

Retail Spending: The Trends, Challenges and Outlook

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International Council of Shopping Centers

Founded in 1957, the International Council of Shopping Centers (ICSC) is the global trade association of the shopping-center industry. With over 60,000 members in the U.S., Canada and more than 80 other countries, its members include shopping-center owners, developers, managers, marketing specialists, investors, lenders, retailers and other professionals as well as academics and public officials. As the global industry trade association, ICSC links with more than 25 national and regional shopping center councils throughout the world.



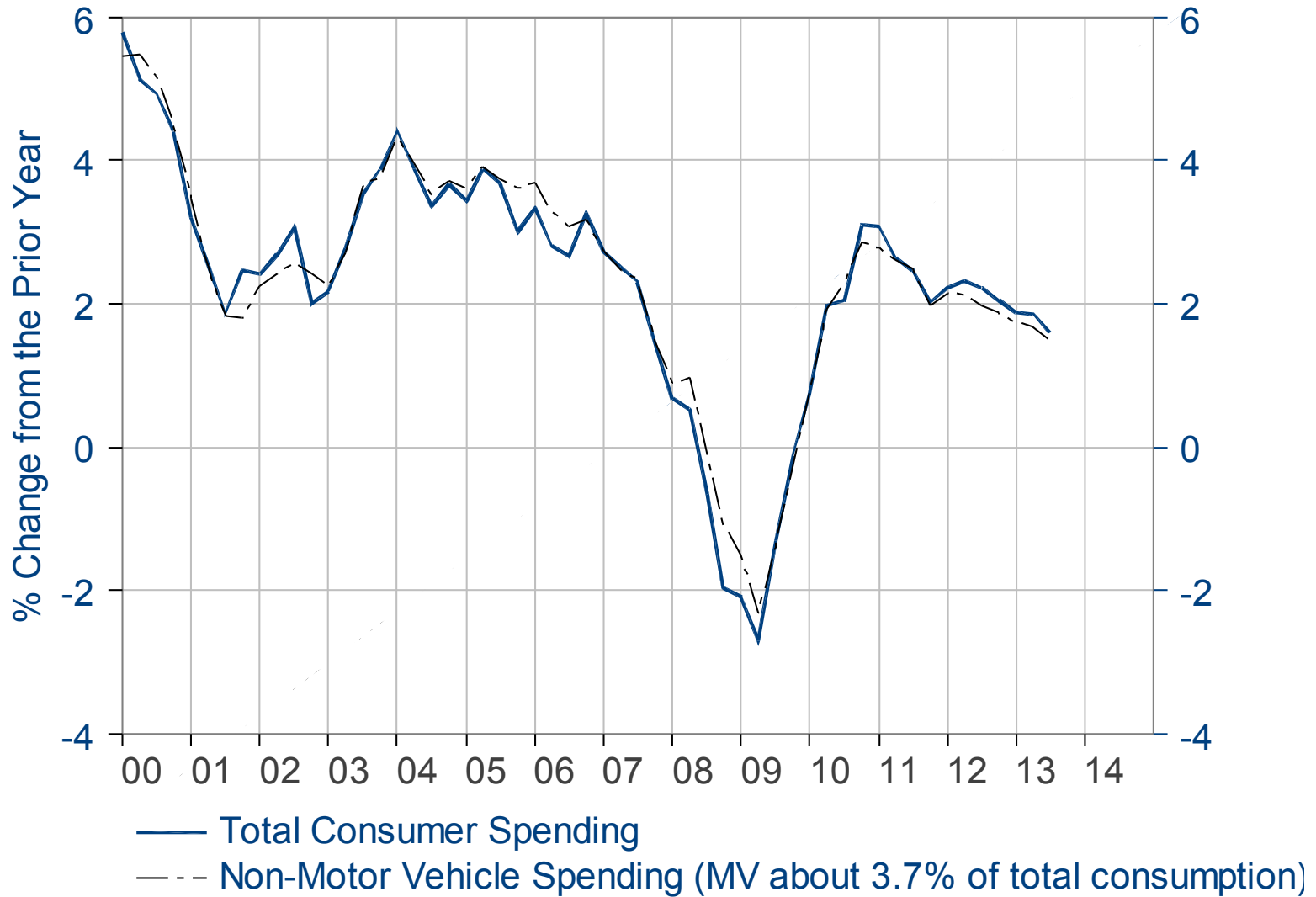
Highlights

- Three Faces of Consumer Spending
- What Worries the Consumer?
- What Motives Consumer Spending?
- ICSC's 2013 Holiday Outlook
- Longer-Term View



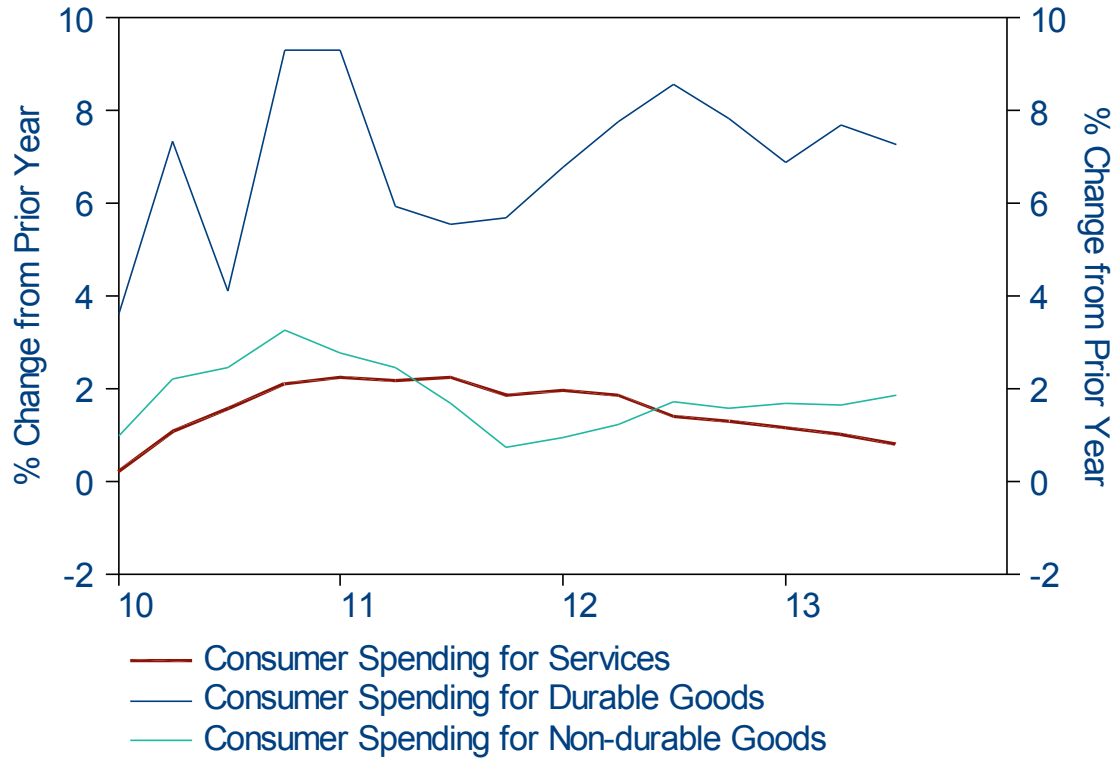
A Look at the Present Situation

Slowing Pace of Consumer Spending



U.S. Real Consumer Spending Pace is Trifurcated

Strong Durable Goods, Moderate Non-Durables, But Weak Services



--- Year-over-Year % Change ---
 Services Durables Non-Durables

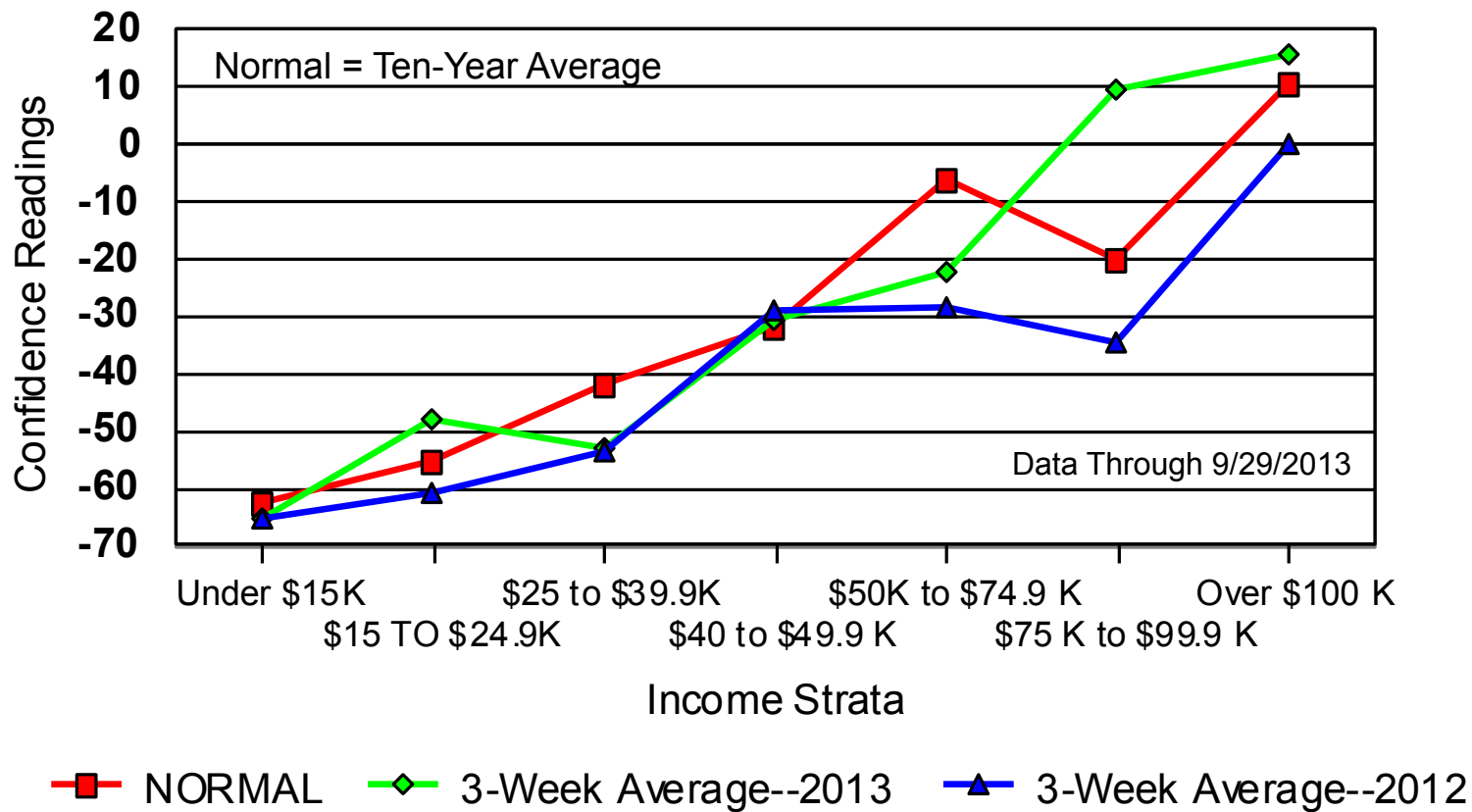
Year	Services	Durables	Non-Durables
2011			
Q1	2.2%	9.3%	2.8%
Q2	2.2	5.9	2.5
Q3	2.3	5.5	1.7
Q4	1.9	5.7	0.7
2012			
Q1	2.0	6.8	0.9
Q2	1.9	7.8	1.2
Q3	1.4	8.6	1.7
Q4	1.3	7.8	1.6
2013			
Q1	1.1	6.9	1.7
Q2	1.0	7.7	1.6
Q3 (QTD)	0.8	7.3	1.9

