

2010 Holiday Retail Sales Outlook

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Many people will be watching the 2010 holiday shopping season for signs of improvement in Iowa's economy. This report uses several indicators to assess prospects for the 2010 holiday shopping season, including national retail trends and forecasts, measures of economic well-being in Iowa's households, statewide employment trends, and recent state sales tax collections.

The "holiday shopping" season is an unofficial term, but generally applies to retail industry sales that occur during the months of November and December. Measures of holiday sales include department and discount store merchandise, furniture and home furnishings, home improvement and garden supplies, groceries, sporting goods, electronics, and other traditional retail goods. Sales by restaurants and bars, motor vehicle and parts dealers, fuel dealers, and gasoline stations are excluded.

It is important to note that a large fraction of our so-called holiday shopping includes ordinary spending to sustain our own households during the months of November and December. While we can't measure discretionary holiday purchases separately from ordinary household purchases without conducting detailed consumer surveys, we can look at changes in overall holiday spending from one year as an indirect gauge of consumers' willingness and ability to spend.

National Retail Sales Trends and Forecasts

Annual Retail Sales Growth

The total population of the United States increases by about one percent each year. Holding all else equal (incomes, prices, standards of living) we would expect retail sales to grow apace with our total population. In fact, retail sales growth outpaced population growth and inflation during most of the last decade. The recession that began in December of 2007 sharply curtailed retail spending levels. Annual retail sales declined by more than two percent in 2008 and by that much again in 2009. Figure 1 illustrates the annual percentage change in inflation-adjusted retail sales and total population in the United States since 2000.

Figure 1

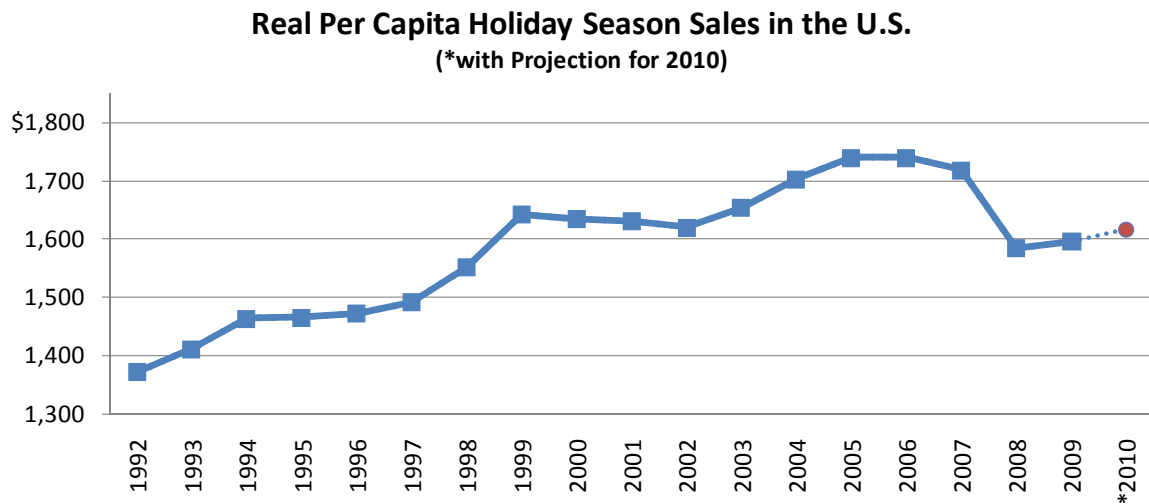


Holiday Season Sales

The dampening effect of recessions on consumers' holiday shopping is quite evident when we examine trends in per capita holiday season sales over time. Figure 2 illustrates the national average per-person retail sales that occurred during the months of November and December of each year since 1992. All dollar values have been adjusted for inflation to reflect 2009-equivalent dollars.

After rising rapidly in the latter part of the 1990s, real per capita holiday spending leveled off in the period from 2000 through 2003. Spending levels climbed annually from 2003 through 2005 before leveling off again in 2006 and 2007. The correction in 2008 was severe: average per capita holiday spending in 2008 plummeted nearly 8 percent compared to 2007. Sales improved only slightly in 2009, increasing by less than 1 percent compared to 2008.

Figure 2



Some retail industry analysts have seen glimmers of hope for the 2010 holiday shopping season, especially compared to the disappointing 2008 and 2009 holiday seasons. For example, the National Retail Federation has projected that total 2010 holiday season sales will increase by 2.3 percent compared to 2009. If we factor in a year's worth of growth in our nation's total population, this translates to a projected, per-person spending increase of about 1.3 percent compared to last year.

