US Retail Sector

NAICS: 44, 45
SIC: 52, 53, 54, 55, 56, 57, 59

prepared February 18th, 2022

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Coronavirus Update

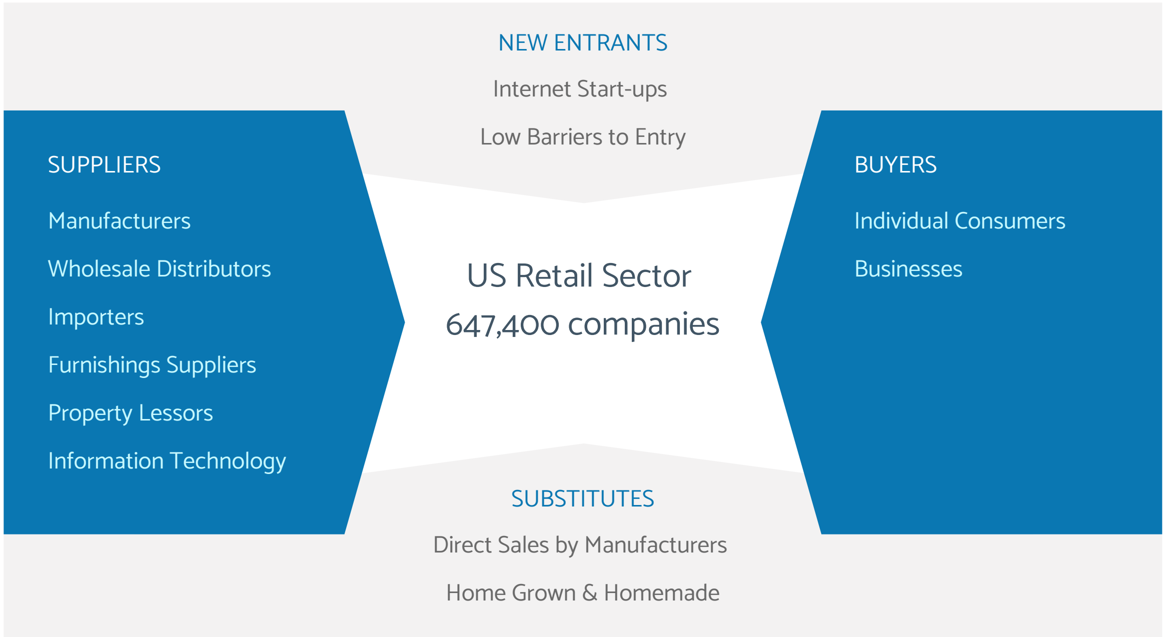
Jan 18, 2022 -- Year-End Retail Sales Falter Amid Omicron, Inflation

- On an unadjusted basis, sales at retailers, restaurants, and online increased more than 19% in 2021, over 2020. However, retail sales weakened in December 2021 amid rising COVID-19 cases fueled by the Omicron variant and higher inflation. On a seasonally adjusted basis, US retail sales declined 2% in December compared to the prior month. Some holiday sales may have been pulled into earlier in the season as many consumers shopped early to avoid possible shipping delays caused by supply chain disruptions. Economists suggest 2022 is unlikely to match the retail sales growth of 2021 as the effects of stimulus fade, consumers feel the pinch of inflation, and consumers look to spend more on services and less on goods, according to The Wall Street Journal.
- As a whole, the retail sector lost more than 2 million jobs in April 2020. Among the hardest hit were clothing and clothing accessories stores; motor vehicle and parts dealers; furniture stores; sporting goods, hobby, book, and music stores; and department stores. Employment in most retail subsectors has gradually rebounded. By December 2021, the retail sector was still down about 158,000 jobs compared to February 2020. In December, the sector shed about 2,000 jobs. Job gains by general merchandise stores were not enough to offset declines among sporting goods, hobby, book, and music stores, and clothing and clothing accessories stores.
- The volume of retailer containers coming into US ports rose 0.5% in November compared to the same month in 2020, according to the January 2021 Port Tracker report compiled by the National Retail Federation (NRF) and maritime consultancy Hackett Associates. The report covers 13 major US ports on the West, East, and Gulf coasts. The NRF projects December volumes rose 3.7% year-over-year. January cargo volumes are expected to increase 8.6% compared to a year earlier. The NRF believes the volume of US imports will remain high in 2022, but that import growth will likely moderate. However, the NRF says the Omicron variant is a significant risk for the global supply chain workforce. If pandemic conditions result in more consumer spending on goods in place of in-person services, existing supply chain headaches could worsen.
- In January, a COVID-19 outbreak at the ports of Los Angeles and Long Beach again slowed the clearing of a logjam of containerships waiting off the West Coast to unload, according to The Wall Street Journal. As of January 10, about 10% of the workforce at the LA and Long Beach ports was away from work due to COVID-19-related reasons, according to the Pacific Maritime Association. Fueled by the Omicron variant, port worker infections have risen sharply. More than 100 containerships were waiting off the coast on New Year's Day. Before the pandemic, it was unusual for more than one ship to wait for unloading. Omicron is also spreading in China, which has led to factory shut-downs and disruption of port operations, according to The Wall Street Journal. Logistics industry watchers are worried that China's zero-tolerance policy for containing the pandemic could trigger more significant disruptions throughout the world economy.
- On September 9, the Biden Administration announced that businesses with more than 100 employees will have to require their workers to be vaccinated or be subject to at least weekly COVID-19 testing. The requirements were to be implemented through a temporary standard issued by the Labor Department's Occupational Safety and Health Administration (OSHA). On November 6, the 5th US Circuit Court of Appeals temporarily blocked the OHSA rule due to potential "grave statutory and constitutional issues." More than two dozen states, business groups, individual businesses, labor unions, and religious organizations sued to block the OSHA rule. Due to lawsuits in several circuit courts, federal law required them to be consolidated and heard in a single court chosen by lottery. In mid-November, the lottery was held, and the case was set to be heard in the Sixth US Circuit Court of Appeals. On December 17, the Sixth US Circuit Court of Appeals overturned the lower court's ruling, and some businesses immediately appealed the ruling to the Supreme Court. On January 13, the Supreme Court blocked the vaccine requirement for companies with 100 or more employees. Just over 1% of the 642,000 retail firms in the US have more than 100 employees, according to the US Census Bureau.
- In 2021, US retailers are expected to have opened more stores than they closed for the first time since 2017, according to market research firm IHL Group. Some retail industry watchers suggested the shift to e-commerce during the pandemic would lead to a permanent reduction in brick-and-mortar stores. However, retailers are learning e-commerce and physical stores complement rather than compete against one another, according to The Wall Street Journal. Stores are increasingly useful as fulfillment centers for e-commerce while giving consumers a traditional, tactile retail experience. The costs of digital customer acquisition – such as Google and Facebook ads – have risen significantly, making physical retail more competitive with eCommerce. Retail store growth in 2021 has been chiefly confined to mass merchandisers and food, drug, and convenience chains. Department store and

specialty retailer locations are still contracting, but the pace of store closures has slowed compared to earlier in the pandemic.

- A shortage of semiconductors is hurting car sales even as demand for automobiles remains strong, according to The New York Times. Early in the pandemic, automakers closed factories and cut computer chip orders. Chip suppliers shifted to the booming market for computers and electronics as consumers spent more time at home. When auto plants came back online, chipmakers could not quickly meet the uptick in production capacity. Carmakers report that the semiconductor shortage has improved, but component shortfalls are expected to continue well into 2022.

Sector Structure



The retail sector is comprised of 647,400 firms that employ 14.8 million workers and generate $5.4 trillion in annual revenue.

- The retail sector represents 5.2% of the nation's Gross Domestic Product (GDP) and employs 10.4% of the country's workers.
- The sector is concentrated at the top with the 20 largest retail firms representing 30% of revenue, but it is fragmented at the bottom.
- In addition to employer firms, the retail sector has 2.1 million owner-operated establishments with no employees. Subsectors with the highest numbers of nonemployer establishments are direct selling establishments, which include door-to-door sales, home parties, fuel (heating oil and propane) delivery, and meat and meal plans (39%); ecommerce (8%); grocery products (8%); clothing stores (6%) and automobile dealers (5%). The owners of nonemployer firms typically perform the work and may outsource support functions like marketing and accounting.
- In recent years, the sector has shed about 75,000 establishments annually, which equals about 7.5% of existing establishments. However, the sector has added 75,000 new establishments annually. As a result, the retail sector has reached an equilibrium between firm exits and births.