Challenge: Without Stronger Service Spending, Economic Growth Will Remain Sluggish

What Worries the Consumer?

The Confidence Curve By Household Income— Healthy at the High End

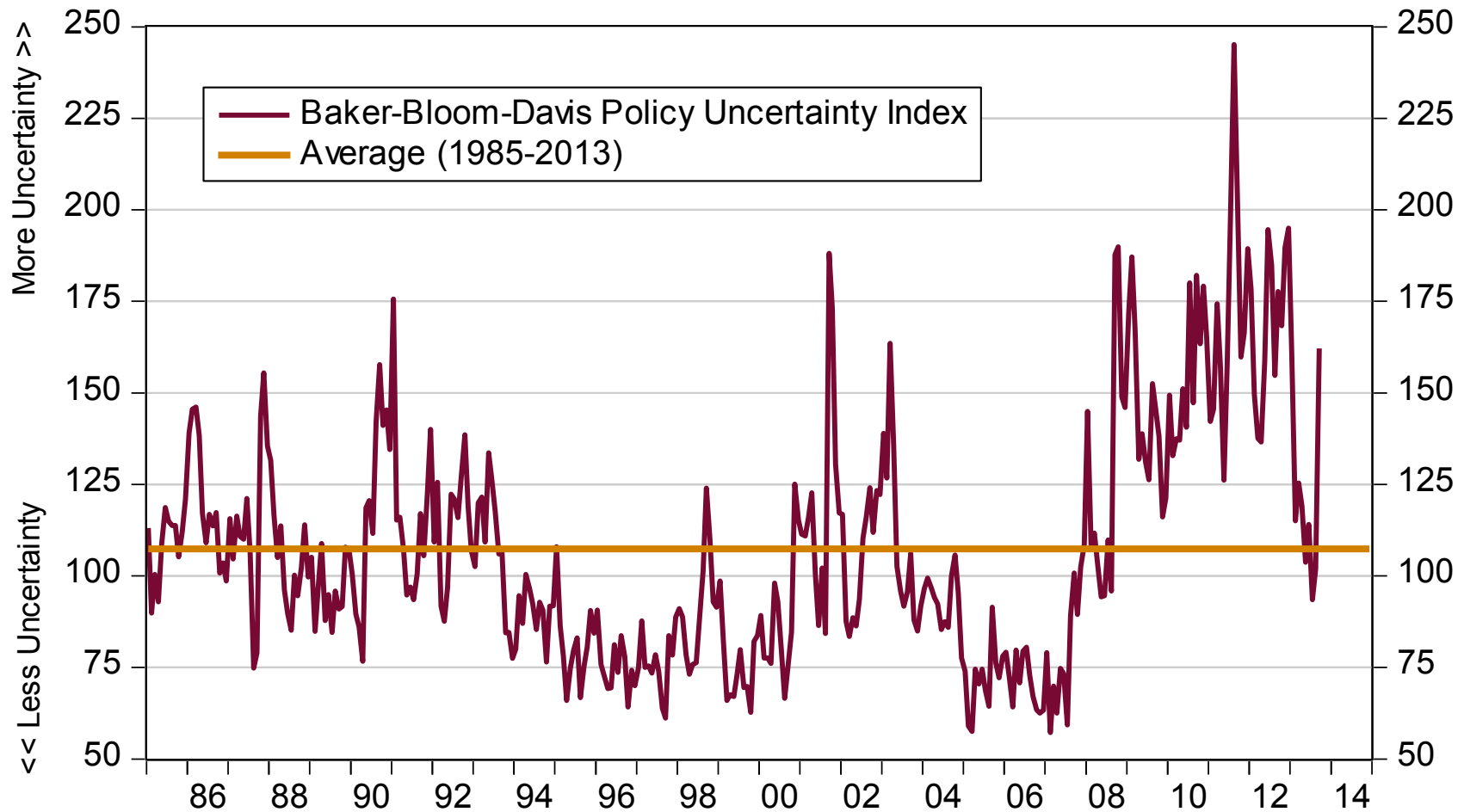
Confidence Curve



Source: Bloomberg Business News.

The Policy Backdrop for the Consumer Sector

Baker-Bloom-Davis Policy Uncertainty Index



Gallup: **“History Suggests Shutdown Stakes May Not Be That High”**

- **“1995 battle didn't affect views of Clinton, Gingrich, nor U.S. in the long term”**
- **“Americans already view Congress itself -- and the Republicans and Democrats who are part of it -- very poorly, meaning there is not much room for their perceptions of the legislative branch to worsen further.”**

What's the Relationship Between Policy Uncertainty (BBD Index) and Retail Spending?

<u>Measure</u>	<u>Statistical Correlation</u>	<u>Lead*</u>
Total Retail Sales (% Change, Y/Y)	-0.255	3 Months
GAFO Store Sales (% Change, Y/Y)	-0.221	Concurrent

** Based on Highest R² between 1985 and 2013*

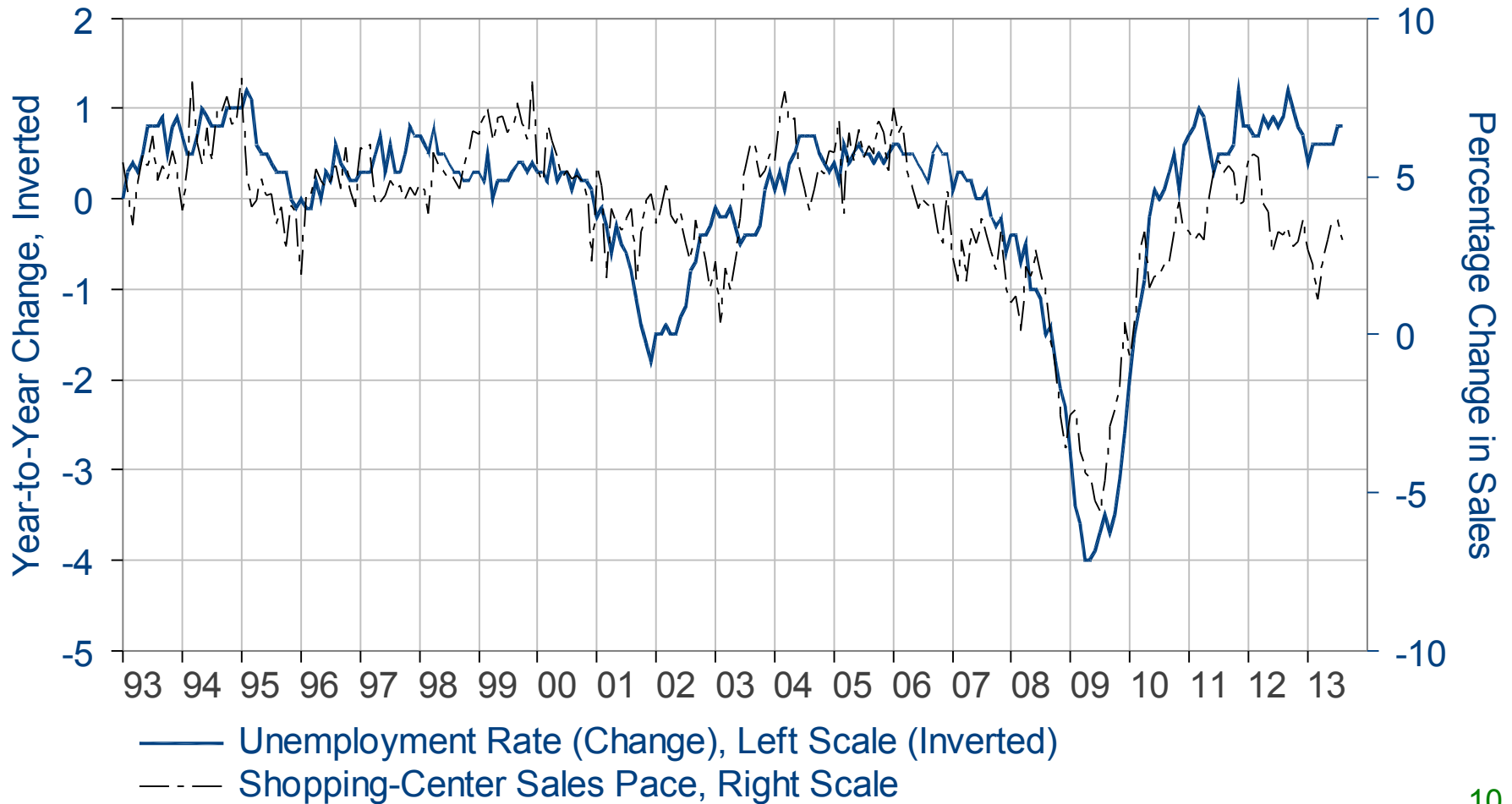
Statistically, measured policy uncertainty has a very weak and a very short-term relationship with retail spending.

