



HOLIDAY RETAIL SALES FORECAST: 2012

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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. The “Back to School” shopping period starts in mid-July and runs through September. The Friday after Thanksgiving is the next big indicator. The holiday shopping season usually peaks on the Saturday immediately prior to Christmas. While many shoppers begin their holiday browsing in October, most actually begin purchasing gifts in early November.

It is important to note that the 2012 holiday shopping season will benefit from a much longer season. Due to the fact that Christmas falls on a Tuesday and Thanksgiving falls very early (on November 22), there will be a whopping, and highest number possible, 32 days in the 2012 holiday sales season (while there were only 30 days in 2011; 29 days of 2010; 28 days in 2009; and 27 days in 2008). This means that there will be a full five weekends of shopping!

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 or so years, profits on these sales have been declining, indicating deep discounting and increased competition for consumer dollars. (Note that the figures do not include gift cards, which are counted only when redeemed.)

In 2011, holiday sales increased by 4.1% to \$471.5 billion (Walmart is excluded from this number, since it does not release sales figures on a monthly basis).

The Timing of Holiday Retail Sales

Contrary to popular misconception, the Thanksgiving weekend accounts for less than 10% of holiday sales, 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." While "Black Friday" is not actually a holiday, many employees are given this day off in order to shop. Sales of electronics, followed by furniture, will probably be the popular items sold during "Black Friday" in 2012.

Consumer Spending Patterns

On average, each consumer spends approximately \$1,000 during the holiday retail sales period. This average is broken down roughly 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 continue to be vigorous. The latest tech gadgets continue to generate interest – Netbooks and iPads, software, digital cameras, smart phones with the latest bells and whistles, DVRs, flat screen HDTVs, etc. While gaming consoles had seen brisk sales in recent years, we can expect some of these to be replaced by online and phone gaming apps in 2012. Apparel sales have been volatile, losing some ground in 2001-2005, but regaining life in 2006-2011.

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. Since more than two-thirds of the economy is fueled by consumer spending, there is hope that the economy will improve if consumer spending increases. While the savings rate of consumers exploded to more than 8% immediately subsequent to the onset of the recent recession, fortunately for retailers, it has now decreased to about 5%.

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

Historically, sales of holiday gift cards, the most popular category of present, have been increasing dramatically – at about 15% per year. As always, gift cards remain a popular choice

among last minute shoppers. Sales of gift cards are not recorded until the cards are redeemed – usually during January and February. In the 2011 holiday season, these sales increased by 18%, the greatest increase since 2006. These amounted to \$28 billion, an average of \$155 per consumer. The explosion of gift card sales in 2011 may well have been the result of relatively few must-have items available in 2011. This is not likely to be repeated in 2012.

Online Retail Sales

Figures for online retail sales exclude products like autos, auctions, and large corporate purchases. In 2011, these sales climbed 15% from the prior year, marking an all-time record for the season. So, web sales continue to rise but still represent a relatively modest percentage of the total. Also, in recent years, web sales have been disappointing to retailers, who had become accustomed to increases of 100%/year, but have only been realizing relatively modest increases since 2008. The largest growing category of products sold online is consumer electronics.

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 commence their online shopping. Mondays remain the biggest day of the week and sales progressively increase as Christmas approaches. Online sales are brisk until “Green Monday,” the second Monday in December. The Friday that is one to two weeks prior to Christmas is now beginning to be referred to as “Free Shipping Day.”

Online retail spending for the entire 2011 holiday season reached \$37.2 billion and, as mentioned, marked a 15% increase versus 2010 – an all-time record for the season. Ten individual shopping days during 2011 surpassed \$1 billion in spending. This was led by Cyber Monday, which ranked #1 for the second consecutive year, at \$1.25 billion.

Consumers should continue to be wary of doing business on the web and (a) shop from retailers with whom they are familiar; (b) stay with bricks and mortar retailers that also do business on the web (50% of all web sales are made from companies whose primary business comes from their bricks and mortar operations); and (c) continue to monitor the security of their credit cards.