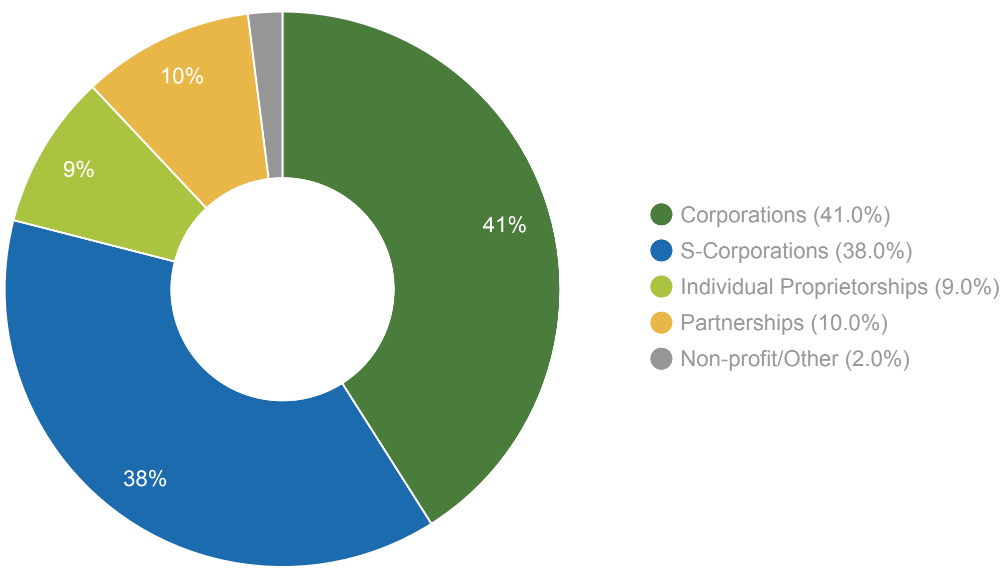
US Retail Sector Subsectors

SUBSECTOR	NO. FIRMS	AVG. REVENUE PER FIRM ($K)	AVG. NO. OF EMPLOYEES / FIRM	AVG. REVENUE / EMPLOYEE ($K)
Motor Vehicles & Parts Dealers *(NAICS: 441)*	80,553	$14,497	25	$583
Furniture & Home Furnishings Stores *(NAICS: 442)*	32,500	$3,471	14	$242
Electronics & Appliance Stores *(NAICS: 443)*	19,188	$4,748	17	$275
Building Material & Garden Equipment & Supplies *(NAICS: 444)*	49,266	$7,042	26	$270
Total	*647,480*	*$7,644*	*25*	*$311*

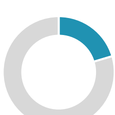
SUBSECTOR	NO. FIRMS	AVG. REVENUE PER FIRM ($K)	AVG. NO. OF EMPLOYEES / FIRM	AVG. REVENUE / EMPLOYEE ($K)
Food & Beverage Stores *(NAICS: 445)*	115,254	$6,259	28	$227
Health & Personal Care Stores *(NAICS: 446)*	42,812	$7,462	24	$307
Gasoline Stations *(NAICS: 447)*	66,212	$7,175	14	$504
Clothing & Clothing Accessories Stores *(NAICS: 448)*	56,844	$4,478	32	$142
Sporting Goods, Hobby, Musical Instrument & Book Stores *(NAICS: 451)*	30,171	$2,669	18	$149
General Merchandise Stores *(NAICS: 452)*	7,879	$87,616	355	$247
Miscellaneous Store Retailers *(NAICS: 453)*	81,015	$1,364	10	$143
Nonstore Retailers *(NAICS: 454)*	70,235	$8,246	11	$727
Total	*647,480*	*$7,644*	*25*	*$311*

Source: Census Bureau

Industry Demographics

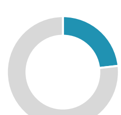


Source: US Census Bureau



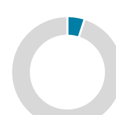
Female Owned

20.4%



Minority Owned

23.2%



Veteran Owned

5.0%

Source: Census Bureau

Geographic Breakdown

STATE	NO. ESTABLISHMENTS	% OF TOTAL US ESTABLISHMENTS	NET CHANGE 2018	% CHANGE
Alabama	16916	0.9%	-234	-1.4%
Alaska	2189	0.1%	-32	-1.4%
Arizona	16545	0.8%	-263	-1.6%
Arkansas	10195	0.5%	-61	-0.6%
California	99286	5.0%	-1267	-1.3%
Colorado	17344	0.9%	-140	-0.8%
Connecticut	11411	0.6%	-268	-2.3%
Delaware	3390	0.2%	-21	-0.6%
Florida	68283	3.5%	-757	-1.1%
Georgia	31842	1.6%	-17	-0.1%
Hawaii	4373	0.2%	-19	-0.4%
Idaho	5517	0.3%	-17	-0.3%
Illinois	35296	1.8%	-495	-1.4%
Indiana	19802	1.0%	-303	-1.5%
Iowa	10799	0.5%	-2	0.0%
Kansas	9385	0.5%	-206	-2.1%
Kentucky	14090	0.7%	-102	-0.7%
Louisiana	15432	0.8%	-254	-1.6%
Maine	5641	0.3%	-126	-2.2%
Maryland	16499	0.8%	-339	-2.0%
Massachusetts	22043	1.1%	-588	-2.6%
Michigan	31655	1.6%	-343	-1.1%
Minnesota	17340	0.9%	-355	-2.0%
Mississippi	10802	0.5%	-82	-0.8%
Missouri	19402	1.0%	-251	-1.3%
Montana	4317	0.2%	-77	-1.8%
Nebraska	6647	0.3%	-123	-1.8%
Nevada	8041	0.4%	-50	-0.6%

STATE	NO. ESTABLISHMENTS	% OF TOTAL US ESTABLISHMENTS	NET CHANGE 2018	% CHANGE
New Hampshire	5605	0.3%	-77	-1.4%
New Jersey	28617	1.5%	-339	-1.2%
New Mexico	5950	0.3%	-80	-1.3%
New York	71059	3.6%	-836	-1.2%
North Carolina	32643	1.7%	-207	-0.6%
North Dakota	3006	0.2%	-81	-2.6%
Ohio	33256	1.7%	-539	-1.6%
Oklahoma	12125	0.6%	-164	-1.3%
Oregon	13259	0.7%	-56	-0.4%
Pennsylvania	39847	2.0%	-524	-1.3%
Rhode Island	3415	0.2%	-97	-2.8%
South Carolina	16678	0.8%	-126	-0.7%
South Dakota	3630	0.2%	-40	-1.1%
Tennessee	21345	1.1%	-55	-0.3%
Texas	75927	3.9%	114	0.2%
Utah	8685	0.4%	65	0.8%
Vermont	2989	0.2%	-67	-2.2%
Virginia	25170	1.3%	-207	-0.8%
Washington	19968	1.0%	-147	-0.7%
West Virginia	5620	0.3%	-107	-1.9%
Wisconsin	17500	0.9%	-236	-1.3%
Wyoming	2381	0.1%	-50	-2.1%

Source: Census Bureau

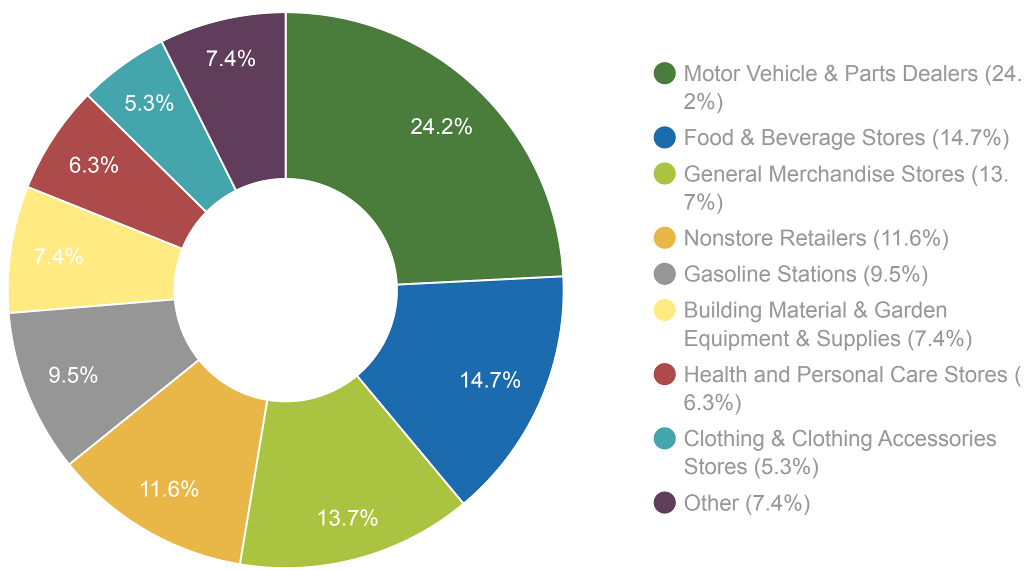
How the Sector Operates

Products and Operations

The retail sector is comprised of physical stores and online retailers that sell goods and related services directly to consumers, businesses, institutions and organizations.

