ALLIANZ RESEARCH

US RETAIL: A NOT SO BLACK FRIDAY FOR CONSUMERS

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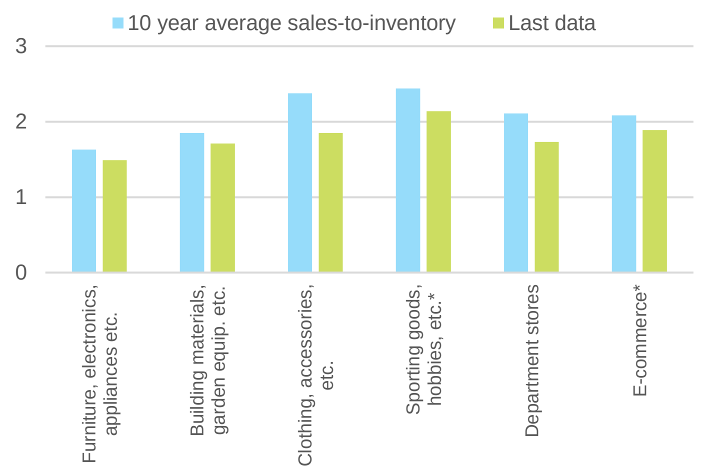
American consumers hunting for Black Friday bargains won't find much in 2021 as supply remains tight, inventory low and discounts will apply to goods already more expensive. In fact, we expect consumers to pay between +5-17% more for toys, apparel, appliances, furniture, computers, sporting goods and TV sets compared to 2020. Black Friday marks the beginning of the holiday season for American discretionary retailers, but three factors have us believe this year's Black Friday may not be so black for the consumer.

First, supply will be tight. Demand for popular consumer goods such as toys, computers, furniture or domestic appliances has been unusually high for more than a year, bringing production and transport capacities close to saturation for many categories. On top of this already tense supply-demand equilibrium, supply chains have also been impacted by a series of temporary disruptions ranging from a surge in Covid-19 cases hitting Asian factories (Vietnam in particular) and power outages in China through to missing semiconductors halting consumer electronics production. Looking at the inventory-to-sales ratio of the main segments of discretionary retail, we observe inventories are significantly below their 10-year average. Measuring the gap in current inventory levels vs their long-term average against current sales levels, we estimate that USD41bn in goods are missing from the inventories of US discretionary retailers.

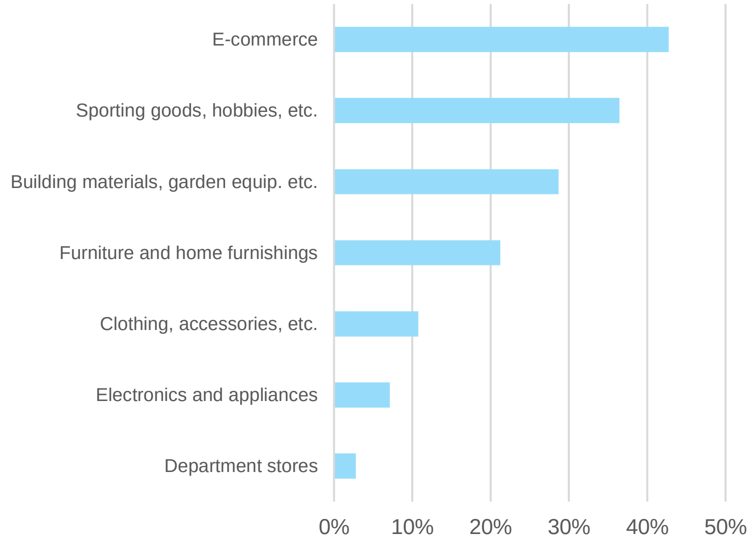
Figure 1 - Inventory-to-sales ratio



Sources: US Census Bureau, Bloomberg, Euler Hermes, Allianz Research estimates and calculations. *Estimates from a panel of listed US corporates

In addition, 2021 has been exceptionally good already. Low inventory levels are the glass-half-empty way to look at the current retail environment. The glass-half-full view is that, in dollars terms, inventories have never been so elevated, and that lower ratios reflect the difficulty for retailers to keep pace with all-time high spending on discretionary goods: **Compared with 2019, discretionary retailers have accumulated more than USD400bn in additional sales, with e-commerce, hobby and home improvement specialists enjoying the largest increases (Figure 2).**

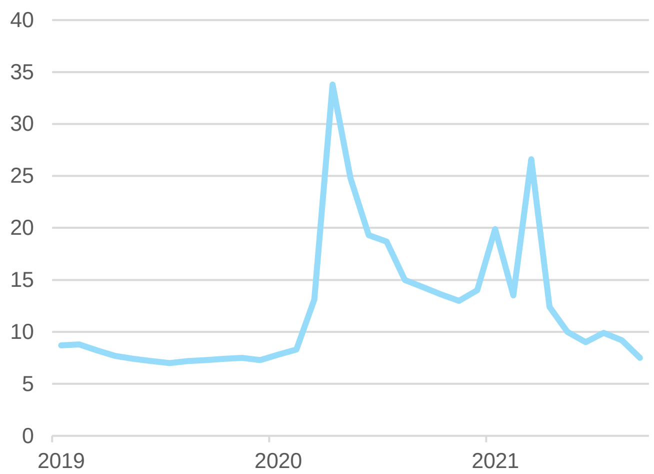
Figure 2 – Year-to-date sales by segment, 2021 vs 2019 (%)