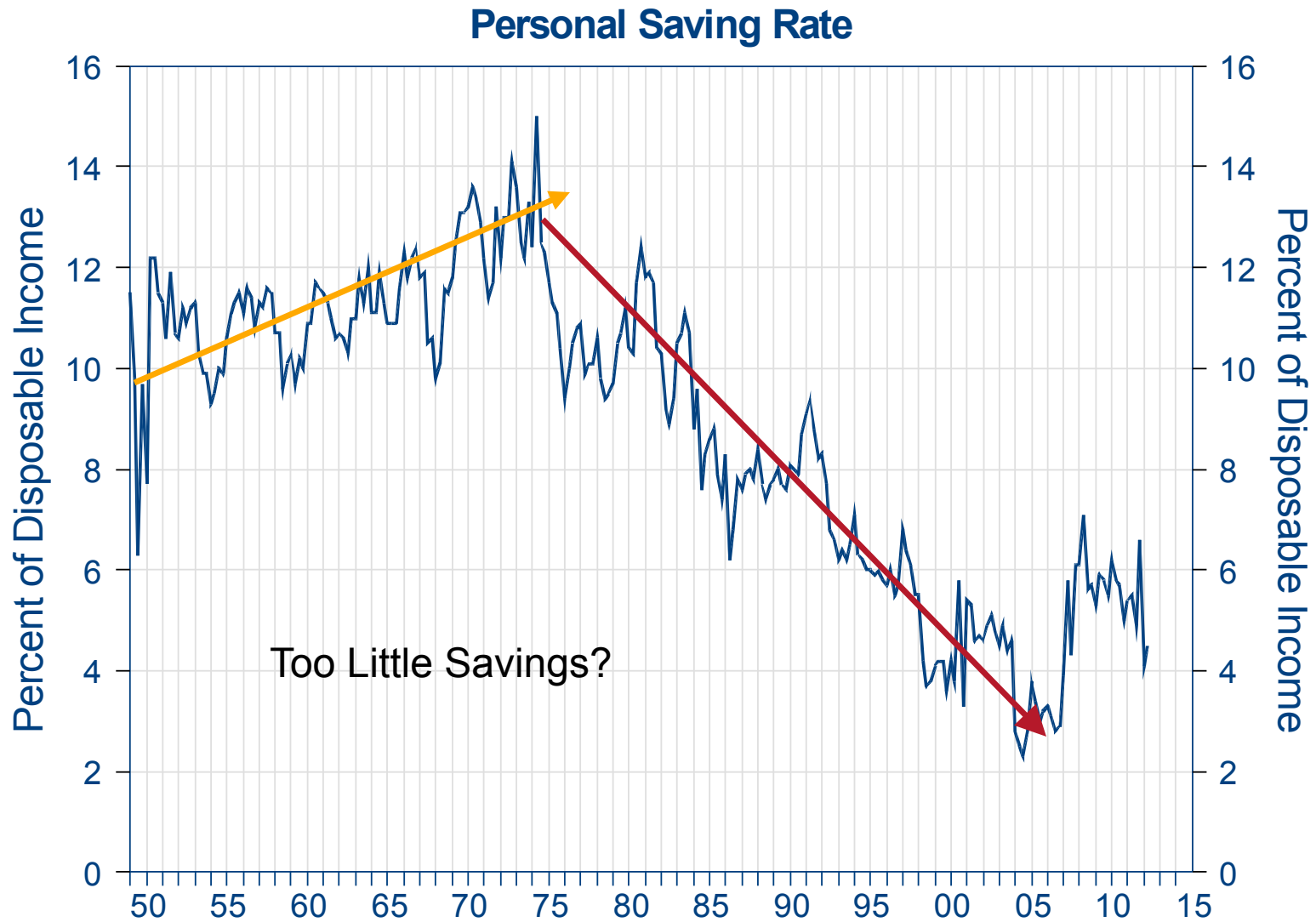
Motivations to Spend or Save

The Work-Spend Nexus

Spending and Unemployment

Change in the Unemployment Rate (Inverted) and % Change in Shopping-Center Sales





Source: U.S. Commerce Department.

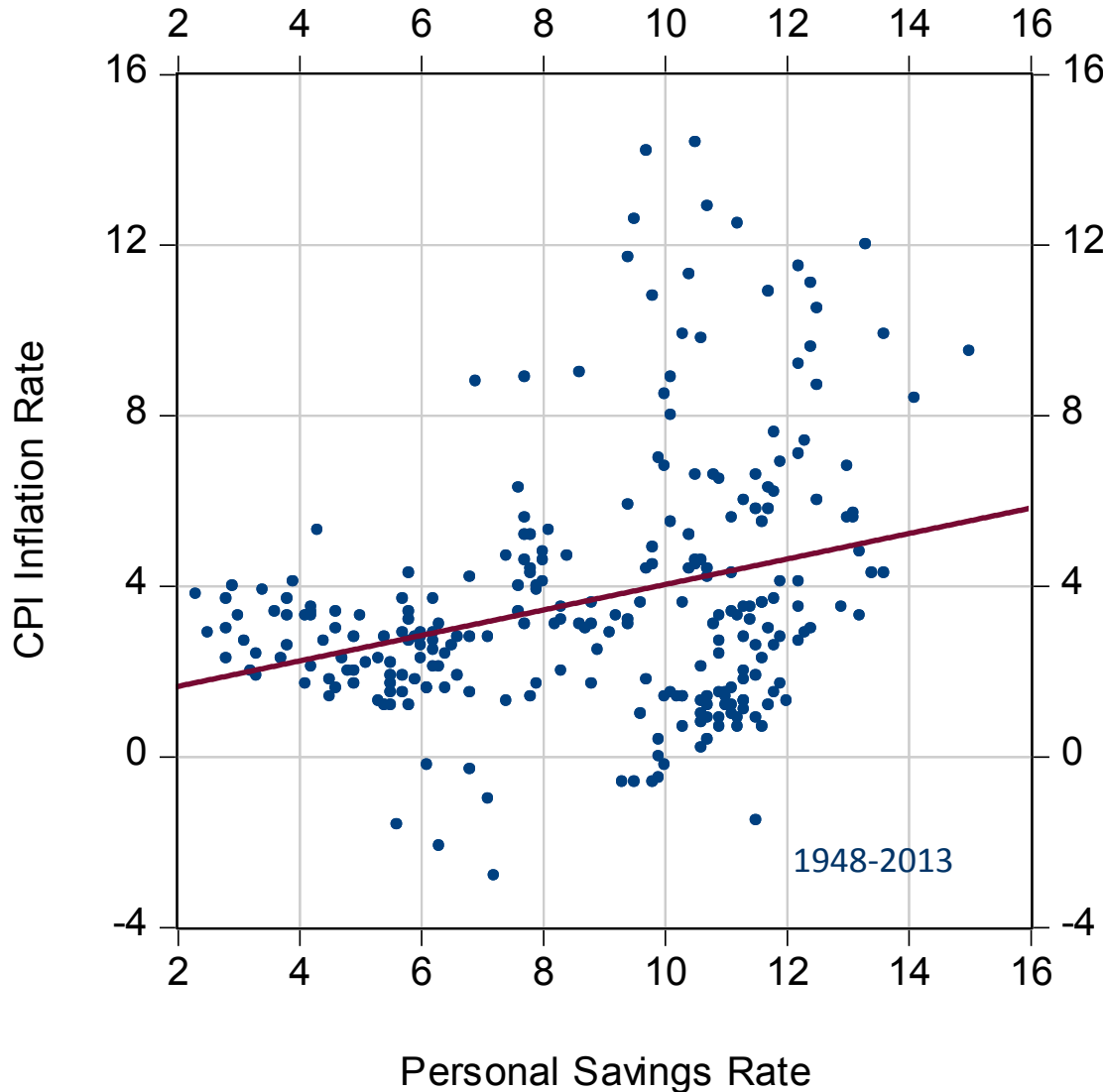
Consumer Savings and Inflation

Period	Personal Saving Rate	Consumer Inflation Rate
1980-89	9.3%	5.2%
1990-99	6.7	3.0
2000-09	4.3	2.6
2010-13 _{Q2}	5.4	1.9
2013:Q1	4.1	1.4
2013:Q2	4.5	0.0



Stylized Facts About the U.S. Personal Savings Pattern

The Higher the Inflation Rate, The Higher the Savings Rate and Vice Versa



Scatter plot suggests that as the inflation rate goes up, the saving rate does as well. A linear trend of these quarterly data suggests *if*:

Inflation Rate Savings Rate

2% → 2.1%

4% → 7.6%

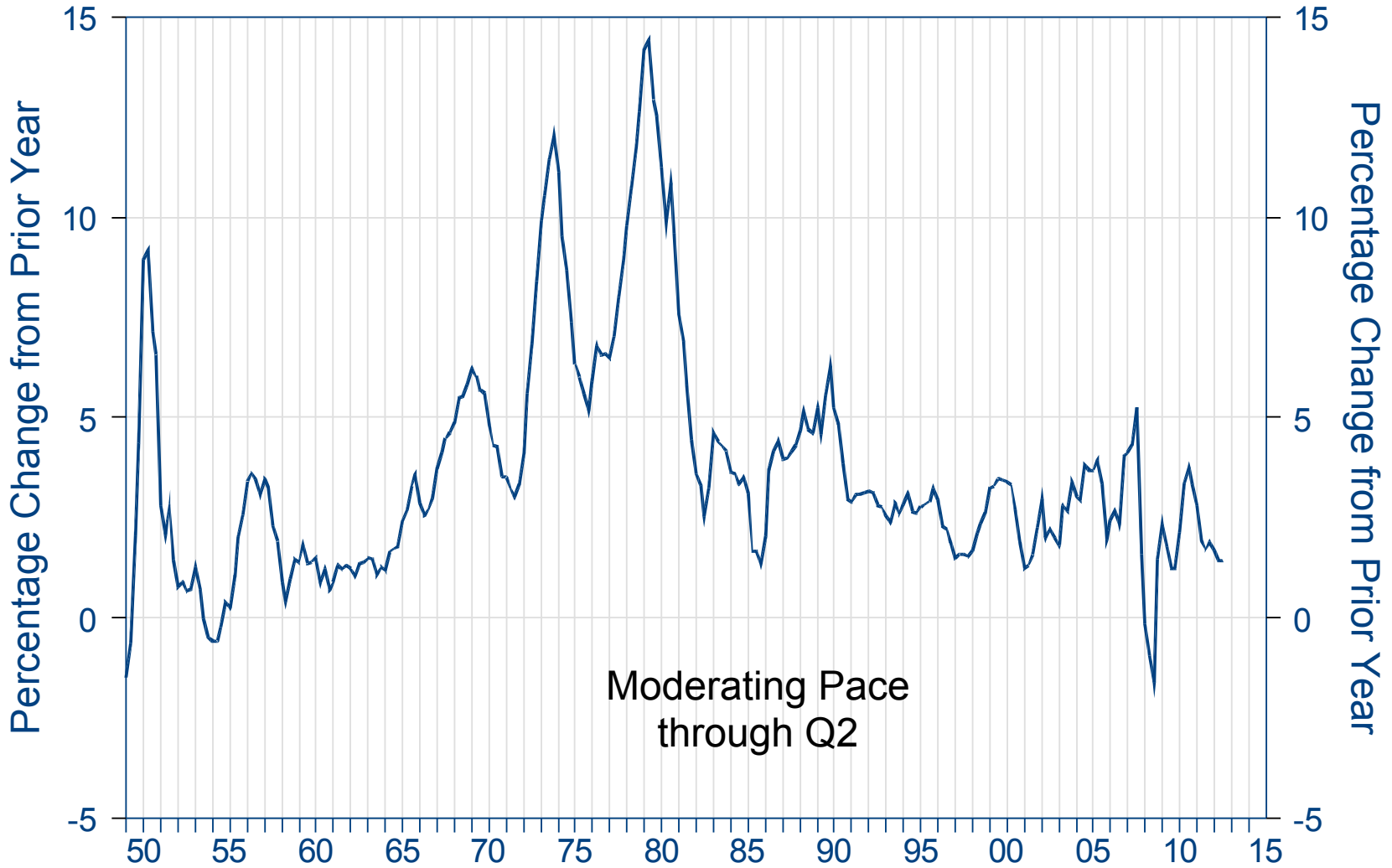
6% → 12.1%

Non-Linear Relationship from Scatter is:

$SAVERATE = (((INFLATION^2) - 2.958) / 0.2251)^{(1/2)}$

Logic: Consumers Hold More Precautionary Savings as Inflation Rate is Higher.

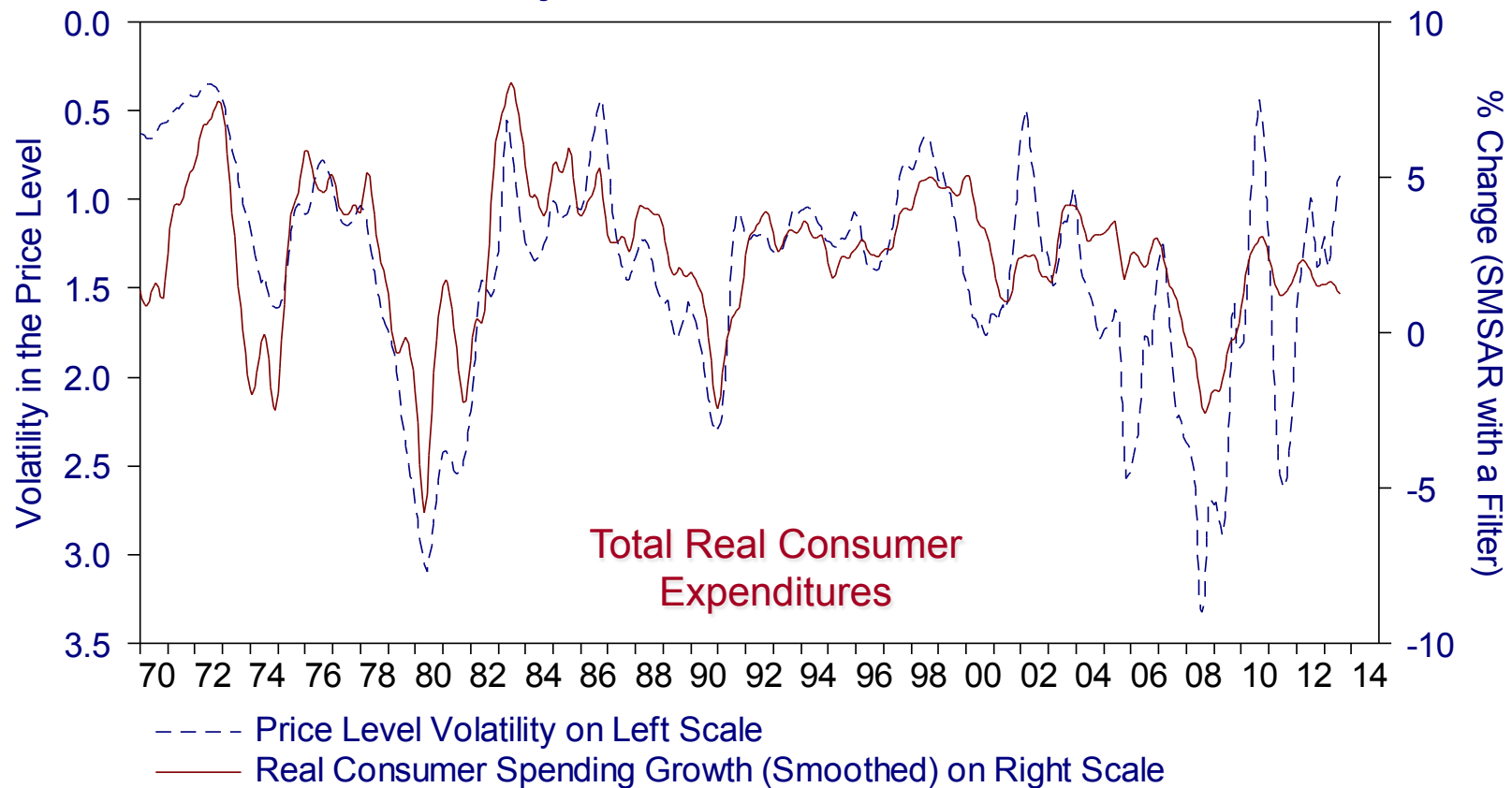
Consumer Inflation



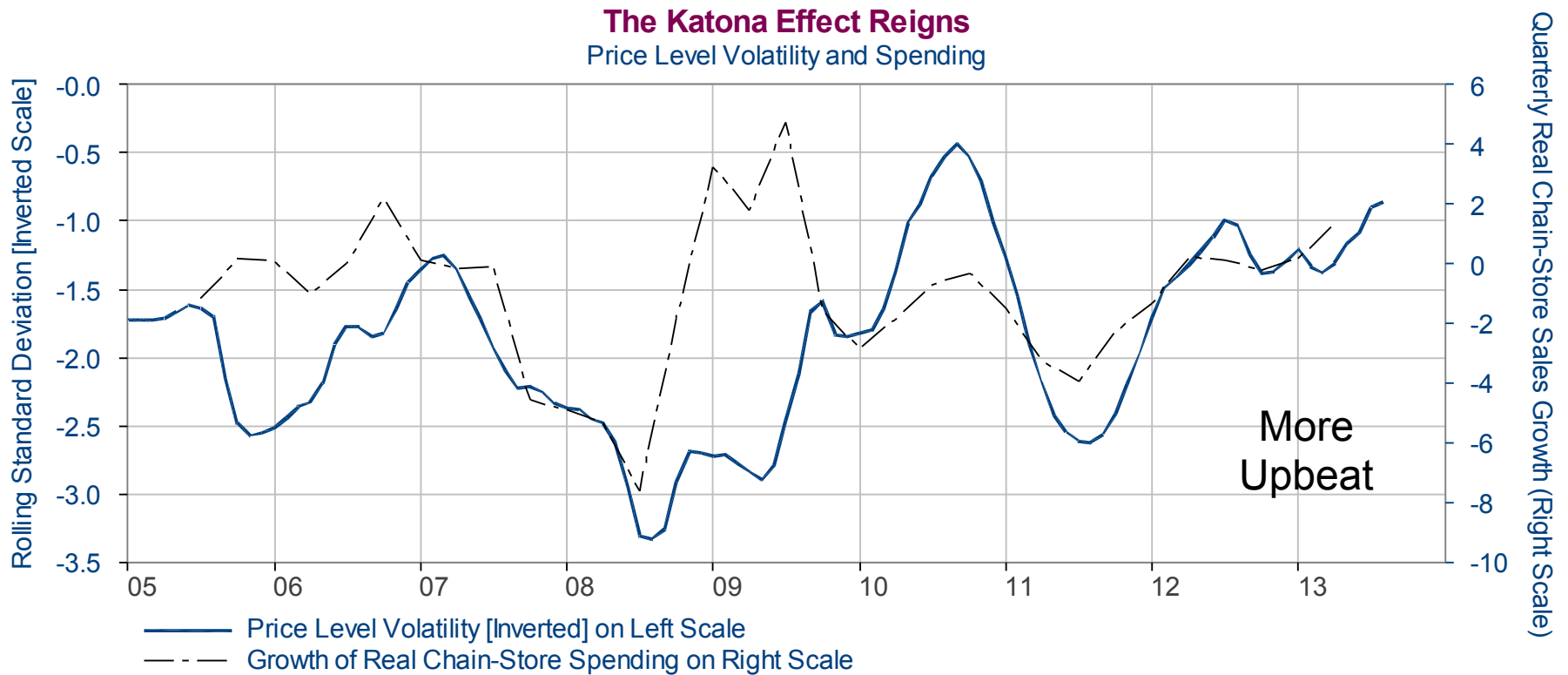
Source: U.S. Bureau of Labor Statistics.