- Goods are largely procured from distributors, manufacturers, growers and importers.
- Retailers tend to be concentrated in areas with large populations.
- Major retail subsectors include motor vehicles and parts, furniture and home furnishings, electronics and appliances, building materials and garden equipment and supplies, food and beverage, health and personal care, gasoline stations, clothing and accessories, sporting goods, hobby, books, music, general merchandise, miscellaneous retail and non-store retailers.

US Retail Sector Revenue



Source: US Census Bureau

Large retailers may carry thousands of individual items or stock-keeping units (SKUs). Stores may stock a variety of brands, their own private-label branded merchandise, or a combination of both. To track sales and inventory volume, stores use computerized inventory management systems that are tied to their point of sale (POS) equipment. POS equipment includes cash registers, scanners, monitors, and card readers. Retailers also perform a physical count of merchandise periodically to verify volume and identify losses.

Store layout is important in maximizing sales. Stores may be organized into departments that feature like items (bakery, shoes, fishing equipment, printer supplies) for shopping convenience. Featured merchandise or sales items may be placed near entrances, on aisles and other high traffic areas, or at registers to catch customers' attention and drive impulse buys. Retailers invest in display equipment (shelving, racks, mannequins, tables, lighted cases) that best feature their products.

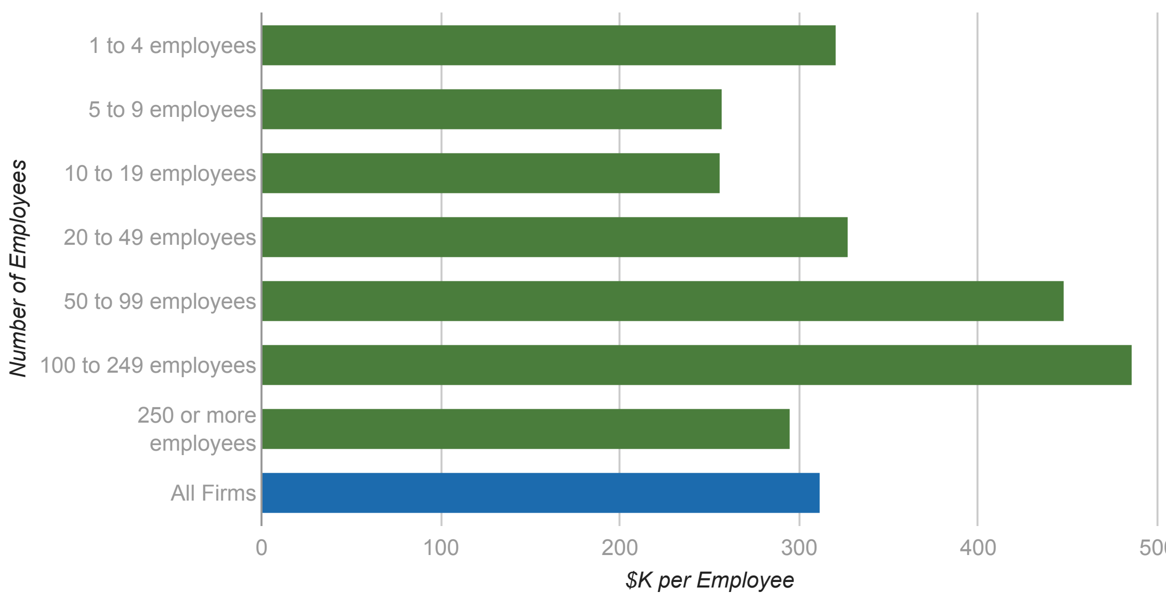
Small, high-priced items (jewelry, electronics) are typically displayed in locked cases to prevent theft. For electronics such as tablets, laptops, cameras and smartphones, a sample of the merchandise may be available for customers to handle but are typically secured to a store fixture to prevent theft. Stores often install video surveillance equipment around the store, cash registers, and entrances to deter theft and record shopper traffic and activity. Retailers also install scanners near exits that sound an alarm when unpaid items pass through.
Stores may offer branded credit cards and loyalty programs that award customers with coupons, points toward rewards, special sales, and promotions. Advertising and marketing vehicles include TV, radio, newspapers, magazines, direct mail (sales fliers, catalogs), social media, and websites.

Most retailers have some type of web or social media presence, but their online capabilities can range from simply informational to fully ecommerce. Retailers that allow customers to purchase goods online may ship them directly to customers or offer in-store pick-up. Online sales merchandise may be shipped from a central warehouse or the store. Ecommerce portals are typically tied into stores' inventory management systems. Retailers with ecommerce capabilities must negotiate competitive shipping prices with parcel carriers. Some retailers offer delivery options for large purchases such as building materials, and installation for appliances.

Retailers may have "store within a store" operations in which a third-party firm (coffee shop, cellular service provider, complementary retailer) operates in a space within the store. These spaces can range from permanent build-outs to temporary pop-up kiosks. The "store within a store" concept allows retailers to extend services or merchandise to customers without the investment in equipment, labor or expertise.

Retailers hire employees to sell merchandise and related services, operate cash registers and point-of-sale (POS) systems, stock merchandise, place merchandise orders, and manage operations. Employees may be paid hourly, salaried, receive a commission based on their sales, or some combination of these payroll structures. Many retail employees are part-time. Retailers typically provide employees with training in areas such as customer service, health and safety, sales, managerial and administrative skills, leadership development, product knowledge, point of sale operations, and loss prevention.

Revenue per Employee by Firm Size



Source: US Census Bureau

Technology Investment

Inventory Management Systems

Retailers rely on inventory management systems to maintain perpetual inventory records, manage their re-order process, and provide valuable statistics on customer demand and product sell-through. Inventory management systems allow retailers to identify fast selling merchandise, which may need to be ordered more frequently to prevent out-of-stocks, as well as identify slow selling merchandise that may need to be discounted to move. Store may use terminals or handheld devices worn by employees to look-up product details, help customers locate merchandise in the store, and determine if an empty slot on the shelf can be restocked from existing inventory. Inventory management systems can be connected to suppliers' systems to automatically create a purchase order when the retailer's inventory levels reach a designated low.

E-commerce

E-commerce sales are growing in importance for retailers, but ecommerce is also allowing manufacturers to sell directly to consumers, bypassing distributors and retailers. The average e-commerce retailer carries hundreds of stock-keeping units (SKUs). E-commerce capabilities allow retailers to expand their geographic reach within the US and internationally. However, customers are increasingly expecting a simple interface for searching inventory, placing orders and receiving shipping information; greater product detail (multi-view photos, 3D images, and customer reviews); and faster response time. Retailers that sell exclusively online, also known as nonstore retailers, forego the cost of a storefront and sales staff, but must advertise heavily and optimize their websites to be detected by search engines. Nonstore retailers may sell through established platforms like Amazon or Ebay to reach a broader market.

POS Systems

Retailers rely on point-of-sale (POS) systems to register sales and track inventory. POS systems use software installed on an internet-enabled device such as a cash register, tablet, phone or online checkout page that allows a retailer to accept payment for merchandise or services. Systems typically include a scanner that reads bar codes and inputs inventory data such as product name, description, price and discounts into the system. The POS calculates tax, authorizes payments and prints receipts. POS software is integrated into inventory control systems to allow for real-time tracking of inventory volume.

Mobile Apps

Retailers are developing and improving their mobile apps to capture sales from customers using smartphones and tablets. Mobile apps are retail platforms optimized for viewing on smaller screens. Mobile apps allow customers to shop anytime and anywhere a signal is available. Items purchased through mobile apps can be delivered or pickup in-store. When customers create an account or have a loyalty membership, they can view past orders, track new ones, make modifications, access rewards and promotions, and post reviews in the mobile app.

QR Codes

Quick Response codes are two-dimensional blocks that can be scanned by a mobile device to give shoppers more information about a product, promotion, retailer, or store event. A single QR code can hold over 7,000 digits or nearly 4,300 characters including phrases and internet addresses. Smart phones use an app to read the code and display its information. There are two types of QR codes, static and dynamic. Static codes can not be updated or revised once created and can't track metrics. Dynamic codes can be edited and because the code redirects the scanner to a url, retailers can use them to track metrics like scan volume.

Digital Price Tags

Stores are beginning to use digital displays near merchandise or embedded into the front of shelfing units to show prices, product descriptions, and promotions. Digital displays allow retailers to change prices electronically for a group of products rather than replace paper tags on shelves or stickers on individual products.

