



THE JAY S. SIDHU SCHOOL
OF BUSINESS & LEADERSHIP

HOLIDAY RETAIL SALES FORECAST: 2009

**Prepared by:
Anthony L. Liuzzo, J.D., Ph.D.**

Some General Facts about Holiday Retail Sales Forecasting

Holiday retail sales forecasting begins in earnest during the month of September. “Back to School” and Labor Day sales are the early indicators. Usually apparel sales perform better during this period than during the holiday season. The day after Thanksgiving is the next big indicator. The holiday shopping season usually peaks on the Saturday immediately prior to Christmas. The majority of shoppers begin their holiday browsing in October, but most begin purchasing gifts in early November.

In 2008, holiday retail sales amounted to approximately \$245 billion, a decline of about 2.8% from 2007 sales. Interestingly, this was the first time that retail sales have declined since most observers have been tracking the numbers.

The other important holidays for retailers are Mother’s Day, Valentine’s Day, Easter, Father’s Day, and Halloween.

Holiday Retail Sales Defined

Holiday retail sales are generally defined as same store sales made during the last two months of the year (November and December). These sales represent 25% to 30% of total year retail sales. During the past 25 years or so, profits on these sales have been declining, indicating deep discounting and increased competition for consumer dollars. It is interesting to note that the figures published by the National Retail Federation do not include gift cards (which are counted only when redeemed), supermarkets, drug stores, and home improvement stores. Consequently, the published numbers are not always consistent with retail sales reported by the United States Department of Commerce.

The Timing of Holiday Retail Sales

Contrary to popular misconception, the Thanksgiving weekend only accounts for about 10% of holiday sales (in 2008, shoppers spent an average of about \$125 on holiday spending during this weekend), while retail sales during the weekend just prior to Christmas represent about 30% of holiday sales. Furthermore, the week between Christmas and New Year's now brings in about 10% of holiday sales. The Saturday before Christmas is usually the busiest shopping day of the year, replacing the day after Thanksgiving. This latter day is referred to as Black Friday, allegedly so named because retailers' profit numbers are "in the black".

Consumer Spending Patterns

The average consumer spends approximately \$1,000 during the holiday retail sales period. This average is broken down as follows: \$700 on family; \$150 on friends; \$50 on co-workers; and \$100 on others (clergy, babysitters, teachers, etc.).

Sales of hi-tech products have been vigorous during the 2000s. The latest tech toys continue to generate interest – DVRs, flat screen TVs, software, gaming consoles, digital cameras, cellular phones with the latest bells and whistles, etc. Apparel sales have been volatile, losing some ground in 2001-2005, but showing signs of life in 2006-2008.

The percentage of consumers who shop in various types of stores is estimated to be as follows: discount stores – 70%; specialty stores – 50%; grocery stores – 50%; drug stores – 20%; crafts or fabrics stores – 20%; online – 50%. The majority of shoppers select their stores on the basis of price.

There are often significant differences among the regions in the United States. Regions include the Northeast, Mid-Atlantic, West, Midwest, Southeast, and the Southwest.

Gift Cards

Sales of holiday gift cards have been increasing dramatically – at about 15% per year. In 2008, sales of gift cards amounted to approximately \$25 billion, and are now the most popular category of present.

Interestingly, while Hispanics receive gift cards with the highest average value of approximately \$70, the average is approximately \$60 for African-Americans, and only approximately \$40 for Caucasians.

Online Retail Sales

In 2008, for the first time ever, web sales declined by about 2%, but still accounted for approximately \$28 billion, or 11% of total holiday retail sales. This was up from 4% in 2000, 5% in 2001, etc. So, web sales continue to climb but still represent a relatively modest

percentage of the total. Also, web sales have been disappointing to e-tailers, who have expected increases of 100%/year, but have only been realizing increases of about 30% to 40% annually, until the decline of 2008.

The Monday after Thanksgiving, referred to as “Cyber Monday,” is the beginning of the holiday season for web sales, when employees return to work and begin their online shopping. Mondays remain the biggest day of the week and sales progressively increase as Christmas approaches.

Online sales usually top out on “Green Monday,” the second Monday in December. Consumers should continue to be wary of doing business on the web and (a) shop from e-tailers with whom they are familiar, (b) stay with bricks and mortar retailers that also do business on the web, and (c) continue to monitor the security of their credit cards.

The web continues to cut into paper catalogue sales, rather than mall sales. Most experts now agree that the mall experience is here to stay.

Interestingly, when it comes to returned merchandise, it has been estimated that 12% of all web sales are returned. This compares to 6% of paper catalogue sales and only 3% of in-store sales.

50% of all web sales are made from companies whose primary business comes from their bricks and mortar operations.

The Major Retailers

Luxury stores include retailers such as Neiman Marcus, Nordstrom, and Saks. The department stores include retailers such as J.C. Penney, Macy’s, and Sears. The discounters include retailers such as Costco, Target, and Wal-Mart. The apparel stores include retailers such

as Abercrombie & Fitch, Ann Taylor, and Gap. Other stores include Barnes and Noble and Pier 1 Imports. (See Appendix A for a more complete listing of select retail stores.)

In recent years, the discounters have done extremely well (Wal-Mart continues to outperform its competitors). When the economy is strong, the specialty stores do well. The converse is also true and the poor economy of 2008 especially hurt stores selling luxury items. The department stores have not performed well in recent years. (See Appendix B for a listing of projected winners, maybes, and losers for 2009.)