Other retail analysts are less optimistic about the prospects for the 2010 holiday season. A recent national survey by a private market research company questioned consumers about their intentions for holiday shopping in 2010. About 61 percent of the survey participants planned to spend about the same on holiday purchases in 2010 compared to the amount they spent last year, 9 percent planned to spend more, and 30 percent planned to spend less.*

Economic Conditions in Iowa

Households

Although it's tempting to use the strength or weakness of holiday retail sales as a barometer for our economic recovery, we don't need to wait for the retailers to tell us how we're doing. In fact, many indicators suggest that we should be more concerned about the longer term well-being of Iowa's households and less concerned about how much they spend on gifts and entertainment during November and December.

- * Recent poverty estimates suggest that annual incomes for 7.7 percent of Iowa's families were below the federal poverty level last year.
- * Nearly 20 percent of our children under age six were living in poverty last year.
- * More than 52,000 households received Food Assistance payments in October of 2010, which was nearly 10 percent more than last year at this time.
- * In the third quarter of 2010, foreclosure proceedings were initiated on more than 2,200 homes, about 15 percent more than the same period last year.†
- * We've had more than 8,300 filings for Chapter 7 or Chapter 13 bankruptcy since January 1, 2010.

Retailers can probably rule out one quarter million of Iowa's households as a significant source for discretionary holiday spending. When ranked by income, households in the bottom 20 percent accounted for only 4 percent of all income that accumulated to Iowa's 1,226,800 households in 2009. The average household in this group received just \$12,224 in total income last year.

Iowa's wealthier households may serve as better targets for retailers' holiday promotion efforts. Nearly half of all household income in Iowa last year accumulated to the top 20 percent of households. Their average income last year was \$144,000. The very top 5 percent of households captured 20 percent of the state's total household income. Even that group, however, has felt the effects of the recession. Their average household income in 2009 was down 1.3 percent compared to 2008.

* Source: The NPD Group, Inc. (http://www.npd.com/press/releases/press_101007.html)

†Source: RealtyTrac (<http://www.realtytrac.com/ContentManagement/Library.aspx?ChannelID=13&ItemID=10324>)

Unemployment

Unemployment, underemployment, and lingering concerns about their job security may continue to dampen the spending impulses of Iowa's consumers this year.

- * The ranks of the unemployed in Iowa have swelled by nearly 7,000 this year compared to last.
- * Iowa had 113,300 unemployed residents in September of 2010, representing 6.8 percent of the state's labor force compared to 6.4 percent last year.
- * An average of 3 percent of Iowa's labor force has been unemployed 15 weeks or longer during the last four quarters, up from 2 percent during the year previous.
- * When we include the number of discouraged workers and underemployed workers in our measure of unemployment, nearly 12 percent of the state's potential workforce is being underutilized.

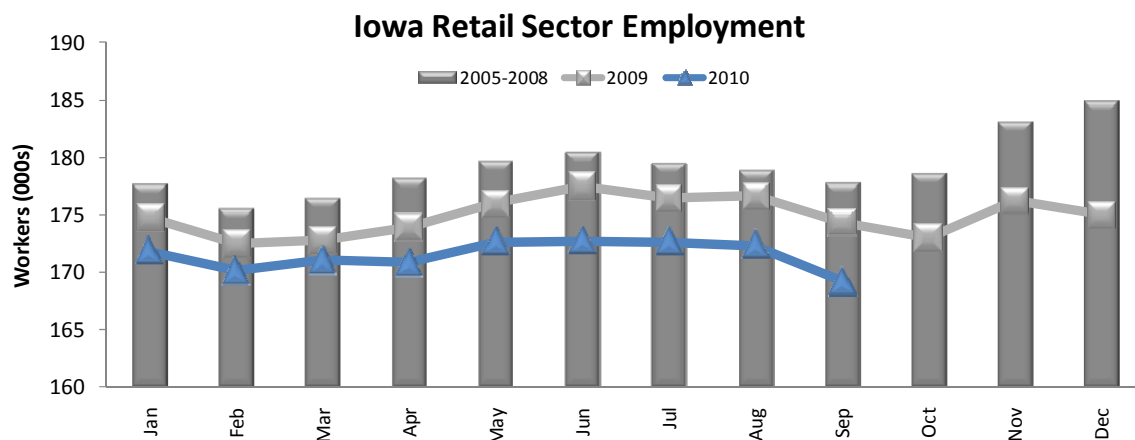
Conditions in Iowa's Retail Sector

Seasonal Retail Jobs

If 2009 is any guide, we probably shouldn't look to the retail sector as a significant job creator during this year's holiday shopping season. The retail sector typically boosts its hiring activity in October and November and retail employment peaks during the months of November and December. Last year in the United States, new hires during the holiday shopping season were about 25 percent below the average for the previous four years. National retail sector hiring activity thus far in 2010 has increased only slightly from 2009 levels.