Smart Vending Machines

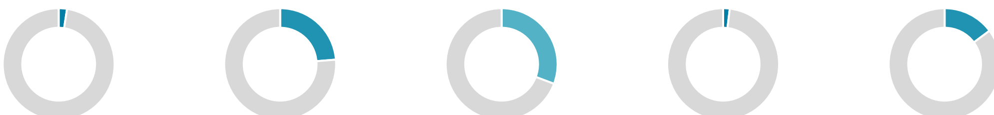
Smart vending machines typically include a digital display that is touchscreen-enabled and conveys information about products in the machine, their brands, and promotions. These advanced vending machines are generally used for higher end products such as prestige perfumes, jewelry and tech products.

AR and VR

A small but growing number of retailers are using augmented reality and virtual reality to guide the sales process. An example augmented reality use is the scanning of customers in dressing room to estimate their size and body type and suggest styles and complementary products. Virtual reality is allowing Audi customers to have the experience of sitting in a customized automobile. These technologies create a unique shopping experience for customers, but require investment in the technology and staff that can operate it.

Percent of US Retail Sector firms investing in technology

Source: Census Bureau



Global Perspective

Global Market Size

The global retail sector was valued at about $20.3 trillion in 2020 and is forecast to grow by 10.5% in 2021, reaching a value of more than $22.4 trillion, according to The Business Research Company. After an anticipated strong rebound in 2021, the worldwide retail market is expected to moderate to average annual growth of 7% through 2025, reaching revenue of more than $29.3 trillion. The Asia Pacific region accounts for more 35% of the global market; North America is the second-largest market and accounts for about 29%.

Large Companies

COMPANY	HOME COUNTRY
Ahold Delhaize	The Netherlands
Aldi	Germany
Alibaba	China
Amazon	US
Costco Wholesale Corporation	US
Ikea	Sweden
Schwarz Group	Germany
Tesco PLC	Japan
Walgreens Boots Alliance, Inc.	US
Walmart Inc.	US

Key Global Trends

Acceleration of E-commerce – The pandemic sped up both consumer use of online shopping and retailers' leaning into the channel as people worldwide sheltered at home. As the pandemic took hold, e-commerce's share of the global retail market saw five years' worth of growth over a period of weeks, according to Deloitte. Retail segments that had sluggish growth prior to the pandemic, such as grocery, saw huge upticks in online sales. Now about 10% of Europeans buy groceries online, and nearly a third of consumers in the UK do so, according to Deloitte. Of the top 10 publicly-traded e-commerce firms, 90% saw double-digit growth in 2020 compared to the prior year, according to Global Data. US-based Amazon grew more than 37%. Chinese firms Alibaba and JD.com saw sales growth of 41% and 29%, respectively. South Korean e-retailer Coupang's revenue rose 91% in 2020 and Germany-based Zalando enjoyed a 25% increase. While traditional online sellers cashed in, many smaller storefront retailers without robust online channels struggled to survive during national and/or local lockdowns and stay-at-home orders. Non-essential local retailers without an online presence were hit especially hard.

Transnational Partnerships – E-commerce has also boosted even small retailers' ability to expand outside their national borders or offer products from abroad to their local customers. To build these types of cross-border relationships, firms are increasingly finding partners in foreign markets that have local operational competence, especially customer service. Partnering with local firms can also help retailers with localization issues, such as language and currency. About 70% of consumers in 11 countries said they shopped online across borders in 2020, according to a study sponsored by cross-border e-commerce facilitator eShopWorld. Primary drivers for shopping abroad online cited by those surveyed include lower prices and buying products unavailable in shoppers' home countries.

Omnichannel Got Pandemic Boost – Prior to the pandemic, the so-called omnichannel approach to retail was primarily the domain of large, established firms. Omnichannel strategies aim to create a seamless customer experience regardless of the multiple channels customers can use to interact with a brand. both in-person and online across multiple devices. As more retail shifted online due to the pandemic, the benefits of omnichannel features – such as online ordering coupled with touchless curbside pickup – became more evident and more widespread. The sheer buying power of the Asia Pacific region – especially China and India - is expected to be a hotbed of e-commerce and omnichannel retail growth.

Sector Trends

Trends are affected by the COVID-19 pandemic.

Changes in revenue, employment, business practices, trade and forecasts are occurring rapidly and data reporting by the government lags the changes. We are tracking changes in the "Coronavirus Update" chapter for those industries most affected and on our Covid-19 Updates Webpage.

Shifting Promotional Activities

In the past, promotional funds for direct consumer advertising and marketing activities were spent primarily in the mass media avenues of television, daily newspapers and general-interest magazines. A much smaller portion of promotional funds were spent on trade promotional efforts, aimed at influencing consumers once they are in the store. Now, the ratios have switched dramatically and manufacturers are spending a majority of marketing funds on trade promotions. The decline in the market share of network television has made it much more difficult to reach consumers through the mass media channels. In this age, consumers can be reached most effectively in the stores where they actually buy merchandise. The trade focus today is simply getting products on the shelf, and preferably at eye level (the most advantageous spot). Manufacturers are also making greater use of online promotions that help to drive customers into stores.

Technology Improves Service and Sales

More retailers are implementing technology that allows them to checkout customers faster and ultimately generate higher sales. Virtual wallets, such as Google Wallet, allow customers to pay quickly by tapping mobile devices at the point-of-sale. Online ordering with automatic upselling or add-on capabilities, coupled with in-store pick-up, can generate a higher ticket. Location-based programs help customers find the nearest store and can push electronic coupons to mobile phones in the area, tapping into impulse purchase occasions.

Greater E-commerce Sales

Retailers are experiencing growth in e-commerce sales, due largely to the convenience of buying goods and services online. Retailers are optimizing their websites to make online shopping easier from mobile devices. The Covid-19 pandemic and subsequent quarantines also drove more consumers to try online purchasing or expand the types of purchases they make online. As more consumers move to online shopping, retailers may face less in-store traffic.

Mindful Shopping by Consumers

Recent consumer surveys reveal that an increasing number of shoppers are considering more than just price and quality when making purchase decisions. These mindful shoppers care about what the brands they buy and the companies they buy from stand for, particularly on social responsibility concerns. These concerns include supporting small businesses and "shopping locally", as well as how companies treat their employees and the environment.

Rising Credit Card Fees

The cost of credit card and debit card fees continues to grow and can exceed the pre-tax profits for a store. Card fees are the second largest operational expense for stores, after labor. Rising prices lead to higher transactions at the register, driving more consumers to pay with plastic. Some stores are offering discounts for paying with cash.

Sector Challenges

Dependence on Economic Conditions

Demand for most goods is sensitive to the overall health of the economy and consumer spending. During recessionary periods, sales for nonessential goods generally slow or drop. Weak demand typically results in additional markdowns and promotions, further eroding profitability. Retailers of large-ticket items like vehicles, furniture, jewelry, electronics and appliances may have difficulty getting customers financed if lending tightens, and may struggle to secure floor plan financing for themselves. Extended or severe periods of economic downturn may cause retailers to file bankruptcy or liquidate and close.

Competition from Online Retailers

The coronavirus pandemic shut down brick-and-mortar stores and accelerated the adoption of online shopping by consumers. Without brick-and-mortar stores, direct marketers and web-only retailers operate with lower overhead. Increased online shopping also means stores are no longer just competing with other local stores, but face competition on a national, or even international, basis. To remain viable, most brick-and-mortar retailers are being forced to invest in allowing consumers to easily shop online or instore.

Battling Against Inventory Obsolescence

The retail sector is in a constant state of change, driven by trends, fads, seasonality and perishability. Stores must successfully anticipate and respond to changing consumer preferences. Long purchasing lead times often complicate most companies' ability to react quickly to the latest trend. Some fads are short-lived and consumers can be fickle, leaving companies with excess inventory and forcing markdowns. In addition, the impact of trends can vary across markets – with some areas slower to adopt new styles than others. Retailers of perishable products like groceries and flowers must turnover inventory quickly to avoid markdowns, waste, and lost revenue. Stores that stock seasonal décor, fashion or outdoor equipment must estimate demand well in advance of the selling season to optimize sales and minimize overages or out-of-stocks.

Changes in Government Regulations

Payroll costs are often a retailer's largest operating cost. Consequently, government mandated increases in the minimum wage or other benefits, increased costs of health care due to health care reform, or other government regulation affecting the labor force could result in a significant increase in store operating costs. In addition, products like alcohol, tobacco, firearms, medications, and fuel are highly regulated and taxed.

High Staff Turnover

Low pay, part time employment, and irregular hours often lead to high staff turnover. Finding and retaining quality workers is especially difficult for stores in crime-ridden areas. Turnover can occur across all staff positions, including store management, and retraining workers is costly and time consuming. Stores may offer flexible scheduling or pay increases to retain good workers.

Dependence on Imports

Retailers may source a majority of inventory from foreign countries, such as China, Vietnam, Indonesia, Bangladesh, and Mexico. Low wages allow clothing manufacturers to mass produce goods for less than if manufactured domestically. Because of the sector's dependence on imports, most lead times are long, and retailers must place orders well in advance of shipment. In addition, imported merchandise is subject to customs and trade regulations. Political instability and labor disputes can affect supply and scheduling.

