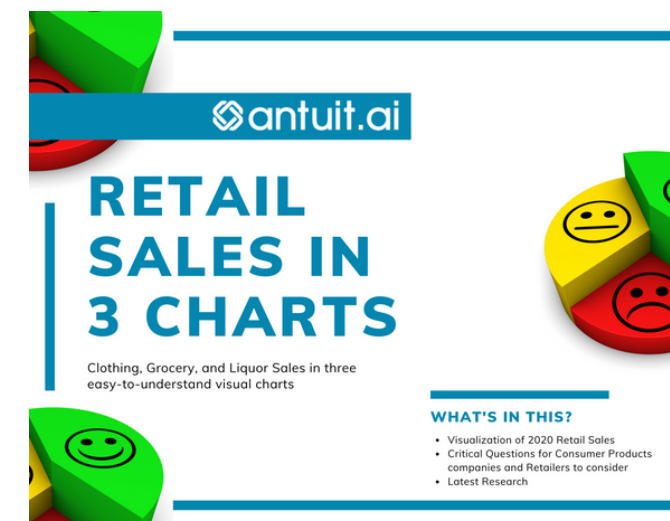
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