In Iowa, our monthly retail employment levels so far in 2010 have been running about 4 percent below pre-recession levels. Figure 3 contrasts monthly average employment in Iowa's retail sector from 2005-2008 with more recent retail employment levels in 2009 and 2010. Notably absent in 2009 was the typical boost retail jobs during November and December. Iowa's retailers did not make up for lower hiring by increasing the average hours worked by their employees. The average weekly hours of retail workers in the 2009 holiday season were about 3 percent below averages in the prior four years. Retail workers' average weekly hours have increased slightly during 2010 compared to 2009 levels.

Figure 3



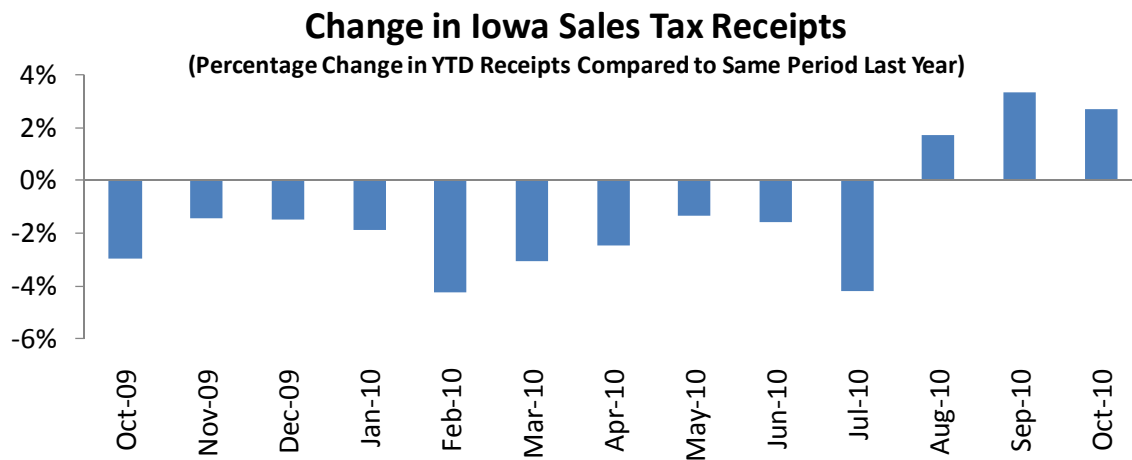
Retail Establishments

Iowa had approximately 9,100 retail establishments with employees on payroll during 2009. The state has another 21,000 or so retail establishments that are classified as “nonemployer” firms, meaning they have no paid employees other than the proprietors or partners. The number of retail establishments in Iowa has been declining in recent years, even during periods of general economic growth. Statistics from the U.S. Census Bureau indicate that Iowa lost an average 1 percent of its retail establishments each year from 2002 to 2007, the years between the last two national recessions. Recent statistics suggest an accelerated rate of loss since the beginning of the last recession. The number of retail establishments with employees dropped by 2.4 percent from 2007 to 2008.

Statewide Sales Tax Receipts

Recent retail sales trends in Iowa can be inferred from the amount of sales taxes that are collected and reported by the state’s retailers. The types of retail sales that are subject to Iowa’s sales tax do not quite match the definition of retail sales used throughout this report, and changes in state sales tax laws make long-term analysis difficult. Despite these limitations, the recent data on sales tax receipts suggest depressed sales activity in Iowa during much of the last year and indications that retail conditions may be improving slightly. For the fiscal year that began on July 1, year-to-date retail sales tax collections through October were about 2.7 percent higher than during the same period last year. Figure 4 shows the year-over-year percentage change in fiscal year-to-date sales tax collections by month since October of last year.

