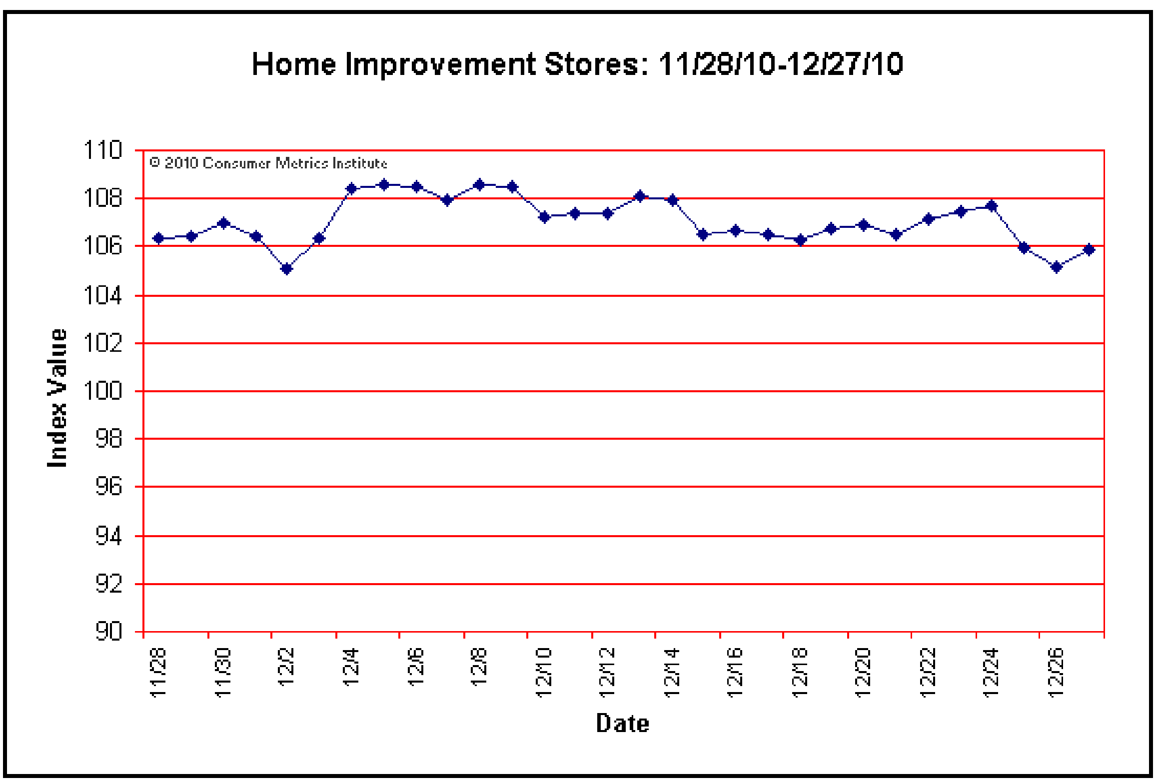
Consumer Metrics Institute Members News

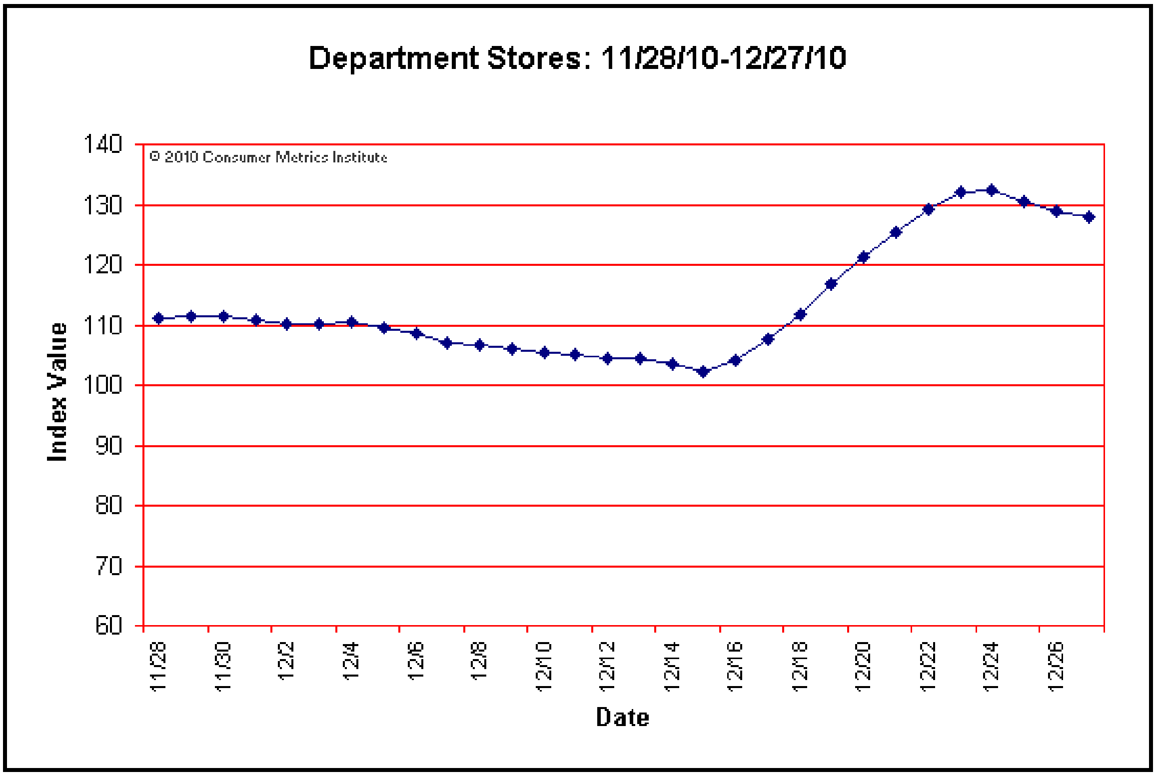
December 29, 2010: Looking Back at Holiday Sales and the BEA's Third Estimate for Q3-2010