The Recent Numbers

Holiday retail sales (in billions) and the percentage increases from the prior year (from 1999 to 2007) have been approximated as follows:

1999 = 183 (8.2%)

2000 = 190 (4.3%)

2001 = 201 (5.6%)

2002 = 206 (2.2%)

2003 = 210 (5.1%)

2004 = 221 (5.7%)

2005 = 235 (6.4%)

2006 = 245 (4.4%)

2007 = 252 (3.0%)

2008 = 245 (-2.8%)

The *Wall Street Journal* reports that in 2008 most retail segments on a national scale were down. According to the report, sales of luxury items, including jewelry, dropped a

staggering 35 percent; online sales were minus 2 percent; footwear, minus 14 percent; men's apparel, minus 14 percent; furniture, minus 20 percent; women's apparel, minus 23 percent; and electronics/appliances, minus 27 percent.

The Impact of Inventory Levels

If retailers overestimate demand, by December 10th or so, they slash prices to unload their inventory. If retailers underestimate demand, consumers get few discounts. In either event, those hard-to-get items, such as the "in" toys, remain impossible to find, and are rarely discounted. In the past couple of years, retailers have used high-powered software (similar to that which the airlines use) to more accurately predict demand. This has allowed them to manage discounting better.

Variables Used in the 2009 Forecast

Numerous variables influence holiday retail sales. These include:

- *Consumer Confidence – its direction and variability.* Although at one of its lowest levels historically, there is evidence to suggest that we may soon see a rebound. Interestingly, however, surveys indicate that consumers expect that they will cut back on spending (See Appendix C for the results of one of these surveys.)
- *Same store sales for recent months – their direction and variability.* The numbers in recent months have shown some slight improvement.
- *Stock Market Performance (which captures the wealth effect on spending) - its direction and volatility.* Although not capturing all of its losses, the market has rebounded nicely.

- *Other Economic Indicators* – including more tenuously related indicators, such as *housing and automobiles*. The latest numbers suggest that strength may be returning to both of these markets.
- *Consumer Debt* – *interest rates, credit card debt, and bankruptcies*. These all have a huge impact. Current interest rates levels are extremely low, but credit card debt remains high, and bankruptcies are problematic.
- *Political Climate* – *presidential politics are important*. The election of a new president usually creates optimism; however, in recent times there is increasing pessimism over President Obama's ability to manage the federal deficit.
- *International Climate*. What matters most is the public's perception of how foreign wars, terrorism, and foreign economic crises will impact the United States. The wars in Iraq and Afghanistan continue to plague the nation, but, fortunately, there have been no recent major acts of terrorism specifically targeting the United States.
- *The Weather*. The northern portions of the United States should ideally be cold, but not bitterly cold, and with no crippling snowstorms. The other areas need no disturbances, for example, earthquakes, floods, fires, hurricanes, etc. It is too early to determine how or if this will be a factor.
- *The Day of the Week*. The day on which December 25th falls is important. This impacts the number of shopping days before Christmas. Ideally, retailers prefer that Christmas falls on Sunday or Monday, allowing for weekend shopping immediately prior. Unfortunately, December 25, 2009 falls on a Friday.

The Forecast for 2009

Based upon the above observations, I forecast that holiday retail sales will increase by 2% in 2009. I am guardedly optimistic that by November, when consumers begin shopping in earnest, there will be modest improvement in the economy.

About the Author

Dr. Anthony L. Liuzzo is Professor of Business and Economics and Director of the MBA Program at Wilkes University in Wilkes-Barre, Pennsylvania. He is an attorney who has earned both his MBA and Ph.D. in Business Administration.

Dr. Liuzzo's annual predictions of holiday retail sales have been published in hundreds of newspapers and magazines throughout the United States, including the *New York Times*, the *Los Angeles Times*, the *Chicago Tribune*, the *Christian Science Monitor*, and *New York Newsday*. He has appeared on national radio and local television on numerous occasions, and has been the subject of articles appearing on CNN, and in *The Detroit News* and *The Washington Times*.

Dr. Liuzzo may be reached at (570) 408-4709 or anthony.liuzzo@wilkes.edu.

Date Submitted

This report was submitted on August 3, 2009.

Appendix A

Select Retail Stores

Luxury Stores

Neiman Marcus
Nordstrom
Saks

Department Stores

Dillard's
J.C. Penney
Kohl's
Macy's (also owns Bloomingdale's)
Sears (also owns Kmart)
Talbot's

Discount Stores

Costco
Dollar General
Kmart (owned by Sears)
Target
TJX (A.J. Wright, HomeGoods, Marshall's, T.J. Maxx, The Maxx)
Wal-Mart Stores, Inc. (also owns Sam's Club)

Apparel Chains/Teens

Abercrombie and Fitch
Aeropostale
American Eagle
Ann Taylor
Gap (also owns Banana Republic and Old Navy)
Hot Topic
Limited (also owns Bath & Body Works and Victoria Secret)
Pacific Sun

Electronic/Music Stores

Best Buy

FYE

Other

A.C. Moore

Barnes and Noble

Borders

Crate and Barrel

Michael's

Pier One

Pottery Barn (owned by Williams Sonoma)

Appendix B

Projected Winners, Maybes, and Losers

Winners:

1. Aéropostale
2. Big Lots
3. Buckle
4. Kohl's
5. Ross
6. Target
7. Urban Outfitters
8. Wal-Mart

Maybes:

1. H&M - discount retailer teamed up with Jimmy Choo for an exclusive line being released November 14, 2009.
2. Hot Topic - licensing agreement with Twilight movie franchise with the second installment "New Moon" being released November 20, 2009.

Losers:

1. Abercrombie & Fitch
2. Gap Brands (Gap, Old Navy, Banana Republic)
3. Neiman Marcus
4. Williams Sonoma (Pottery Barn)

Appendix C

Survey Depicting Consumer Planning for 2009