Figure 4

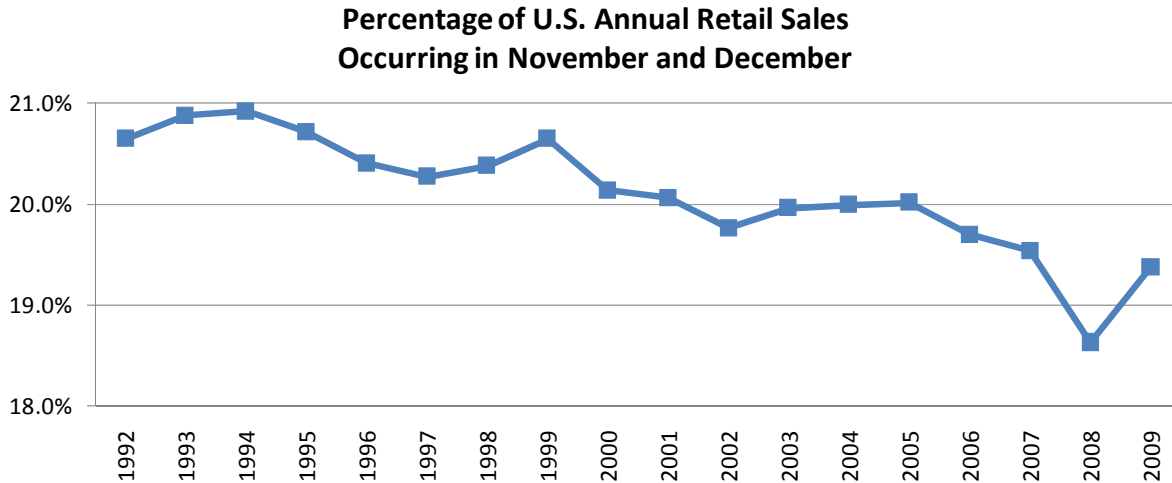


The Importance of Holiday Season Sales

Some retailers depend more on strong holiday sales than others. Last year in the United States, retail categories with relatively high fractions of annual sales during the holiday season included hobby, toy, and game stores (31 percent); jewelry stores (29 percent); department stores (24 percent); and computer and software stores (23 percent). The expected percentage share for any two months of a given year would be just under 17 percent (2 months ÷ 12 months = 16.7%). Retail categories with smaller holiday season shares include hardware stores (16 percent); grocery stores (17 percent); and furniture stores (17 percent).

While the holiday season may well be the “make-or-break” season for many specialty retailers, aggregate retail activity during the holiday season has typically accounted for only 20 percent of total annual retail sales in recent years. Figure 5 illustrates the holiday season shares of U.S. annual retail sales since 1992. A slight downward trend in the overall importance of the traditional “holiday season” is evident, with holiday season sales declining from nearly 21 percent of total sales in the early 1990s to levels below 20 percent in the years since 2005.

Figure 5



Summary

Mixed signals in Iowa’s economy make it difficult to forecast how the 2010 holiday shopping season will compare to previous years. Many of Iowa’s households are in comparatively worse financial shape compared to a year ago, but the state’s unemployment rate is still well below the national average. Retail employment is lower, although retail hours and sales appear to be picking up slightly. With no strong evidence to suggest that Iowans’ holiday spending will deviate strongly from their U.S. counterparts, the National Retail Federation’s projected 2.3 percent growth appears a reasonable forecast for holiday sales in Iowa.

Much hype surrounds the importance of the holiday shopping season to the overall fortunes of the retail sector and the economy as a whole. Retailers, the media, and analysts will be watching levels of shopper traffic on Black Friday and Cyber Monday, which are viewed as bellwether shopping days in a bellwether season for a bellwether industry.[‡] The retail sector is indeed important to Iowa’s economy, contributing 6 percent of the gross state product last year. That said, its performance in any given year reflects, rather than determines, the well-being of Iowa’s much larger household sector. Consequently, even a very strong holiday retail season cannot, in and of itself, cure Iowa of its recession hangover. Here’s hoping for a better 2011.

[‡] The National Retail Federation applies the terms “Black Friday” and “Cyber Monday” to the day after Thanksgiving and the Monday after the Thanksgiving weekend, respectively.

Data Sources

- * 2010 Holiday Survival Kit, National Retail Federation (<http://www.nrf.com/holidays>)
- * Annual Holiday Survey, The NPD Group, Inc. (http://www.npd.com/press/releases/press_101007.html)
- * Monthly Retail Trade Report, U.S. Census Bureau
- * National and Regional Economic Accounts Data, U.S. Bureau of Economic Analysis
- * American Community Survey, U.S. Census Bureau
- * Food Assistance Program Monthly Participation Report, Iowa Department of Human Services
- * Iowa Foreclosure Statistics, RealtyTrac, (www.realtytrac.com/state/iowa.html)
- * Bankruptcy Statistics, United States Bankruptcy Court, North and Southern Districts of Iowa
- * Quarterly Census of Employment and Wages, U.S. Bureau of Labor Statistics
- * County Business Patterns, U.S. Census Bureau
- * Nonemployer Statistics, U.S. Census Bureau
- * Daily Receipts, Legislative Services Agency, State of Iowa
- * Monthly General Fund Memo, Legislative Services Agency, State of Iowa

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