In general, the web has replaced paper catalogue sales, rather than mall sales. Most experts agree that the mall experience is here to stay.

Products such as consumer electronics, computer software, computers/peripherals/PDAs, online and phone gaming apps, and books and magazines, are the top-performing online product categories.

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

In recent years, the discounters have done extremely well (Walmart continues to outperform its competitors). When the economy is strong, the specialty stores do well. The department stores (especially regional ones) have not performed well in recent years.

The Impact of Inventory Levels

If retailers overestimate demand, by December 10th or so, they begin to 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 2012, expect the "in" toy to be the Furby, an updated, hi-tech version of the 1998 "must-have" holiday toy. It comes with an optional app for the iPhone, iPod Touch, and iPad. Also, high on this list will be the iPad Mini, a smaller version of the iPad and thought to become a hit with parents and children alike.

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 2012 Forecast

Numerous variables influence holiday retail sales. These include:

- *Consumer Confidence – its direction and variability.* Consumer confidence remains low; impacted by the fact that the unemployment rate continues to hover at around 9%. This holiday season will be characterized by a somewhat cautious consumer.
- *Same Store Sales for Recent Months – their direction and variability.* The numbers in recent months have shown improvement. For December 2012, same-store sales for the large chains, which include J.C Penney, Target, Macy's, and Nordstrom, are expected to increase relative to the previous year.

- *Stock Market Performance (which captures the wealth effect on spending) - its direction and volatility.* Although the market has been improving, continued uncertainty may cause consumers to be a bit cautious.
- *Other Economic Indicators – including more tenuously related indicators, such as housing and automobiles.* Although some of these markets (especially automobiles) continue to recover in 2012, recent numbers suggest that the housing market will remain stagnant for some time. Home prices are expected to decline about 4% on average during 2012.
- *Consumer Debt – interest rates, credit card debt, and bankruptcies.* These all have a significant impact. Current interest rates levels are extremely low, but credit card debt remains high, and bankruptcies remain problematic.
- *Political Climate – presidential politics are important.* Holiday retail sales should be helped by the fact that there is a presidential election in 2012, irrespective of who is elected. There is a certain optimism on the part of voters that carries over into their retail spending habits. Consumer confidence should rise in the days immediately following the election.
- *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 conflicts in Afghanistan, Libya and, more recently, Syria 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. Obviously, it is too early to determine if this will be a major 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 (it falls on a Tuesday in 2012). Fortunately, during 2012, due to an early Thanksgiving, there will be 32 days in the shopping season (the maximum possible). This will not be replicated in 2013, which will have a paltry 26 shopping days.
- *Energy.* The national average price for gasoline is expected to hover around \$4 a gallon (the recent average of \$3.83 was up 17 cents from the same time last year). Persistent unrest in the Middle East continues to create anxiety amongst drivers.
- *Inflation.* Consumers are likely to pay about 2% more for goods and services that they purchase. Recent inflationary pressures have resulted from price increases in food, rent, energy, hotel rates, tobacco, and education.

The Forecast for 2012

Despite the fact that consumers indeed desire to spend much more this year than they did last year, they might be unable to do so, due to the continued high rate of unemployment, fears of job losses, extremely modest wage increases, the depressed housing market, and uncertainty in stock prices.

Accordingly, I project that holiday retail spending will increase by 3.0%.

About the Author

Dr. Anthony L. Liuzzo is Professor of Business and Economics and Director of the MBA and ABBA Programs 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 his predictions have been the subject of reports appearing on CNN, and in *The Detroit News* and *The Washington Times*.

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Date Prepared

This report was prepared on September 18, 2012.

Appendix

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)
Talbots (acquired by Sycamore Partners, a private equity firm, in August of 2012)

Discount Stores

Costco
Dollar General
Kmart (owned by Sears)
Target
TJX (HomeGoods, Marshall's, TJ. Maxx)
Walmart 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

Crate and Barrel

Michael's

Pier One

Pottery Barn (owned by Williams Sonoma)