Economic Uncertainty is Captured in the Katona Effect

The Katona Effect and U.S. Consumer Spending
Volatility in the Consumer Price Level Inverted



Close Up: Katona Effect vs. Real Chain-Store Sales Spending



Katona's concept of consumer uncertainty

<u>Measure</u>	<u>Statistical Correlation</u>	<u>Lead*</u>
Total Retail Sales (% Change, Y/Y)	-0.480	17 Months

** Based on Highest R² between 1985 and 2013*

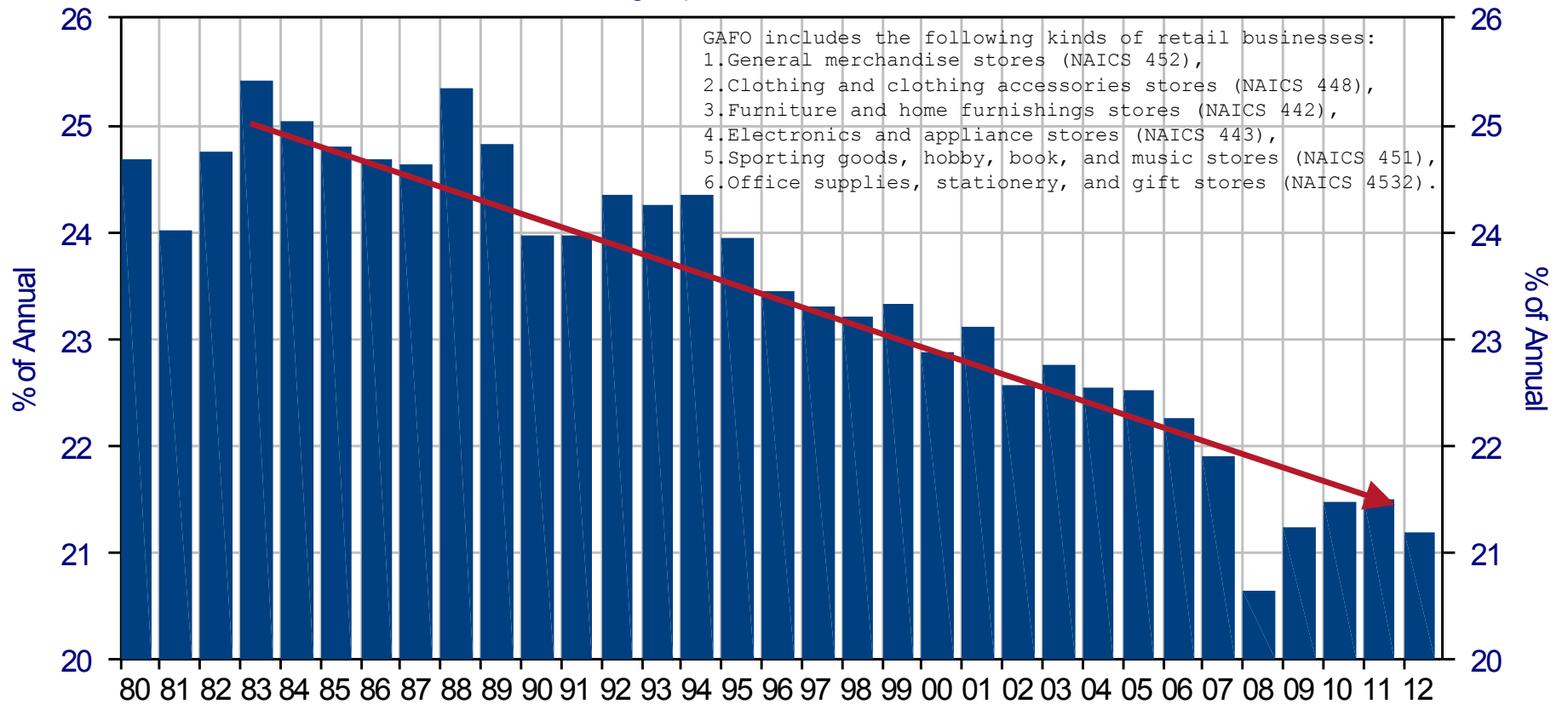
Statistically, this measure of uncertainty is a more powerful force for consumer spending.

A Look at U.S. Holiday Spending



Diminishing Importance of Holiday Spending over November and December

November-December GAFO Sales as Share of Annual Sales
Shifting Importance of Christmas Sales

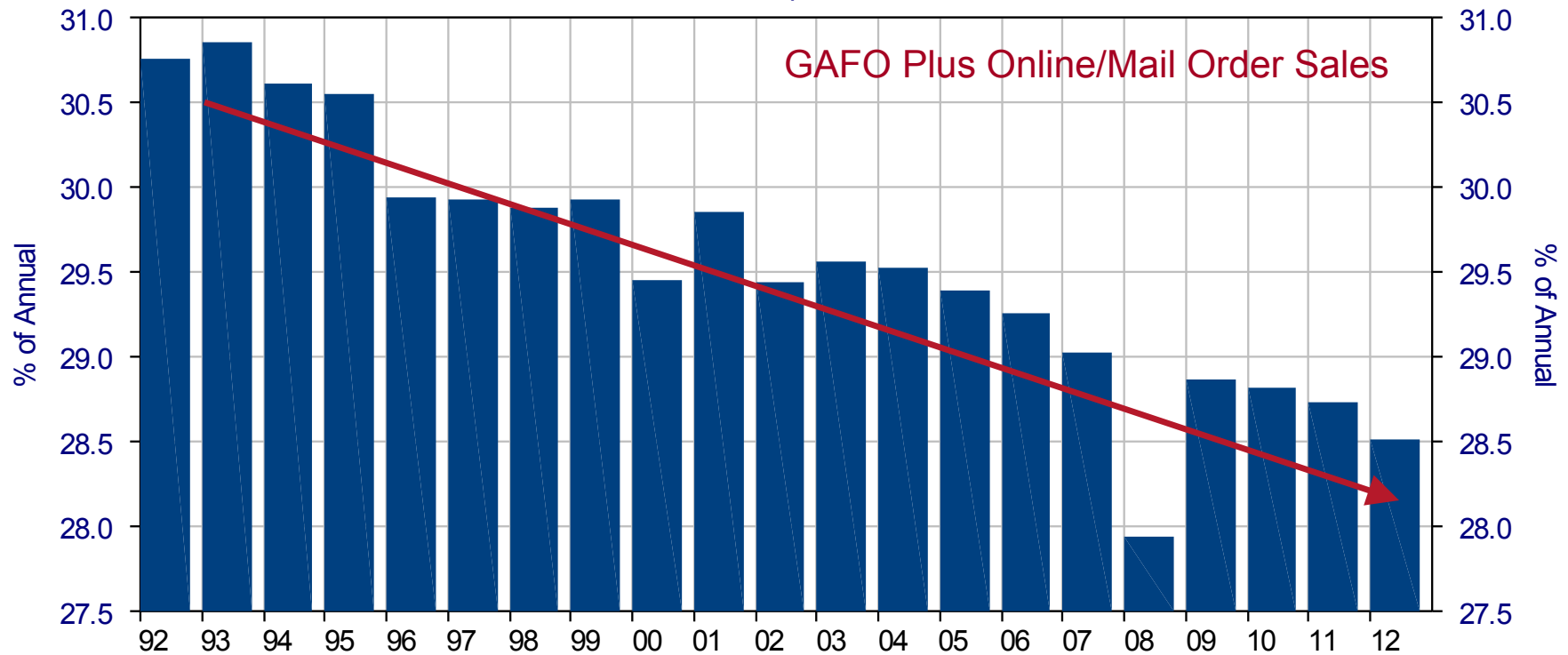


In-store Holiday Sales Continue Downward Trend as Share of Annual Spending

Even an “All In” View of Holiday Spending Shows Similar Trend: Holiday Spending Has Diminished in Importance

