



Downtown Economics

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Ideas for Increasing Economic Vitality in Community Business Districts

Consumer Behavior During Difficult Economic Times

Summarized by Bill Ryan*

Many economic and retail experts predict a dismal holiday shopping season. An unstable economic environment is worsening as we head into the holiday season. The National Retail Federation expects holiday sales to grow at the slowest pace in years as shoppers worry about jobs, the housing market, stock market, and rising prices. America's Research Group recently predicted that U.S. holiday retail sales will fall by 1 percent this year. This article summarizes insights from various retail analysts and explains why spending has slowed and what people are buying during these tough economic times.

Consumers have less to spend

As consumer confidence declines, so does consumer's willingness to spend. In addition, consumer spending is limited by significant financial constraints facing many U.S. households:

- Fixed expenses such as medical, college, energy and food have been increasing, contributing to ongoing inflationary concerns;
- With falling housing prices, American's have less home equity and are less able to leverage that equity for discretionary spending;
- Many consumers have an increasing amount of credit card debt; and
- A weakening labor market is adding to increasing unemployment.

This situation coupled with middle class incomes growing very little over the past decade has led to consumers "trading down" by seeking value and low cost when shopping.

Non-Discretionary Expenditures

During tough times, many consumers stick to basic necessities rather than novelties and luxuries. This winter, practical apparel, like socks and fleece jackets, and basic household products, such as diapers, household cleaners, pet care products, and food

items, are all expected to see strong sales. Apparel such as fleece jackets and socks and household goods such as kitchen supplies and linens should also be in demand as they satisfy needs of comfort and warmth during the winter.

Flight to Value

Consumers are increasingly "trading down" from higher-end retailers and brands to retailers and brands associated with greater value. Some consumers may also replace more expensive fresh foods with canned and frozen varieties. Coupon clipping may become a necessity for many middle and upper-middle families. According to retail analyst Marshal Cohen of the NPD Group, if the dollar is tight, most consumers will seek out the retailer who can give you the most value for the dollar. This flight for value will lead many consumers to Wal-Mart, a firm that benefits from a perception that its merchandise is less expensive than the merchandise of its competitors. This is reflected in the company's slogan: "Save Money. Live Better."

Convenience

While fuel prices have temporarily retreated, consumers still recognize the savings in combining errands and bundling trips to one-stop stores that combine department store and supermarket offerings. This will benefit super-centers and warehouse club stores.



Photo source: theherald.com.au

Staying at Home

Consumers are going out to eat less often, as evidenced by a recent Nielsen survey, where two-thirds of fine dining patrons admitted they are going out less often compared to a year ago. If they do dine out, they are often trading down to lower priced restaurants such as “fast casual” and “quick service” establishments. Items that are well-suited for in-home consumption including food, beverages, DVDs, books, and games are expected to sell well during the holidays and into 2009, as consumers increasingly seek out less expensive entertainment at home.

Forecasts by Retail Sector

Given the shifts identified above, retail categories do not react the same to a tough economic environment. Industry analysts see challenges facing the following retail categories:

- Apparel stores that sell upper-end clothing (often the preferred tenants for downtowns) are suffering from reduced sales. Mall-based clothing and department stores will likely struggle as shoppers cut back on discretionary spending.
- Home improvement store sales are expected to decrease according to research by the Nielsen Company. However, some argue that sales rebound as consumers spend money fixing up their homes instead of buying new ones.
- Electronics store sales are expected to decrease according to research by the Nielsen. Others see increases in sales in products like flat screen TVs and home theater increasing as Americans do more “cocooning” in their homes.
- Toy store sales may suffer as parents may cut back on toys and games.
- Office supply sales may decrease in relation to overall business spending.

While some retail categories are expected to see decreases, there are still opportunities in other categories to capture increased spending by focusing on value.

- Mass merchandise discount and dollar stores are expected to do well as consumers “trade down” in price.
- Super-centers and warehouse club stores are expected to attract a larger share of holiday spending, as consumers seek to minimize the number of shopping trips and find good values.

- Drug stores that sell non-discretionary products and are somewhat insulated from economic downturns. Cosmetic shops have fared relatively well in past recessions.
- Sale of movie tickets, which remain an affordable luxury, is expected to stay strong.
- American consumers will continue to shift their gift buying online this holiday season, because of convenience, time saving, and price according to research by Nielsen.

Conclusions

Given the slow economy, experts predict a weak holiday shopping season. Consumers have less to spend, are focusing on non-discretionary purchases, are seeking value and convenience, and are staying closer to home. Still, some retailers are expected to do well including mass-merchandise discount stores, super-centers, warehouse clubs, and dollar stores as consumers “trade down” in price. American consumers will continue to shift their gift buying online this holiday season because of convenience, time savings, and price.

Sources:

David Milder, DANTH, Inc. Presentation at the New Jersey State League of Municipalities Annual Conference, November 18, 2008

Todd Barman, National Main Street Center webinar presentation, November 20, 2008

Nielsen Economic Advisor Series, 2008 Holiday Forecast, October 9, 2008

Jon Schallert, The Schallert Group, Inc. webinar presentation November 26, 2008

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