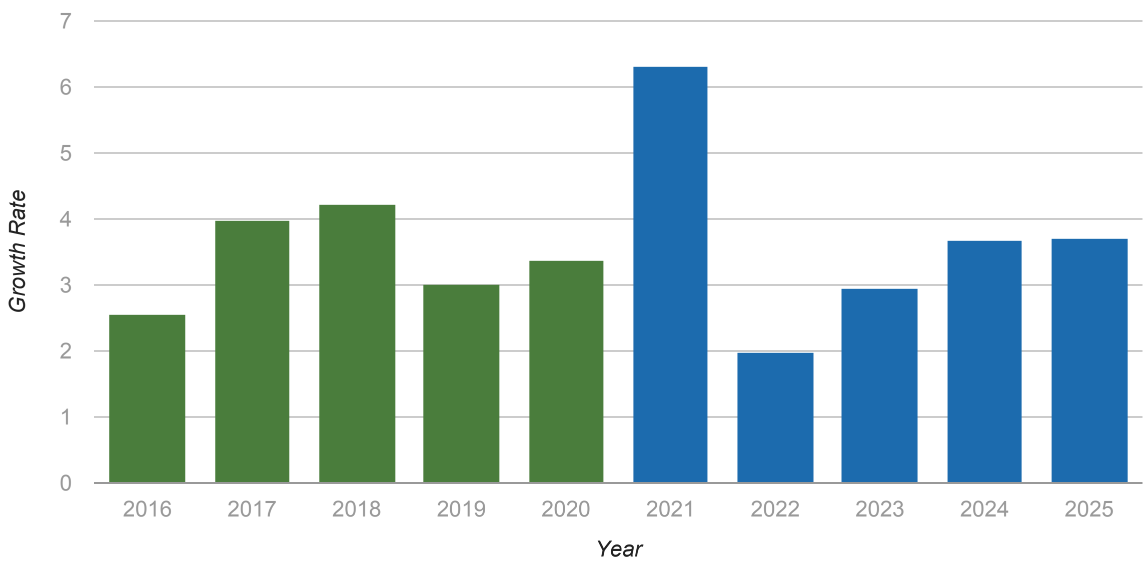
Sector Forecast

Sales for the US retail industry are forecast to grow at a 3.7% compounded annual rate from 2020 to 2025, slower than the growth of the overall economy.

Vertical IQ forecasts are based on the Inforum inter-industry economic model of the US economy. Inforum forecasts were prepared by the Interindustry Economic Research Fund, Inc.

Last Update: August 2021

US Retail Sector Industry Growth



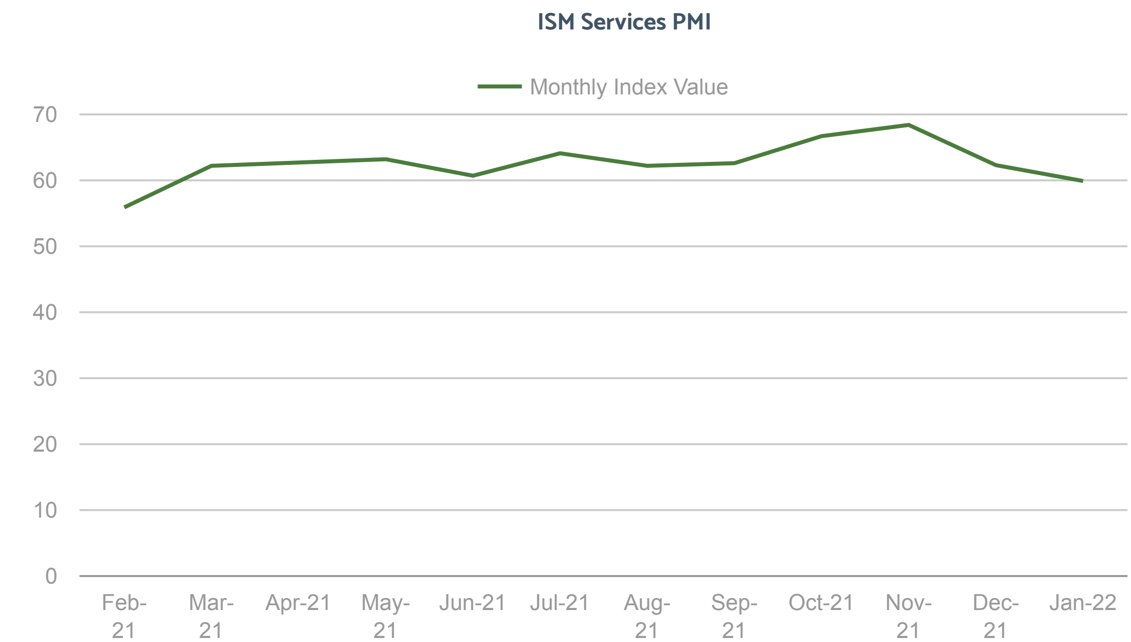
Source: Interindustry Economic Research Fund, Inc.

Sector Indicators and Drivers

ISM Services PMI

In January, the Services PMI® registered 59.9 percent, 2.4 percentage points below December's seasonally adjusted reading of 62.3 percent.

The 15 services industries reporting growth in January – listed in order – are: Construction; Retail Trade; Health Care & Social Assistance; Public Administration; Real Estate, Rental & Leasing; Utilities; Professional, Scientific & Technical Services; Other Services; Educational Services; Finance & Insurance; Mining; Management of Companies & Support Services; Transportation & Warehousing; Wholesale Trade; and Accommodation & Food Services. The three industries reporting a decrease in January are: Agriculture, Forestry, Fishing & Hunting; Arts, Entertainment & Recreation; and Information.



Source: ISM

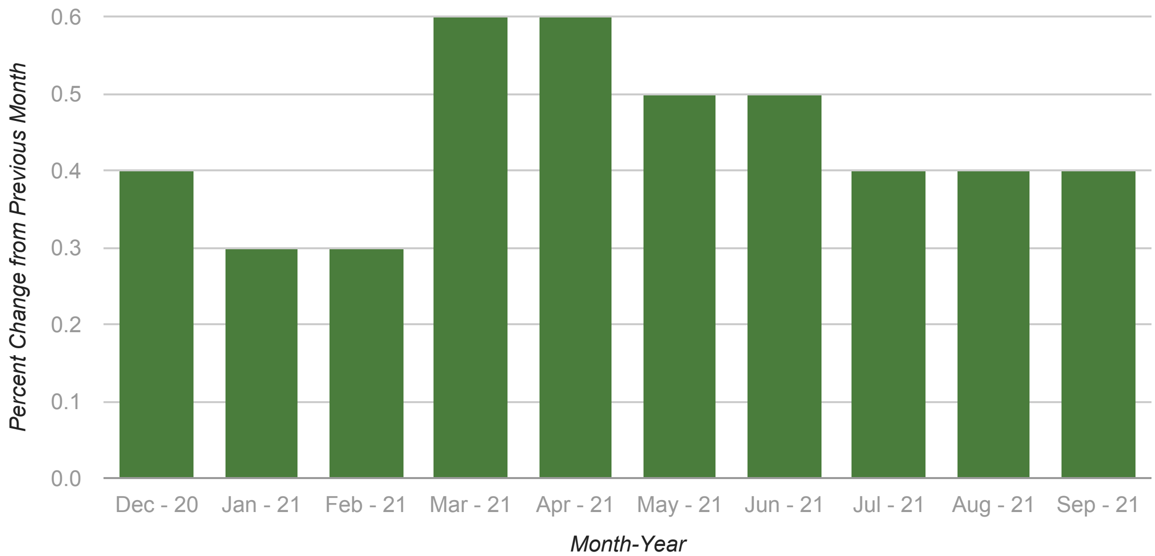
The ISM Services PMI is based on data compiled monthly from purchasing and supply executives nationwide by the Institute for Supply Management. Diffusion indexes have the properties of leading indicators and are convenient summary measures showing the prevailing direction of change and the scope of change. A Services PMI® reading above 50 percent indicates that the services economy is generally expanding; below 50 percent indicates that it is generally declining.

Consumer Spending Trends

Consumer spending rose from previous month

The current dollar value of personal consumption expenditures (PCE) changed 0.4% in September 2021 compared to the previous month, according to the latest data from the Bureau of Economic Analysis.

