THE WAY FORWARD IN U.S. RETAILING

Statistics, compiled by the US Government, indicate, conclusively, that the US economy is just a hair's breadth away from a full-blown recession.

To a small extent, the tax rebate cheques appear to be helping to fuel spending in the retail sector of the US economy, excluding motor-vehicle sales, but consumers are being very careful in their spending habits, targeting cheaper stores to purchase their goods.

Even then, the spending is just a dribble.

Keeping a close eye on consumer spending and tracking it, carefully, is essential to understanding the US economy because it represents about 66 percent of the country's economic activity.

Motor-vehicle sales, on the other hand, represent about 5 percent of the **G**ross **D**omestic **P**roduct (GDP).

It must be borne in mind, however, that retail sales in the US are not adjusted for price changes, up or down, so that one has to be extremely careful before jumping to conclusions, based on short-term statistical changes.

The latest US statistics, coming out of the US Commerce Department, is that retail sales in the month of July were flat.

In fact, there has been very little growth in retail sales since April, this year.

The following table is self-explanatory:

	U.S. RETAIL SALES, SEASONALLY ADJUSTED							
	All Figures are Percentage Changes, Month-on-Month (x) = negative values							
	2001							2000
	July	June	May	April	March	February	January	December
Furniture and Home Furnishing Shops	0.40	0.20	1.00	(0.60)	(0.40)	(1.40)	6.50	(4.90)
Electronics and Appliance Shops	0.70	1.80	0.50	0.30	(0.80)	(0.30)	(1.20)	0.10
Building Material Supply Outlets	(0.10)	(0.10)	(1.40)	3.00	1.00	1.00	1.70	1.10
Food and Beverage Stores	0.20	0.00	0.70	(0.10)	(0.10)	0.50	0.10	0.70
Clothing and Accessory Shops	0.90	(0.50)	(1.30)	0.20	(2.00)	0.90	1.50	0.80
General Merchandise Shops	0.90	0.30	(1.20)	2.60	(1.40)	(1.10)	2.90	(0.90)
Food Services, Bars, etc	1.00	0.70	1.00	0.00	0.50	(1.00)	3.00	0.10
Retail and Food Services	0.00	0.00	0.20	1.40	(0.40)	0.10	1.50	0.00

The marked slowdown in sales at electronics and appliance shops was well expected; it is surprising that it did not come to pass earlier than in July.

The tens of thousands of jobs that have been lost in the US since the beginning of the year is having a telling effect on consumer spending, no doubt, but shopping for clothing for children cannot be put off, that shopping, being not of a luxury consideration, but emanating out of pure necessity.

For Asia, this may be a godsend.

It is, now, only too apparent that the mothers of America are shopping for kiddies' clothing in shops that give the best bargains, or, alternatively, shopping in those stores that offer the most competitive prices.

Further, the prospects for alternative employment are not good, while debts continue to pile up, causing consumers to think twice before making purchases, the costs of which will take a protracted time to retire.

And, while this is taking place, savings are being eroded by higher debt loads and the requirement to service debt – while the breadwinners find it increasingly more difficult to make ends meet.

Lower energy prices and lower interest rates will help to stave off any deep recession in the US, but, ultimately, the US must be able to sell its goods and services, domestically and internationally, in order to break out of the present rut.

A weaker US dollar vis-à-vis other *'hard'* currencies will help, somewhat, but a weaker US dollar, also, means Asian-produced goods, garments and the like, relatively speaking, will cost more to the US consumer.

That excludes, of course, Asian currencies that are pegged to the US, as is the case with the Hongkong dollar.

In short, the US importer will have the same US dollar to spend on Asian-produced goods, but the buying power of the US dollar against, say, the Japanese yen, the Malaysian ringgit, the Singaporean dollar, etc, will be diminished, proportional to the weakness of the US against other currencies.

Late last week, retailer Gap Incorporated announced that sales at its stores fell by about 12 percent in July, compared with a one-percent decline for July 2000.

Gap operates the very popular Old Navy and Banana Republic shops, to name just 2 of its well-known brands.

The fashion retailer announced that, for its second quarter to August 4, 2001, its Net Profits had fallen 51 percent, year-on-year.

It was the second, consecutive quarter that the Bottom Line had been shaved.

The extent of the August 4 quarter results, year-on-year, was a Profit of $US90 million versus $US184 million.

President of Gap, Mr Millard Drextier, was not afraid to state that the reason of the drop-off in sales/profits was new, cost-consciousness among shoppers.

He said: *'Consumers are cautious … They are selectively buying new fashion, but primarily shopping for value …'*.

Wholesale clubs, Wal-Mart Stores, Kmart and the like are, all, reporting higher sales for July, year-on-year, at 6 percent, 3.40 percent and 3.70 percent, respectively,

The People's Republic of China (PRC), South Korea, Malaysia, the Philippines, India and, to some extent, the Hongkong Special Administrative Region (HKSAR) and the Macau Special Administrative Region (MSAR) all *'feed'* these types of store with garments, appliances, pots and pans, cutlery, shoes, cheap-end watches and clocks, etc.

As the US economy continues to decelerate and US consumers tuck in the tummies, there is likely to be an even greater demand for cheaper-made goods from Asia.

Departmental stores, such as Marshal Fields, May Company, Abercrombie and Fitch, and Target, are, already, finding the going very difficult due to consumers, opting for cheaper goods – because disposable income is drying up.

High-end stores are the hardest hit, at this juncture, with sales at Saks, for instance, down 4.80 percent in July, year-on-year, with the likelihood of August sales, being off even further.

The following table gives a rough idea of how the situation is shaping up in retailing in the US, today:

	U.S. RETAIL CHAIN STORE SALES, SEASONALLY ADJUSTED							
	All Figures are Percentage Changes, Year-on-Year (x) = negative values							
	2001							2000
	July	June	May	April	March	February	January	December
Apparel Shops	4.40	(3.00)	(5.40)	0.40	(4.20)	(3.40)	(1.20)	(1.70)
Departmental Stores	(0.60)	(2.80)	(2.70)	0.00	(3.30)	(1.20)	0.90	(0.10)
Drug Stores	9.50	7.80	9.30	9.30	9.80	11.30	13.10	6.60
Footwear Shops	0.10	(3.30)	(2.40)	0.60	(1.40)	0.00	0.30	5.30
Wholesales Clubs, etc	4.30	5.80	5.30	6.90	3.40	5.30	6.60	0.40
Discount Shops	5.60	5.50	2.60	4.80	3.00	3.70	5.00	0.50

And the worst is yet to come, for certain.

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