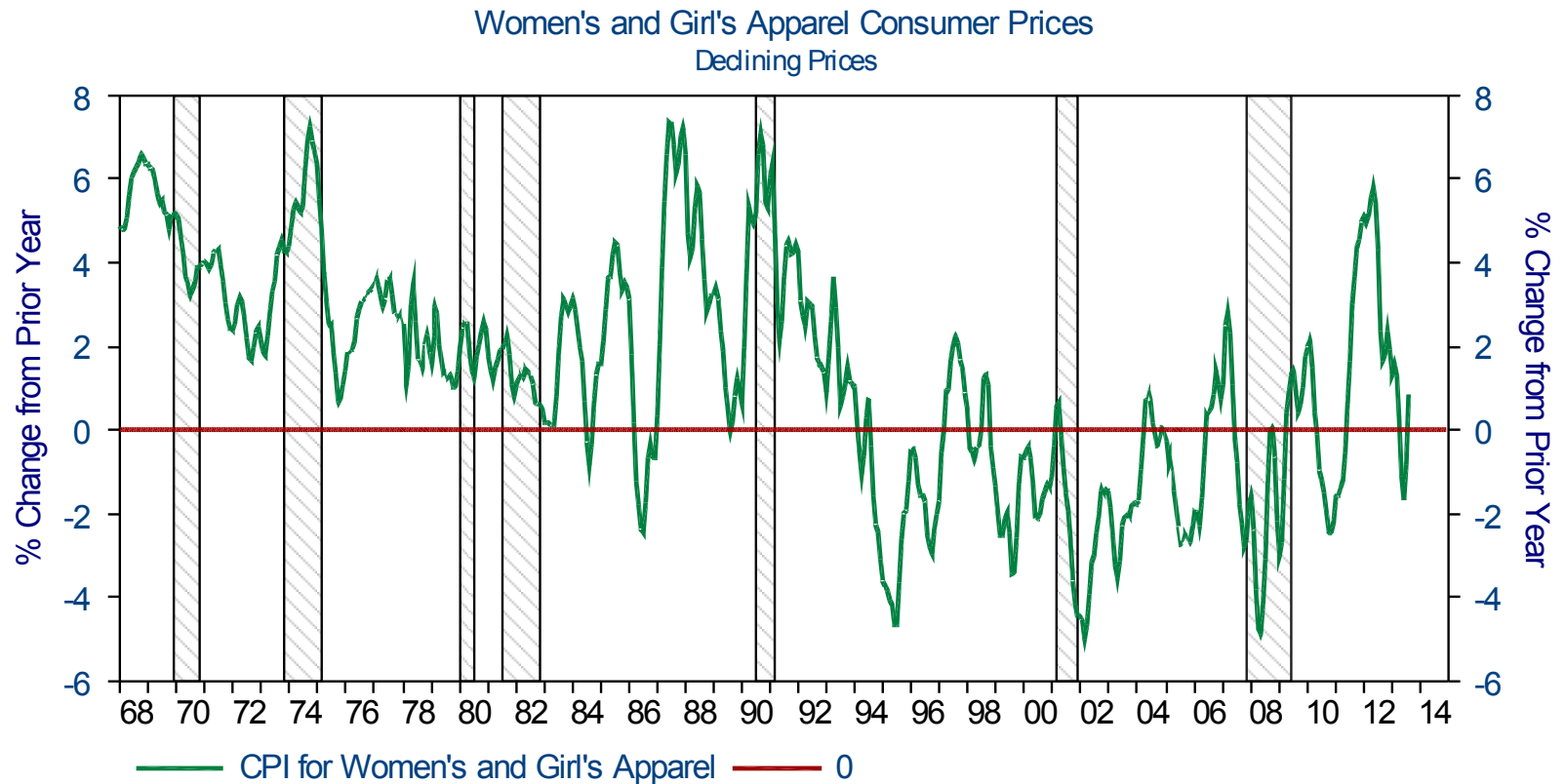
November-December-January Holiday Sales as Share of Annual Sales

Gift Card Redemption Helps to Drive Sales in January,
But Still Season's Importance Diminishes



No Matter What Channel and Accounting for Gift Cards—Holiday Season
is Less Important

Stabilizing Prices Should Help Reported Apparel Sales



Note: Shaded Areas Represent Classical Business Cycle Recessions as Defined by the National Bureau of Economic Research.

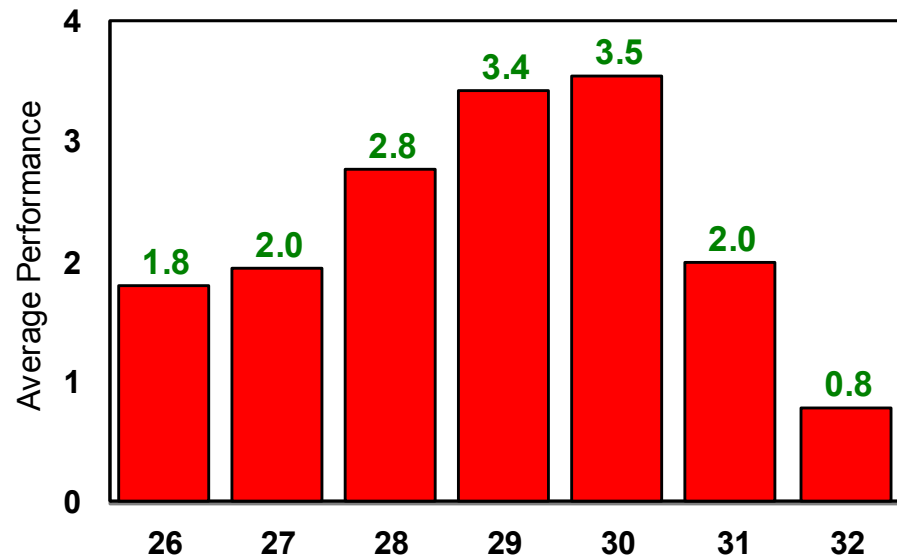
Spring and Back-to-School Apparel Spending Affected by Declining Prices and Adverse Weather, **But Leaner Inventories and Stabilizing Prices Should Help Holiday Season.**

Does a “Short” Season Between Thanksgiving Day and Christmas Day Matter?

ICSC Chain Store Sales Index Year/Year % Change in Comparable-Store Sales During the Holiday Season

Year	Q4 Growth	Length of the Shopping Season (Days Between Thanksgiving and Christmas days)	Day of the Week for Christmas	Hanukkah (holiday starts night before)
1993	3.7	29	Saturday	12/9
1994	4.2	30	Sunday	11/28
1995	1.6	31	Monday	12/18
1996	3.5	26	Wednesday	12/6
1997	4.2	27	Thursday	12/24
1998	4.8	28	Friday	12/14
1999	5.4	29	Saturday	12/4
2000	2.3	31	Monday	12/22
2001	1.0	32	Tuesday	12/10
2002	0.1	26	Wednesday	11/30
2003	4.1	27	Thursday	12/20
2004	3.2	29	Saturday	12/8
2005	3.6	30	Sunday	12/26
2006	2.2	31	Monday	12/16
2007	0.2	32	Tuesday	12/5
2008	-2.5	27	Thursday	12/22
2009	0.8	28	Friday	12/12
2010	1.4	29	Saturday	12/2
2011	2.8	30	Sunday	12/21
2012	1.3	32	Tuesday	12/9
2013	2.0 F	26	Wednesday	11/28

Average Sales Growth and "Holiday Shopping Days", 1993-2012



"Holiday Shopping Days Between Thanksgiving and Christmas"

Performance based on ICSC's All-Industry Quarterly Comparable-Store Sales Index of About 125 Retailers.

ICSC's U.S. 2013 "Traditional" Holiday Spending Forecast = +3.4% Y/Y GAFO

"Traditional" Holiday Season Spending Trends

Billions of Dollars, November-December Periods, Not Seasonally Adjusted

Category	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
GAFO Store Sales	\$204.0	\$205.9	\$215.5	\$226.5	\$238.9	\$247.6	\$251.5	\$235.9	\$233.0	\$241.8	\$251.4	\$259.0	\$267.7
% Change	3.4	0.9	4.6	5.1	5.5	3.6	1.6	-6.2	-1.2	3.8	4.0	3.0	3.4
Electronics & Appliances	19.1	19.0	20.8	22.1	23.7	25.6	26.2	23.5	22.4	22.4	23.2	23.1	23.2
% Change	6.3	-0.3	9.5	6.3	7.1	8.1	2.4	-10.4	-4.8	0.2	3.5	-0.4	0.4
Appliances, T.V. & camera	15.2	15.3	16.7	18.2	19.4	21.0	21.4	19.2	18.4	17.7	17.0	16.6	---
% Change	7.1	0.4	9.4	8.8	6.5	8.3	2.1	-10.4	-4.4	-3.7	-3.7	-2.3	---
Computer & software stores	3.4	3.2	3.5	3.7	4.0	4.5	4.6	4.4	4.5	5.3	5.9	6.2	---
% Change	0.2	-4.3	9.3	5.2	7.4	13.7	2.4	-4.9	2.4	16.3	13.0	5.3	---
Clothing and Accessory Stores	39.9	41.3	43.3	45.6	48.7	50.9	51.2	45.5	45.6	48.7	52.4	54.6	57.0
% Change	-1.6	3.4	5.0	5.4	6.7	4.5	0.7	-11.1	0.1	6.9	7.5	4.2	4.5
Men's clothing stores	2.0	1.9	2.0	2.1	2.1	2.1	2.0	1.8	1.6	1.8	1.9	1.9	---
% Change	-11.8	-4.7	5.2	5.0	-0.4	3.3	-4.1	-13.2	-7.6	9.2	8.7	-4.6	---
Women's clothing stores	6.6	6.7	7.3	7.6	8.1	8.4	8.3	7.3	7.2	7.8	8.4	8.7	---
% Change	-0.7	0.9	8.3	4.2	7.1	4.1	-1.6	-12.6	-0.3	7.9	7.2	3.9	---
Shoe stores	4.4	4.4	4.5	4.6	5.1	5.3	5.2	4.9	4.9	5.2	5.7	5.8	---
% Change	0.6	-0.2	2.7	1.8	11.6	3.2	-0.2	-7.0	-0.1	7.4	8.9	1.3	---
Sporting Good, Hobby, Book & Music	19.1	18.8	18.7	19.0	19.4	19.0	19.5	18.3	18.0	18.7	18.4	19.6	20.2
% Change	4.6	-1.5	-0.3	1.3	2.6	-2.1	2.6	-6.5	-1.3	3.8	-1.9	6.8	3.0
General Merchandise	99.4	100.1	105.1	111.0	117.1	122.0	125.8	124.2	124.1	128.2	132.7	135.7	140.5
% Change	5.0	0.7	5.1	5.5	5.5	4.2	3.2	-1.3	-0.1	3.3	3.5	2.3	3.5
Dept stores (ex. leased depts)	55.8	52.1	51.6	52.5	52.3	51.8	50.4	46.8	45.1	45.4	44.9	43.7	---
% Change	-3.3	-6.6	-1.0	1.7	-0.5	-0.8	-2.7	-7.2	-3.6	0.6	-1.1	-2.6	---
Other general merchandise stores	43.6	47.9	53.5	58.4	64.8	70.1	75.4	77.4	79.0	82.8	87.8	92.0	---
% Change	18.1	10.0	11.6	9.2	10.9	8.2	7.5	2.7	2.1	4.8	6.0	4.8	---
Warehouse clubs & superstores	35.8	40.2	45.0	49.6	55.6	60.5	65.7	68.0	68.8	72.2	76.1	79.4	---
% Change	19.8	12.6	11.7	10.4	12.0	8.8	8.5	3.6	1.2	4.9	5.4	4.3	---
All other general merchandise	7.8	7.7	8.6	8.8	9.2	9.6	9.7	9.4	10.2	10.6	11.6	12.5	---
% Change	11.0	-1.6	11.2	2.9	4.6	4.4	0.9	-3.3	8.5	4.1	9.9	7.6	---
Electronic shopping & mail-order	23.5	25.6	28.3	33.1	38.2	42.8	46.9	45.1	51.2	57.6	65.0	71.3	80.6
% Change	-5.7	8.8	10.4	17.1	15.6	11.8	9.6	-3.7	13.3	12.7	12.8	9.7	13.0
Shopping Center Sales	352.6	357.1	374.5	396.4	418.5	431.2	438.9	420.2	417.1	434.3	452.5	464.5	480.3
% Change	3.6	1.3	4.9	5.8	5.6	3.0	1.8	-4.3	-0.7	4.1	4.2	2.7	3.4
Online & Mail-Orders/S-C Sales PLUS (% Share)	6.3	6.7	7.0	7.7	8.4	9.0	9.6	9.7	10.9	11.7	12.6	13.3	14.4

Sources: U.S. Department of Commerce; ICSC Research.