Personal Consumption Expenditures



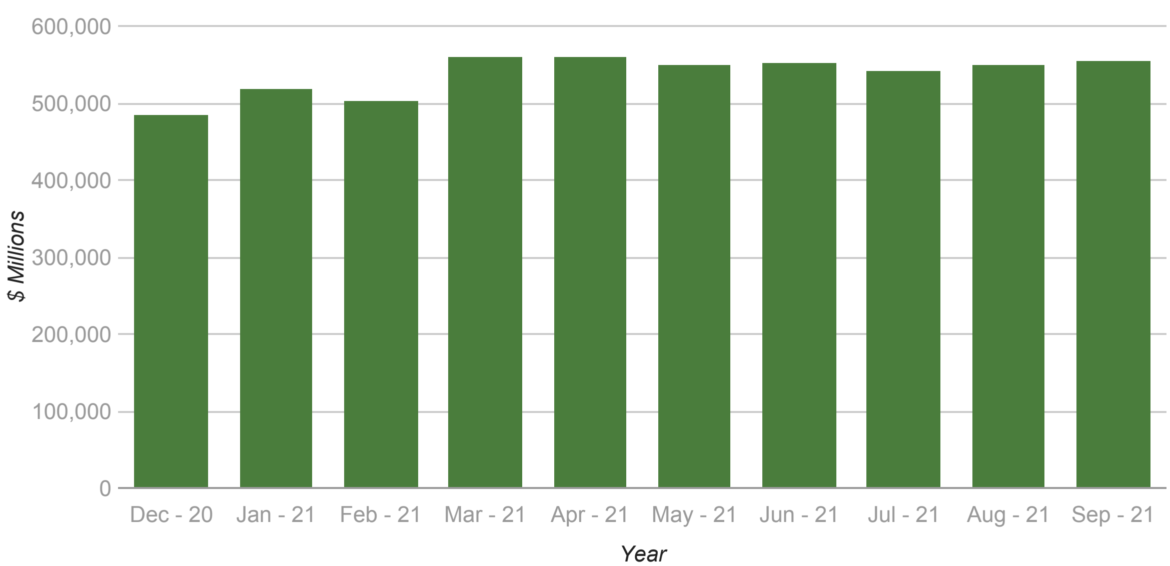
Source: Bureau of Economic Analysis

Sales Trends

Retail trade sales rose from a year ago

Total seasonally adjusted retail trade sales were $555.1 billion in September 2021, a 12.51% change compared to a year ago and a 0.88% change from the previous month, according to the latest data from the Census Bureau.

Retail Trade Sales



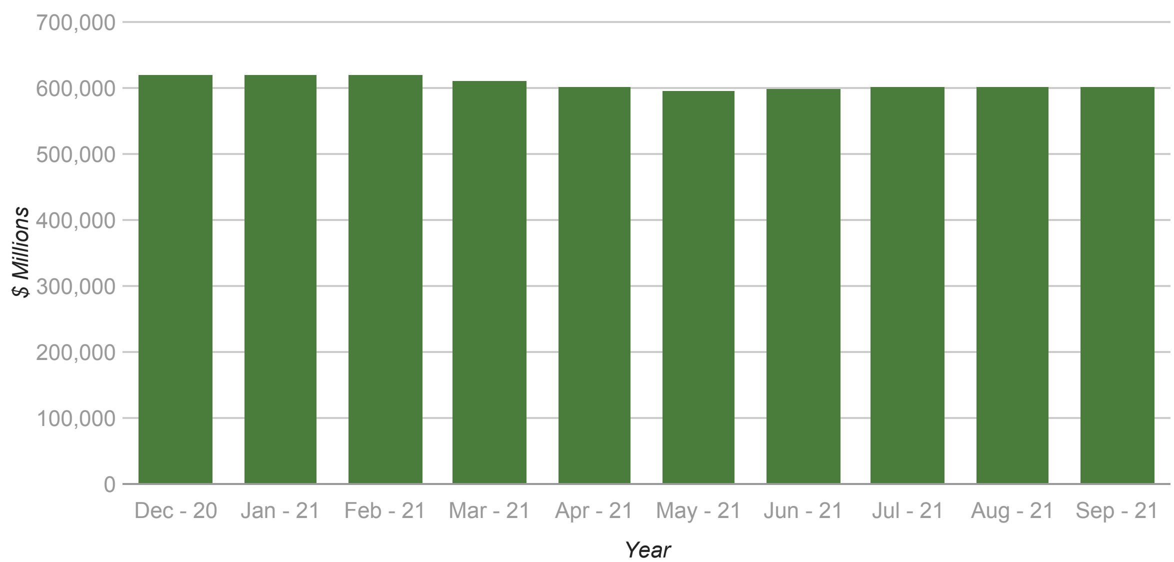
Source: Census Bureau

Inventory Trends

Retail inventories rose from a year ago

Seasonally adjusted retail inventories were at an end-of-month level of $602.7 billion in September 2021, a 0.46% change compared to a year ago and a -0.21% change from the previous month, according to the latest data from the Census Bureau.

Retail Inventories



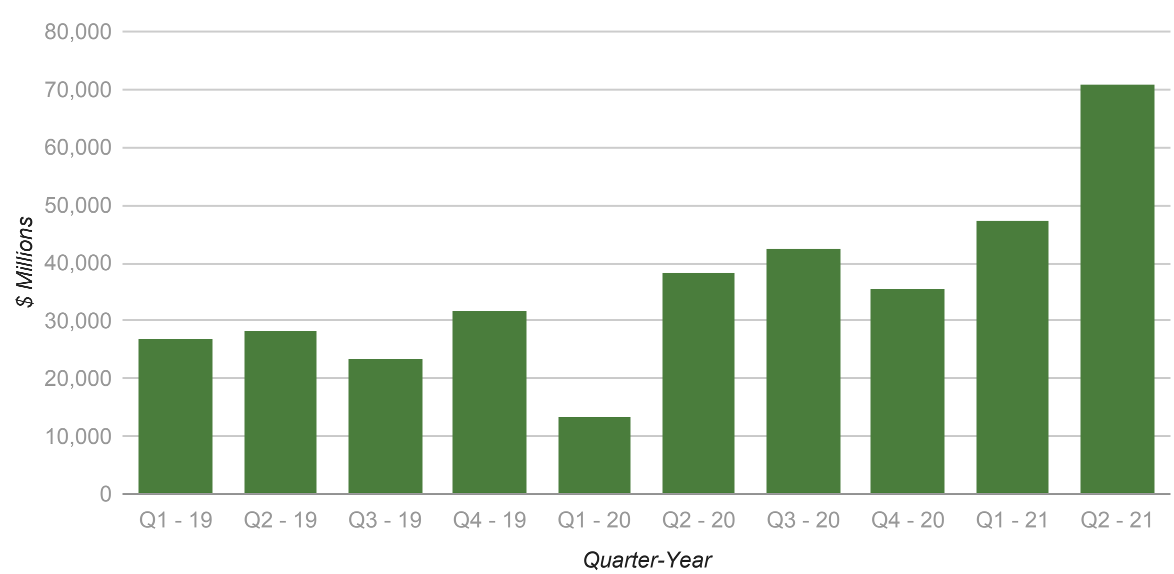
Source: Census Bureau

Profit Trends

Retail profits rose from a year ago

After-tax profits of retail corporations with assets of $50 million and over totaled $71.1 billion in Q2 2021, a 85.67% change compared to a year ago and a 424.63% change from the previous quarter, according to the latest data from the Census Bureau.

Quarterly Retail After-tax Profits



Source: Census Bureau

Employment and Wage Trends

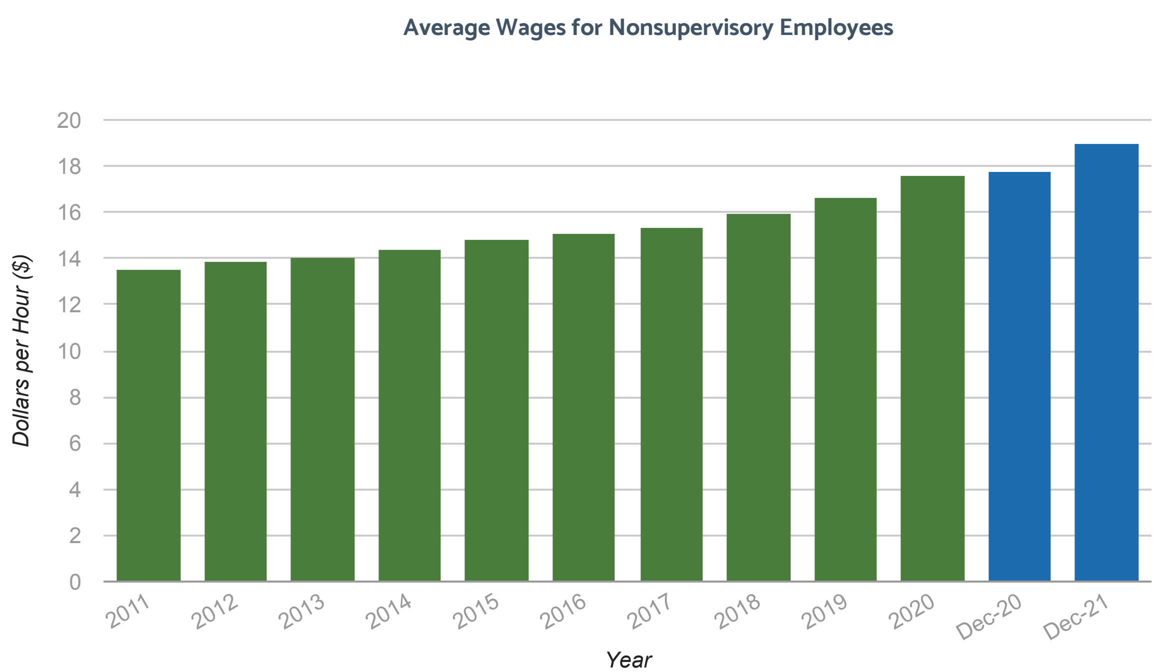
Employment by retailers increases

Overall employment by retailers changed 2.5% in December compared to a year ago, according to the latest data from the Bureau of Labor Statistics.