There have been a number of interesting stories to emerge from our measurements of traffic volumes at on-line retailers during the just concluded holiday sales period. The below charts have been updated to reflect activities for the 30 day period through December 27, 2010. As a reminder, these charts only show year-over-year changes in transaction volumes at the on-line portals for major retailers, and they are not weighted according to the dollar impact of those transactions on the economy (see our "Contraction Watch Chart" below for the economic impact of the transactions).

The chart that we think best represents the "overall" retail experience during the holiday period is ironically the one that isn't usually associated with classic or traditional holiday gifts. The Home Improvement Stores sub-index within our Retail group has not historically experienced a statistically significant market share shift relative to the overall retail mix during the holidays, and for that reason we offer it as a proxy for the total retail experience:

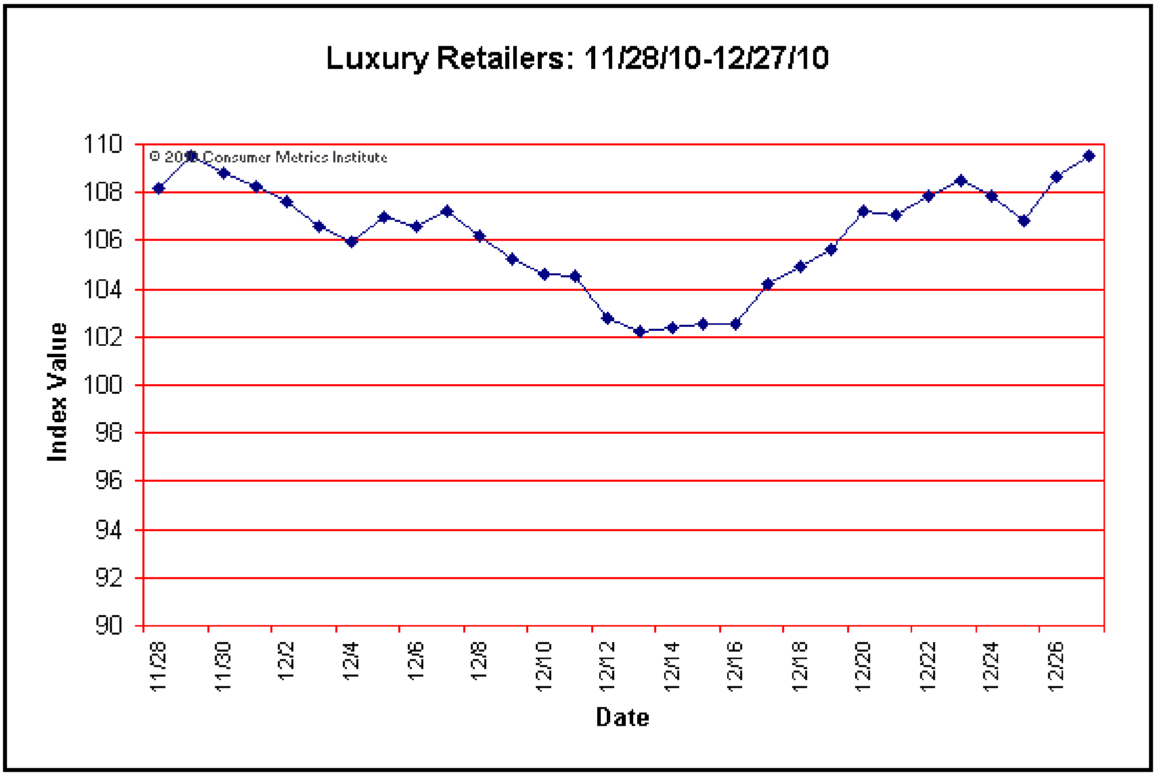


The numbers that we recorded are ball-park consistent with many of the shopper traffic reports from shopping centers and chain retailers, and the numbers in the chart also held up well throughout the 30 day period. Contrast that relatively level performance with the what we saw happening at the major brand department store chains:



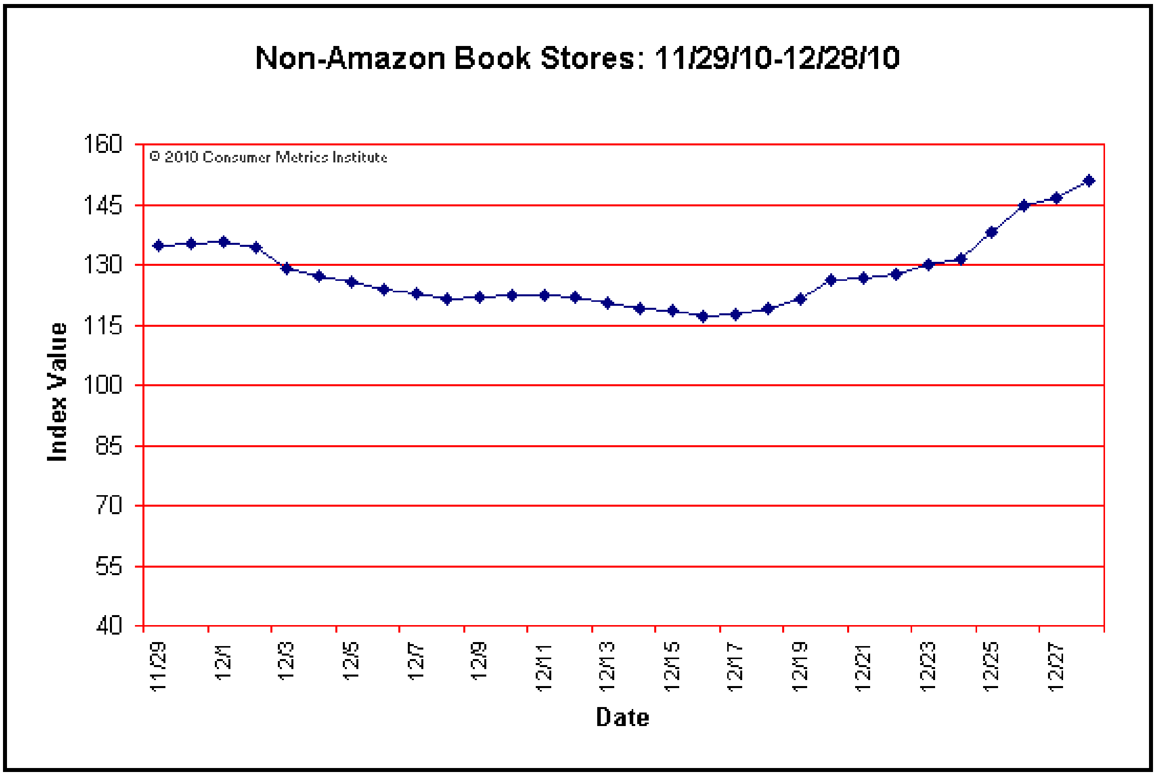
As we have previously chronicled, the traditional department store chains saw their on-line portals experience significant swings in year-over-year traffic during the holiday shopping period. On-line department store traffic started at a favorable level early in the month before bottoming around the 15th at low single digit year-over-year improvements -- only to soar to significantly positive territory during the last 10 shopping days as heavy discounting returned to the on-line portals.

A much less dramatic version of the same general mid-month dip can be seen in the activity levels for the Luxury Retailers:



Again this is a pattern that we would expect if retailers and consumers were playing cat-and-mouse waiting games with the heaviest discounts. The most extreme swings in this sort of activity were seen with the classic Discount Retailers, who you may recall had experienced upper double-digit year-over-year gains in on-line traffic levels early in November before having that completely evaporate by the beginning of December. Again, during the final 10 shopping days their traffic soared back to the same levels they saw during their pre-Thanksgiving promotions:

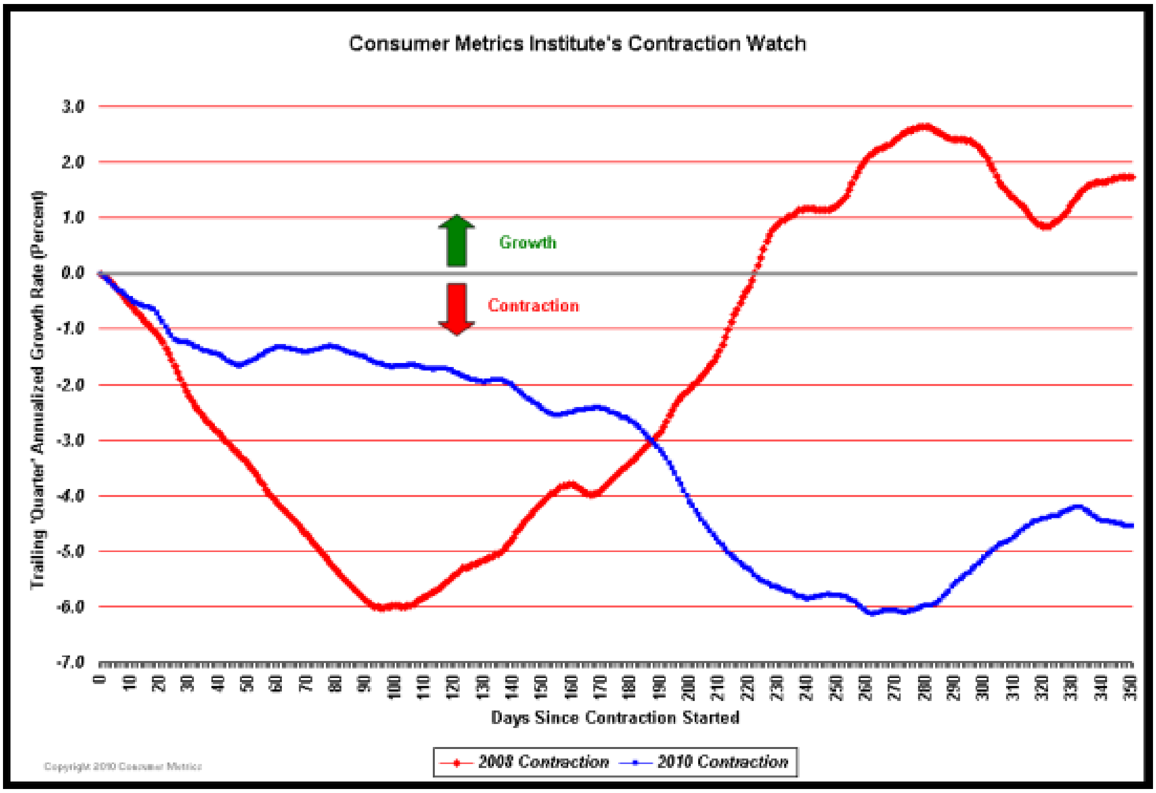
We have also previously reported that Book Stores did extremely well during the holiday season, while suggesting that a substantial portion of that was a result of the market share gains by Amazon. The market share gains at Amazon are not just in books (of either the hard-copy or downloaded persuasion), but are also a result of Amazon's much broader push into consumer electronics and other merchandise. However, when we drop Amazon from the "Book Stores" graph, the numbers are still very impressive:



This surprised us, but on further consideration it may merely be an indication that our on-line demographics were attempting to stretch their holiday budgets as far as possible with relatively modest media purchases in lieu of bigger ticket items.

Last week the Bureau of Economic Analysis ("BEA") released its third estimate of the annualized growth rate of the U.S. Gross Domestic Product ("GDP") during the third quarter of 2010. The headline number was revised upward slightly to a 2.6% annualized growth rate (from the 2.5% growth rate previously reported). But in the same report the BEA revised its measurement of the "Real Final Sales of Domestic Product" downward from a previously reported 1.3% growth rate to a 0.9% annualized rate. This represents the second consecutive quarter that the BEA has reported "Real Final Sales" growing at less than a 1% annualized rate. The downward revision was caused by both a growth in manufacturing inventories and a weakening of end consumer demand.

With even the BEA reporting that "Real Final Sales" are growing at less than a 1% annualized rate, we continue to be skeptical of a robust recovery -- or even a more modest one that will soon moderate unemployment rates. We are also skeptical that the widely reported 5% "recovery" in holiday retail sales will translate into a commensurate boost in overall growth. While we also saw the increases in traffic reported above, when we weight that traffic according to its impact on the overall consumer economy we continue to see contraction:



In fact, over the past week the contraction has leveled off again -- and we remain unable to forecast when the blue line in the above graph will break through the gray "zero" line in the upward direction.

In the midst of the widely reported recovery in holiday sales, The Conference Board published new consumer confidence numbers that were lower than the previous month. In general consumers were spending somewhat more for the holidays while remaining pessimistic about the longer economic picture.

As we have mentioned many times before, the two main drags on this economy have been sustained unemployment and a dismal housing market. Consumers understand both of those factors first hand, and we expect them to remain cautious until they see clear signs that those two specific problems are improving.