Sources: US Census Bureau, Euler Hermes, Allianz calculations

Limitations on available consumer services during the highs of the pandemic, combined with generous government support to households (stimulus checks), contributed to a boom in US consumer savings (Figure 3). This accumulation of savings together with shifting consumer priorities have been instrumental in fueling the current spending splurge on consumer goods.

Figure 3 – US personal savings as % of disposable personal income

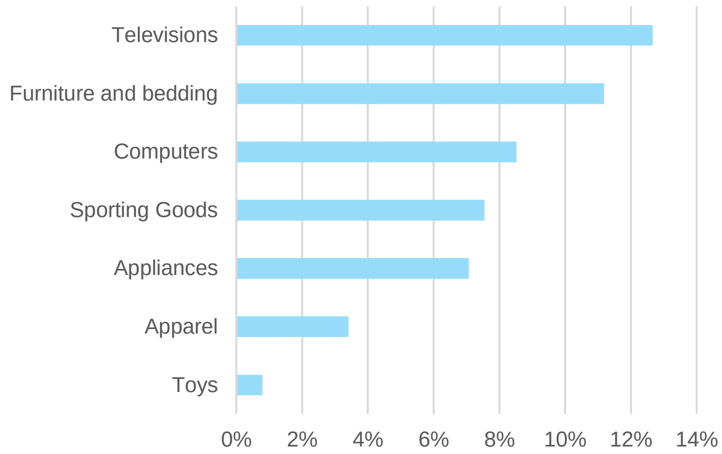


Sources: US Bureau of Economic Analysis, Euler Hermes, Allianz Research calculations

With a stellar 2021 already, still strong consumer appetite ahead and no excess inventories to clear, the incentive for retailers to offer deep discounts on a large array of goods is therefore particularly limited.

Whatever discounts available will apply to goods that are already more expensive. In 2021, Black Friday is happening in a context of general price increases in the US economy – topline inflation figures came out at +6.2% y/y in October 2021, a record high since 1990. Looking at inflation data at a product level, we observe that price increases have been even on average more pronounced on popular Black Friday items such as computers, sporting goods or television sets.

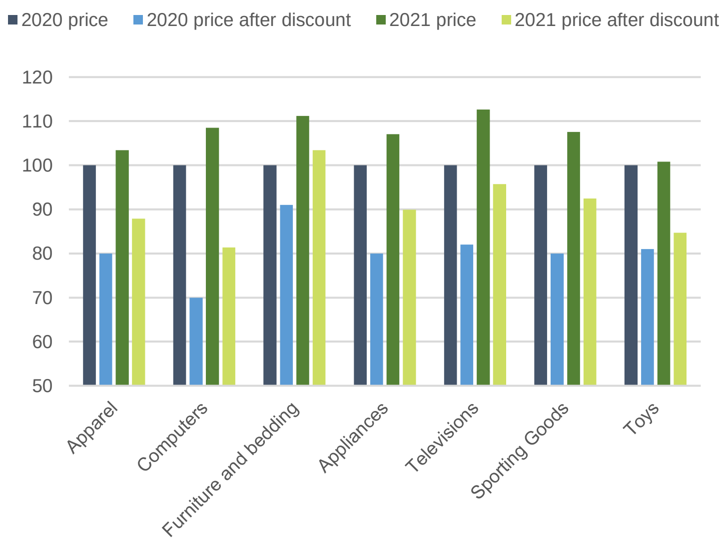
Figure 4 – Consumer price index, selected items, % change yoy



Sources: US Bureau of Labour Statistics, Euler Hermes, Allianz Research

Factoring in both the increase in average prices and lower rebates on discounted items, **we anticipate consumers to pay on average +5% for discounted toys, +10% for apparel, +12% for appliances, +14% for furniture, +16% for computers and sporting goods and +17% for TV sets sold this Black Friday vs last year.**

Figure 5 - 2020 and 2021 price for selected items, adjusted for inflation and discounts



Sources: US Bureau of Labour Statistics, Adobe Digital Insights, Euler Hermes, Allianz Research calculations

While consumers will most likely not see much of a difference for products with low average selling prices such as toys or clothing, the combined effect of inflated prices and lower rebates is much more tangible for furniture (+USD24), appliances (+USD25), computers (+USD39) and TV sets (+USD72).

Figure 6 – Discounted average selling prices, current USD

Sources: US Bureau of Labour Statistics, Adobe Digital Insights, Euler Hermes, Allianz Research calculations.

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