Source: Bureau of Labor Statistics

Wages at retailers rise

Average wages for nonsupervisory employees at retailers were $18.94 per hour in December, a 6.8% change compared to a year ago.



Source: Bureau of Labor Statistics

Cash Flow Management

Companies primarily generate revenue by selling goods and services to customers in traditional retail settings and online. Suppliers include manufacturers, distributors, growers, and importers. Customer segments include individual consumers and businesses. The retail trade tends to be a high margin business, with the exception of food, which generally has tight margins. Retailers benefit from trade promotions by manufacturers and distributors. Trade promotions include slotting fees (fees paid for shelf space), manufacturer rebates, volume incentives, and various trade allowances.

Collection periods are short because customers typically pay in full at the time of purchase. Most retail purchases are made with cash, check, or third party credit card. Some companies work with customers to secure financing or offer credit through third party providers for high ticket items like vehicles, furniture, and major appliances. Retailers, like home furnishings stores, may special order items for customers and require a deposit when the order is placed. Some companies will hold merchandise on layaway, which requires an initial deposit and scheduled payments. Retailers may also extend credit to customers in the form of store-branded credit cards. Retailers also offer rewards programs to build customer loyalty, drive more frequent visits to stores and online sites, and encourage purchasing. Most retailers offer gift certificates or gift cards.

Cash flow may be seasonal depending on the merchandise. Building materials demand is highest in the spring and summer, while clothing demand increases in the fall (back-to-school) and winter (holiday shopping). Firms may experience temporary cash shortfalls during periods of low demand, particularly when they increase inventory prior to a peak selling season. Retailers may use lines of credit to supplement working capital needs. Many companies rely on part-time workers, particularly during peak sales periods, to minimize labor costs.

The cost of inventory can fluctuate depending on commodity prices for raw material components, such as metals, fibers, and lumber. Because margins can vary across and within product categories, establishing a balanced merchandise mix is important. Retailers take ownership of the goods they sell and therefore require funds to purchase inventory. Dealers of large ticket items such as automobiles, recreational vehicles (RVs), boats, motorcycles and manufactured homes often have floor-plan financing or revolving loans in the millions of dollars. The company issuing the floor-plan holds a vehicle's title until the dealer sells it and dealerships pay down the floor-plan loan as the vehicles are sold.

Retailers must carry sufficient inventory to meet sales demand, but excess inventory ties up cash and increases the risk of discounting and inventory write-offs. Obsolescence can be a problem for trendier merchandise. Retailers discount merchandise that is slow to sell in order to make space for new or better selling products.

Key management metrics include unit costs, inventory turnover, sales per square foot of store space, average sales per day, sales by department, customer traffic, percent of returns, labor productivity, and year-over-year transaction volume and value, also known as same-store-sales. Common productivity metrics include sales per employee and speed of sales transaction.

Capital and Foreign Investment

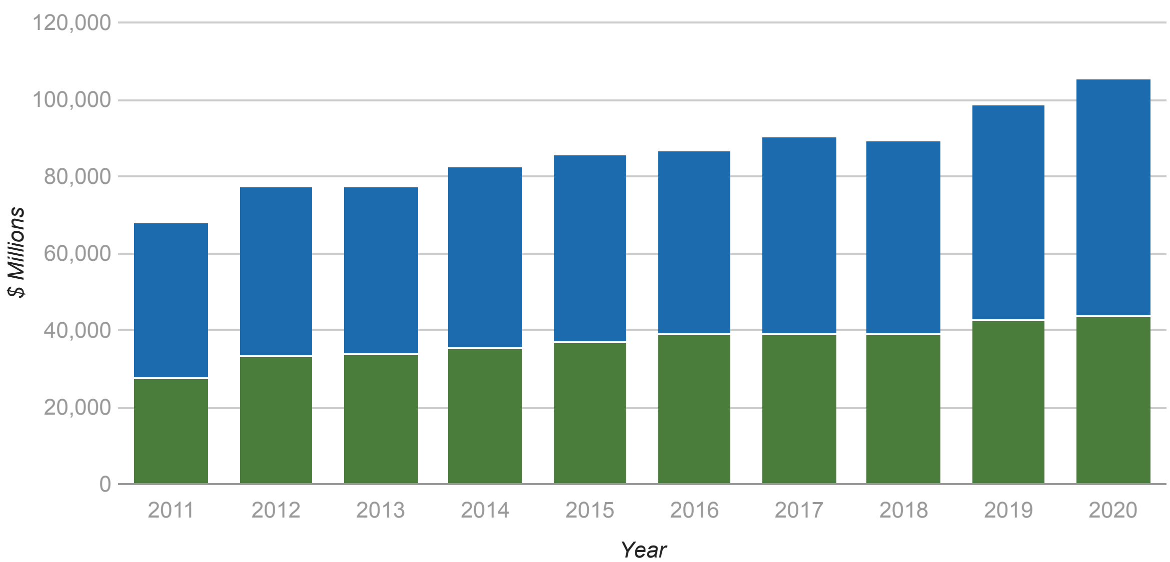
The retail sector is less capital intensive than other sectors, but requires investment in storefront, point of sale (POS) equipment, display fixtures (racks, shelving, mannequins, carts) and inventory. Stores selling food or beverages require refrigerated cases and may have working kitchens. Dealerships are generally equipped with service centers. The sector spends almost 2% of annual revenue on capital expenditures, which is equivalent to about $90-100 billion per year. The average retailer spends $14,000-16,000 per year on capital investments.

Retailers lease space in shopping centers, strip malls, or other high traffic developments to minimize upfront capital expenditures. Because the shopping experience is critical to attracting customer traffic and driving sales, firms may invest in distinctive furnishings, fixtures, and décor to create a unique atmosphere. Remodeling can create a fresh look, draw new customers, and encourage lapsed customers to revisit.

Firms may also require capital to add square footage, open new locations, or purchase other existing retailers. By expanding a store's footprint, companies can display more merchandise and generate incremental sales. New locations allow retailers to reach additional geographical markets.

Most retailers invest in computerized information systems that integrate point-of-sale and inventory management programs. Point-of-sale systems process and store transactions and related data. Inventory management systems track merchandise movement, allowing companies to identify slow and fast moving items. To help control costs, large companies have significant investments in information systems that manage merchandise flow throughout the supply chain.

Total Capital Expenditures by Retail Firms
Firms with Employees



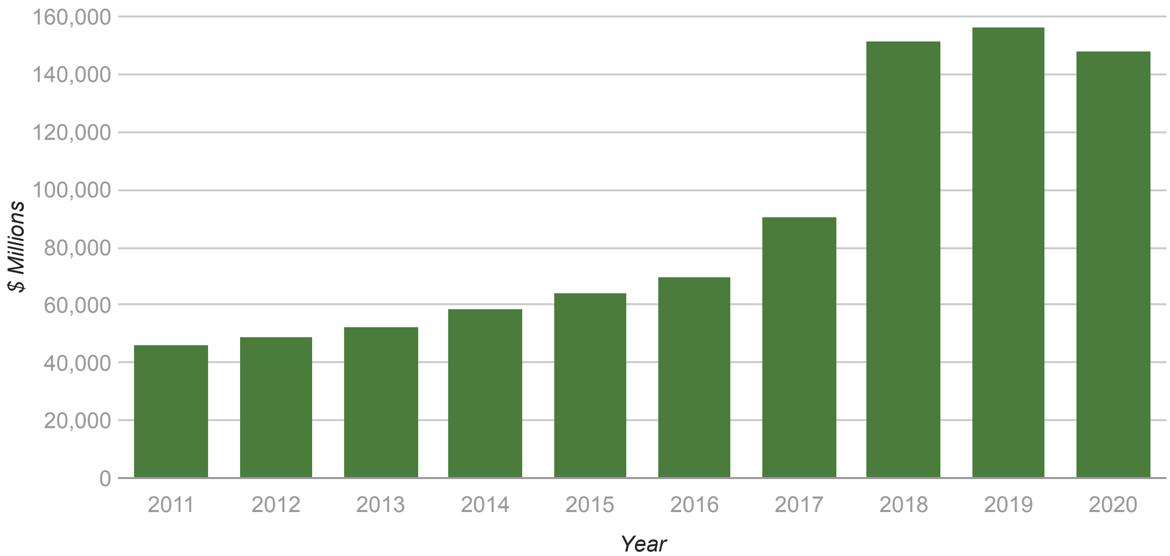
Source: Census Bureau

Foreign Investment

The US is an attractive market for foreign investors. The retail sector represents about 4% of total foreign direct investment in the US. Foreign investors use their funds to acquire US firms, finance the establishment of new firms and expand existing operations. Foreign spending to develop new companies from the ground up or to expand existing businesses is called greenfield investment. Within the retail sector, foreign direct investment steadily increased over the past decade.