ICSC's U.S. 2013 "Extended" Holiday Spending Forecast = +3.2% Y/Y GAFO Sales...Same Pace as in 2012

"Extended" Holiday Season Spending

Billions of Dollars, November-January Periods, Not Seasonally Adjusted

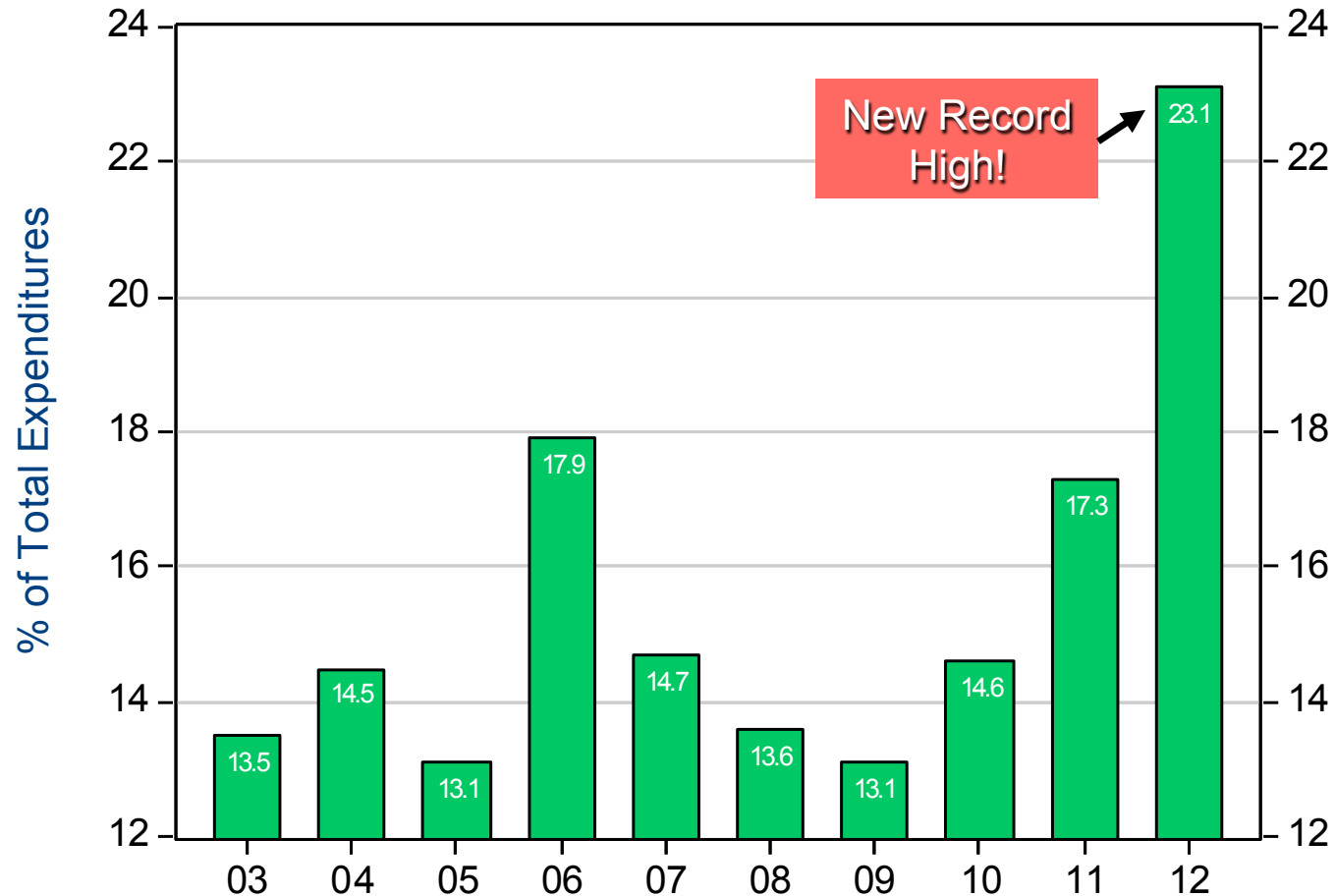
Category	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013 Forecast
GAFO Store Sales	\$267.3	\$271.1	\$286.0	\$299.5	\$317.5	\$329.8	\$334.8	\$317.9	\$313.7	\$323.1	\$336.6	\$347.5	\$358.7
% Change	3.5	1.4	5.5	4.7	6.0	3.9	1.5	-5.1	-1.3	3.0	4.2	3.2	3.2
Electronics & Appliances	25.7	25.5	28.0	29.7	32.2	34.3	35.0	31.9	30.0	30.0	30.9	31.0	31.1
% Change	5.5	-0.5	9.6	6.2	8.4	6.5	1.9	-8.8	-6.0	-0.0	3.1	0.3	0.4
Appliances, T.V. & camera	20.1	20.3	22.2	24.3	26.2	28.0	28.5	26.1	24.6	23.6	22.6	22.3	---
% Change	6.4	0.7	9.7	9.2	7.9	6.8	1.9	-8.5	-5.9	-4.0	-4.1	-1.6	---
Computer & software stores	4.8	4.6	5.0	5.1	5.6	6.2	6.3	5.9	6.1	7.0	7.9	8.4	---
% Change	-0.3	-5.7	9.1	3.6	7.9	11.1	1.4	-5.2	3.2	14.3	12.8	5.9	---
Clothing and Accessory Stores	50.2	52.1	55.1	57.7	61.6	64.8	65.4	58.9	58.8	62.4	66.8	70.1	73.1
% Change	-0.8	3.7	5.8	4.7	6.7	5.2	0.9	-9.9	-0.2	6.2	7.0	4.8	4.4
Men's clothing stores	2.5	2.4	2.5	2.6	2.6	2.8	2.7	2.3	2.1	2.3	2.5	2.4	---
% Change	-12.0	-3.7	5.5	3.9	-0.5	4.7	-3.6	-12.8	-7.5	8.1	8.3	-2.4	---
Women's clothing stores	8.6	8.8	9.5	9.9	10.6	11.1	10.8	9.5	9.5	10.1	10.9	11.4	---
% Change	-0.1	1.5	8.7	3.9	7.2	4.3	-2.3	-11.9	-0.0	6.0	8.2	4.1	---
Shoe stores	5.8	5.8	6.0	6.1	6.8	7.0	7.0	6.5	6.5	6.9	7.5	7.5	---
% Change	1.5	-0.9	3.9	1.5	11.7	3.2	-0.3	-6.9	0.1	6.3	7.6	0.9	---
Sporting Good, Hobby, Book & Music	25.1	24.8	25.1	25.2	26.2	25.6	26.4	25.0	24.6	25.1	24.8	26.8	27.6
% Change	5.1	-1.1	1.1	0.7	3.8	-2.3	3.0	-5.0	-1.8	2.0	-1.0	7.9	3.1
General Merchandise	129.5	131.6	139.5	147.2	155.8	162.9	168.0	167.8	168.3	172.8	179.1	183.1	189.1
% Change	5.0	1.7	6.0	5.5	5.8	4.6	3.2	-0.1	0.3	2.7	3.6	2.2	3.3
Dept stores (ex. leased depts)	70.4	66.1	65.7	66.7	66.3	66.0	63.7	59.5	57.5	57.4	56.6	55.4	---
% Change	-3.5	-6.1	-0.6	1.6	-0.7	-0.5	-3.5	-6.5	-3.4	-0.2	-1.3	-2.2	---
Other general merchandise stores	59.1	65.5	73.8	80.5	89.5	96.9	104.4	108.3	110.8	115.5	122.5	127.7	---
% Change	17.3	10.9	12.7	9.0	11.2	8.4	7.7	3.8	2.3	4.2	6.1	4.2	---
Warehouse clubs & superstores	48.9	55.4	62.6	69.0	77.3	84.3	91.5	95.8	97.2	101.4	106.7	110.8	---
% Change	19.2	13.3	13.0	10.2	12.0	9.1	8.4	4.7	1.5	4.3	5.3	3.8	---
All other general merchandise	10.2	10.1	11.2	11.4	12.1	12.6	12.9	12.5	13.6	14.1	15.7	16.9	---
% Change	9.3	-0.7	10.9	2.0	6.1	3.8	2.5	-2.8	8.1	4.0	11.7	7.3	---
Electronic shopping & mail-order	33.4	36.2	40.2	46.3	54.0	60.3	65.5	63.2	70.5	79.7	89.1	99.4	112.8
% Change	-2.5	8.2	11.3	15.0	16.8	11.6	8.6	-3.5	11.5	13.1	11.8	11.6	13.5
Shopping Center Sales	484.5	493.6	519.4	546.9	579.4	598.4	608.9	587.8	581.5	602.9	629.3	649.0	671.4
% Change	3.8	1.9	5.2	5.3	5.9	3.3	1.8	-3.5	-1.1	3.7	4.4	3.1	3.5
Online & Mail-Orders/S-C Sales PLUS (% Share)	6.5	6.8	7.2	7.8	8.5	9.2	9.7	9.7	10.8	11.7	12.4	13.3	14.4

Sources: U.S. Department of Commerce; ICSC Research.