Annual investment in the US retail sector by foreign interests fell 5.6% in 2020 to reach $147.9 billion. Total FDI in the US rose 3.8% in 2020.

Foreign Direct Investment in US Retail Sector



Source: Bureau of Economic Analysis

Financial Benchmarks

The following financial benchmark data is based on annual financial statements submitted by member institutions of the Risk Management Association from Q2 of the first year listed through Q1 of the following year.

Financial Ratios (US Retail Sector, Industry-wide)

MEASURE	2018-19	2019-20	2020-21
Current Ratio	1.33	1.32	1.51
Quick Ratio	.44	.41	.63
Days Inventory	62.28	65.79	56.35
Days Receivables	13	10	12
Days Payables	20.77	19.86	18.58
Pre-tax Return on Revenue	2.09%	2.09%	3.77%
Pre-tax Return on Assets	6.05%	6.05%	10.46%
Pre-tax Return on Net Worth	19.25%	19.09%	30.86%
Interest Coverage	5.52	5.19	8.27
Current Liabilities to Net Worth	1.46	1.53	1.20
Long Term Liabilities to Net Worth	0.72	0.63	0.75
Total Liabilities to Net Worth	2.18	2.16	1.95
Number of Firms Analyzed	*11,914*	*10,449*	*6,107*

Income Statement (US Retail Sector, Industry-wide)

ITEM	2018-19	2019-20	2020-21
Revenue	100.0%	100.0%	100.0%
Cost of Sales	71.09%	73.49%	70.0%
Gross Margin	-42.18%	-46.98%	-40.0%
Officers Compensation	1.27%	1.07%	1.29%
Salaries-Wages	-17.53%	-19.55%	-16.78%
Rent	-4.13%	-4.6%	-3.49%
Taxes Paid	-2.77%	-3.15%	-2.66%
Advertising	-2.66%	-3.12%	-2.68%
Benefits-Pensions	-1.98%	-2.2%	-2.11%
Number of Firms Analyzed	*11,914*	*10,449*	*6,107*

ITEM	2018-19	2019-20	2020-21
Repairs	-1.14%	-1.25%	-1.06%
Bad Debt	-0.25%	-0.3%	-0.28%
Other SG&A Expenses	-17.28%	-17.76%	-17.57%
EBITDA	4.28%	3.89%	5.33%
Amortization-Depreciation	1.22%	1.11%	1.31%
Operating Expenses	-45.25%	-49.75%	-44.03%
Operating Income	3.07%	2.78%	4.02%
Interest Expense	0.77%	0.77%	0.68%
Other Income	-0.76%	-0.93%	-1.49%
Pre-tax Net Profit	3.06%	2.94%	4.83%
Income Tax	0.12%	0.08%	0.08%
After Tax Net Profit	2.94%	2.86%	4.75%
Number of Firms Analyzed	*11,914*	*10,449*	*6,107*

Balance Sheet (US Retail Sector, Industry-wide)

ASSETS	2018-19	2019-20	2020-21
Cash	13.65%	14.15%	21.56%
Receivables	9.73%	8.78%	8.64%
Inventory	43.36%	45.25%	37.52%
Other Current Assets	2.49%	2.41%	2.62%
Total Current Assets	69.22%	70.59%	70.35%
Net Fixed Assets	18.93%	17.46%	17.23%
Net Intangible Assets	5.45%	5.28%	6.27%
Other Non-Current Assets	6.4%	6.67%	6.15%
Total Assets	*100.0%*	*100.0%*	*100.0%*

LIABILITIES			
Accounts Payable	13.4%	13.67%	10.77%
Loans/Notes Payable	22.61%	24.69%	18.13%
Other Current Liabilities	11.92%	11.71%	12.57%
Number of Firms Analyzed	*11,914*	*10,449*	*6,107*

LIABILITIES

Total Current Liabilities	47.93%	50.06%	41.48%
Total Long Term Liabilities	21.8%	20.13%	25.78%
Total Liabilities	69.72%	70.19%	67.26%
Net Worth	30.27%	29.81%	32.74%
Total Liabilities & Net Worth	100.0%	100.0%	100.0%
Number of Firms Analyzed	*11,914*	*10,449*	*6,107*

Vertical IQ financial benchmark data is based on data provided by the Risk Management Association (RMA) and Powerlytics, Inc. RMA's Annual Statement Studies provide comparative industry financial benchmarks based on financial statements of small and medium business clients of RMA's member institutions. Additional detail on income statement line items is provided using Powerlytics financial benchmarks, which are based on reporting submitted to the IRS. Additional detail on these data sources can be found at RMA and Powerlytics.

Quarterly Insight

4th Quarter 2021

New Store Locations Outpace Closures

In 2021, US retailers are expected to open more stores than they close for the first time since 2017, according to market research firm IHL Group. Some retail industry watchers suggested the shift to e-commerce during the pandemic would lead to a permanent reduction in brick-and-mortar stores. However, retailers are learning e-commerce and physical stores complement rather than compete against one another, according to The Wall Street Journal. Stores are increasingly useful as fulfillment centers for e-commerce while giving consumers a traditional, tactile retail experience. The costs of digital customer acquisition – such as Google and Facebook ads – have risen significantly which makes physical retail more competitive with e-commerce. Retail store growth in 2021 has mostly been confined to mass merchandisers, as well as food, drug, and convenience chains. Department store and specialty retailer locations are still contracting, but the pace of store closures has slowed compared to earlier in the pandemic.

3rd Quarter 2021

Retailers Struggle with Ongoing Supply Chain Challenges

The ripple effects of supply chain woes earlier in the pandemic are still being felt as retailers work to build inventories ahead of the busy holiday shopping season, according to Retail Dive. COVID-19 outbreaks at major ports in the US and China led to cargo logjams that likely won't be cleared for several months. The pandemic has also slowed manufacturing output by key suppliers in countries including India and Bangladesh. Supply chains are facing shortages for everything from shipping containers and freight vessel space to raw materials and labor. Industry watchers suggest retailers are left with few options: either pay more for freight or wait longer for shipments. Large retailers including Home Depot and Walmart are advantaged by their ability to contract large amounts of shipping space – or in Home Depot's case – contract for exclusive use of an entire containership. Smaller players may look to air freight which is more expensive and is operating at limited capacity due to reduced levels of international travel. Industry insiders say retailers have little choice but to pass their increased costs onto customers.

Sector Terms

Chargebacks

Fees assessed when credit card charges exceed an authorized amount

End Cap Display

Coveted high-visibility shelf space, located at the end of an aisle

Kiosk

Small, standalone or pop-up retail fixture, typically within a store or shopping center

POS

Point of Sale - equipment (cash registers, scanners, monitors, card readers) for processing sales and managing inventory

Private Label

A retailer's own brand; often sold at a discount to similar national-branded products

Sales per Square Foot

Metric used to measure the efficiency of performance within a given space

Same Store Sales (Comparable Store Sales)

Comparing sales of stores open for a year or more

Shrinkage (or Shortage)

Loss of inventory due to shoplifting, employee theft, or poor record keeping

SKU – Stock Keeping Unit

Identifier for a particular product in inventory

UPC Code

Standardized bar codes on each product, used for identification

Web Links

National Retail Federation

News and resources

Retail Industry Leaders Association

Insights, events and resources

Council of State Retail Associations

Directory of associations by state

Retail Merchants Association

Blog and resources

Related Profiles

US Construction Sector

NAICS: 23 SIC: 15, 16,17

US Healthcare Sector

NAICS: 62 SIC:

US Manufacturing Sector

NAICS: 31-33 SIC: 20-39

US Mining and Energy Extraction Sector

NAICS: 21 SIC: 10, 12, 13, 14

US Wholesale Sector

NAICS: 42 SIC: 50xx, 51xx