Comparison With Other Holiday Forecasts

Organization	2013 Forecast	Reasons	2012 Actual	2011 Actual	Data Notes
NRF (10/3)	+3.9%	“Positive growth in the U.S. housing market and increased consumer appetite to buy larger-ticket items give retailers reason to be cautiously optimistic for solid holiday season gains. However, much remains up in the air, including fiscal concerns around the debt ceiling and government funding, income growth and even policies and actions surrounding foreign affairs, all of which could impact holiday sales.”	+3.4%	+5.1%	NRF aggregate based on U.S. Census data for industry sales, includes online spending.
ICSC (9/27)	+3.4%	Less price discounting (GAFO prices off 1.1% in 2012 season, expected down about 0.5%) with lean inventories, lessened drag from economy and policy issues, continued improvement from wealth effects (housing and stock market) and strong online spending (+13.0% gain from electronic shopping and mail order sales)	+3.0%	+4.0%	Based on U.S. Census data, November-December period, GAFO store sales.
	+3.4%		+2.7%	+4.2%	ICSC aggregate based on U.S. Census data for shopping-center industry sales.
	+2.0%		+1.3%	+2.8%	ICSC tally of about 125 retailers’ quarterly comp-store sales (which include online spending generally).
Deloitte (9/23)	+4.0% to +4.5%	Rising home prices, more job growth and strength in online spending	+4.6%	+5.6%	Based on U.S. Census data, November-January Period, Total retail sales less motor vehicle and gasoline.
ShopperTrak (9/17)	+2.4%	Decline in shopper traffic and reduced number of days in Thanksgiving to Christmas period	+3.0%	+4.0%	Based on U.S. Census data, November-December Period, GAFO store sales.

2013 Expectation is for about 20% of Holiday Gifts in Form of a Gift Card Holiday Expenditures in the Form of a Gift Card



Source: ICSC Surveys (Post-Christmas Evaluations)

ICSC's U.S. 2013 Holiday Season Hiring Forecast

U.S. GAFO-Store Holiday Sales and Hiring and ICSC Forecasts for 2013 Season

Year	Oct-Dec	Change from Prior Year	Nov-Dec	Change from Prior Year
	Hiring (thousands)		Sales (millions)	
1991	7,300	-2.6 %	\$ 120,917	2.9 %
1992	7,325	0.3	129,812	7.4
1993	7,472	2.0	138,406	6.6
1994	7,868	5.3	150,110	8.5
1995	7,948	1.0	155,674	3.7
1996	8,112	2.1	160,081	2.8
1997	8,251	1.7	166,259	3.9
1998	8,387	1.6	175,934	5.8
1999	8,699	3.7	190,222	8.1
2000	8,903	2.4	197,347	3.7
2001	8,756	-1.6	204,018	3.4
2002	8,687	-0.8	205,937	0.9
2003	8,715	0.3	215,484	4.6
2004	8,921	2.4	226,525	5.1
2005	9,141	2.5	238,903	5.5
2006	9,212	0.8	247,609	3.6
2007	9,376	1.8	251,466	1.6
2008	9,017	-3.8	235,908	-6.2
2009	8,617	-4.4	232,973	-1.2
2010	8,716	1.1	241,758	3.8
2011	8,875	1.8	251,426	4.0
2012	8,957	0.9	258,954	3.0
2013 F	9,004	0.5	267,718	3.4

*Lots of Metrics of
Seasonal Hiring,
But ICSC
Follows BLS
View.*

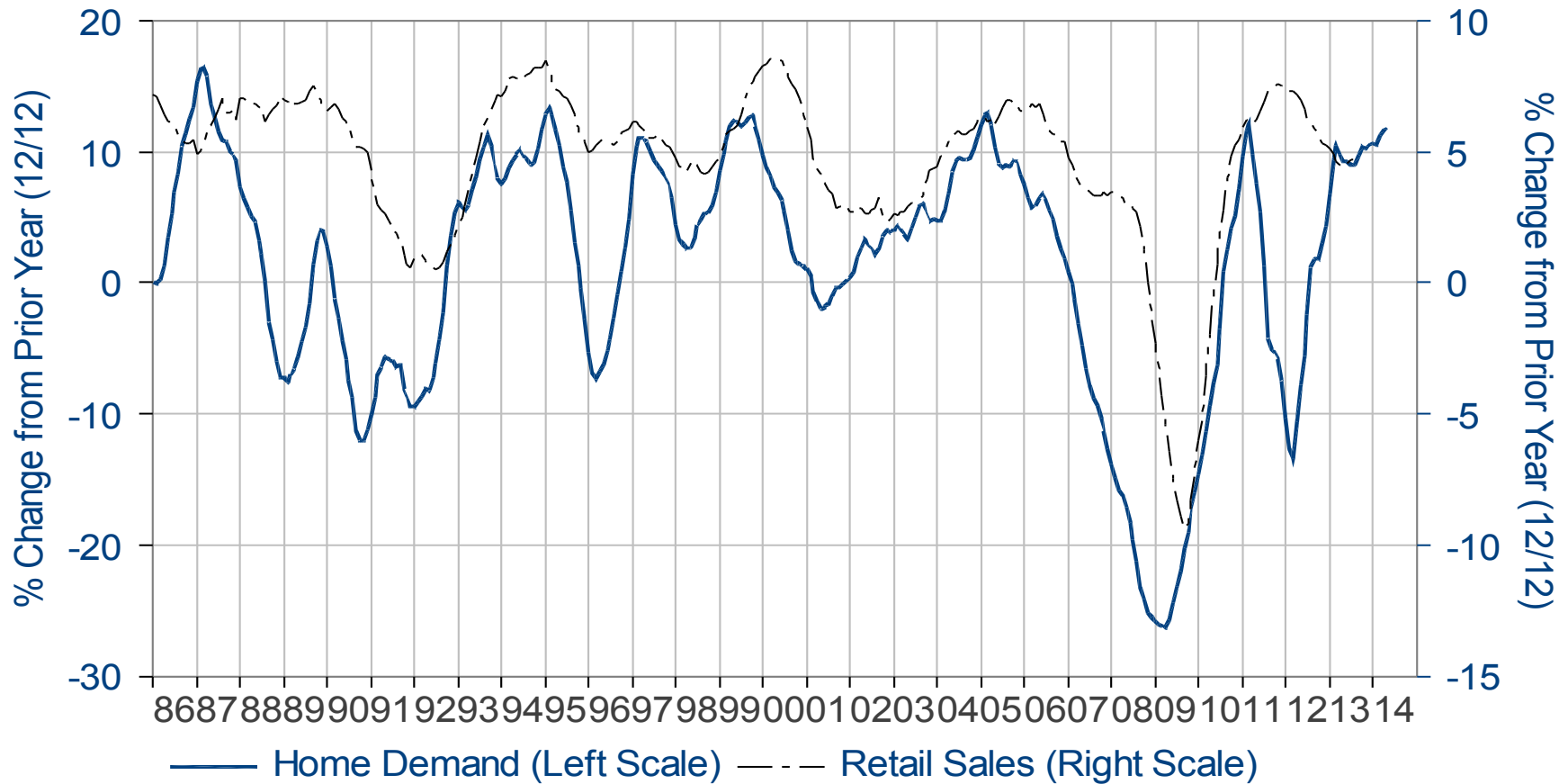
**Based on that
methodology,
ICSC forecasts a
slight gain in
holiday hiring
relative to last
year's season.**

The Longer-Term Outlook

The Diderot Effect—Still Upbeat on Retail Spending

Home Demand as a Trigger for the Diderot Effect

Nine-Month Lead Time



U.S. Retail Sales Outlook

(Billions of Dollars, Unless Otherwise Noted, Seasonally Adjusted)

Category	Actual 2008	Actual 2009	Actual 2010	Actual 2011	Actual 2012	Forecast 2013	Forecast 2014	Forecast 2015
Total Sales & Food Services	4394.5	4083.2	4306.6	4630.5	4869.2	5105.9	5333.7	5616.5
% Change from Prior Year	-1.2	-7.1	5.5	7.5	5.2	4.9	4.5	5.3
Total Sales & Food Services Ex Motor Vehicle & Parts Dealers	3611.5	3409.1	3560.9	3809.9	3987.4	4161.1	4351.1	4570.0
% Change from Prior Year	2.1	-5.6	4.5	7.0	4.7	4.4	4.6	5.0
Addendum:								
Total Retail Sales Less Motor Vehicle and Gasoline	3111.6	3019.3	3114.1	3281.1	3437.3	3603.9	3782.7	3990.3
% Change from Prior Year	0.9	-3.0	3.1	5.4	4.8	4.8	5.0	5.5
Shopping Center-Inclined Sales	2268.1	2194.3	2243.1	2340.0	2431.2	2509.3	2594.8	2698.3
% Change from Prior Year	0.5	-3.3	2.2	4.3	3.9	3.2	3.4	4.0
NRF-Concept of Industry Sales	2732.1	2641.3	2725.2	2869.0	2996.1	3131.0	3285.4	3461.7
% Change from Prior Year	0.7	-3.3	3.2	5.3	4.4	4.5	4.9	5.4
GAFO Store Sales	1149.7	1104.7	1132.3	1176.8	1228.3	1259.3	1294.9	1338.3
% Change from Prior Year	-0.1	-3.9	2.5	3.9	4.4	2.5	2.8	3.3

Source: U.S. Department of Commerce; ICSC Research.



Thank You

