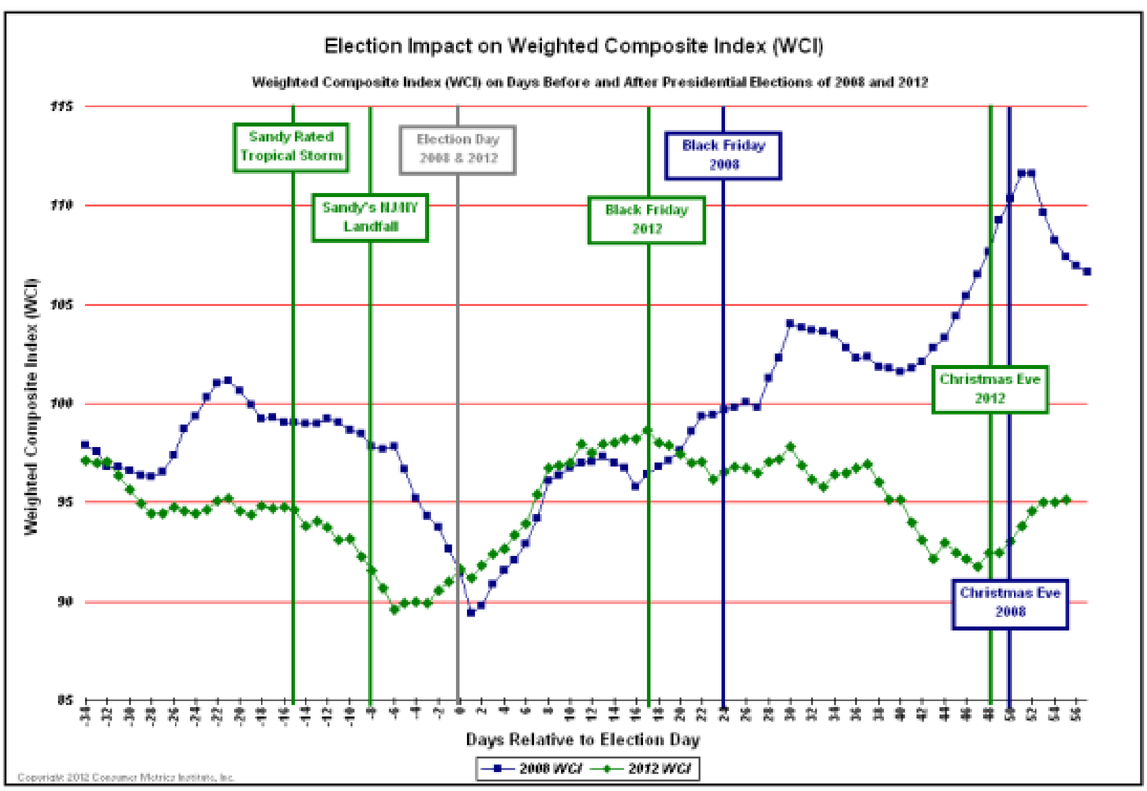
Consumer Metrics Institute Members News

January 3, 2013: A Final Review of 2012 Holiday Shopping Season

(Web page version is here)

On several occasions we have tried to help our readers visualize consumer behavior during the last quarter of 2012 by comparing consumer activity during the recently ended quarter with the same quarter of 2008. We chose 2008 as our comparison year because both years contain the economic distractions of a contentious presidential election -- an under appreciated (if not completely unrecognized) macro-economic phenomenon. The last quarter of 2008 is also interesting as a benchmark quarter because it also experienced rapidly falling energy prices -- which in turn triggered the increased consumer discretionary spending that officially ended the "Great Recession" some six months later. However, this year also includes the economic distortions caused by Hurricane Sandy in late October and early November. The chart below is an update of our earlier charts through the end of the holiday season and calendar year (with the time frames of both years shown relative to the respective election days)**:**



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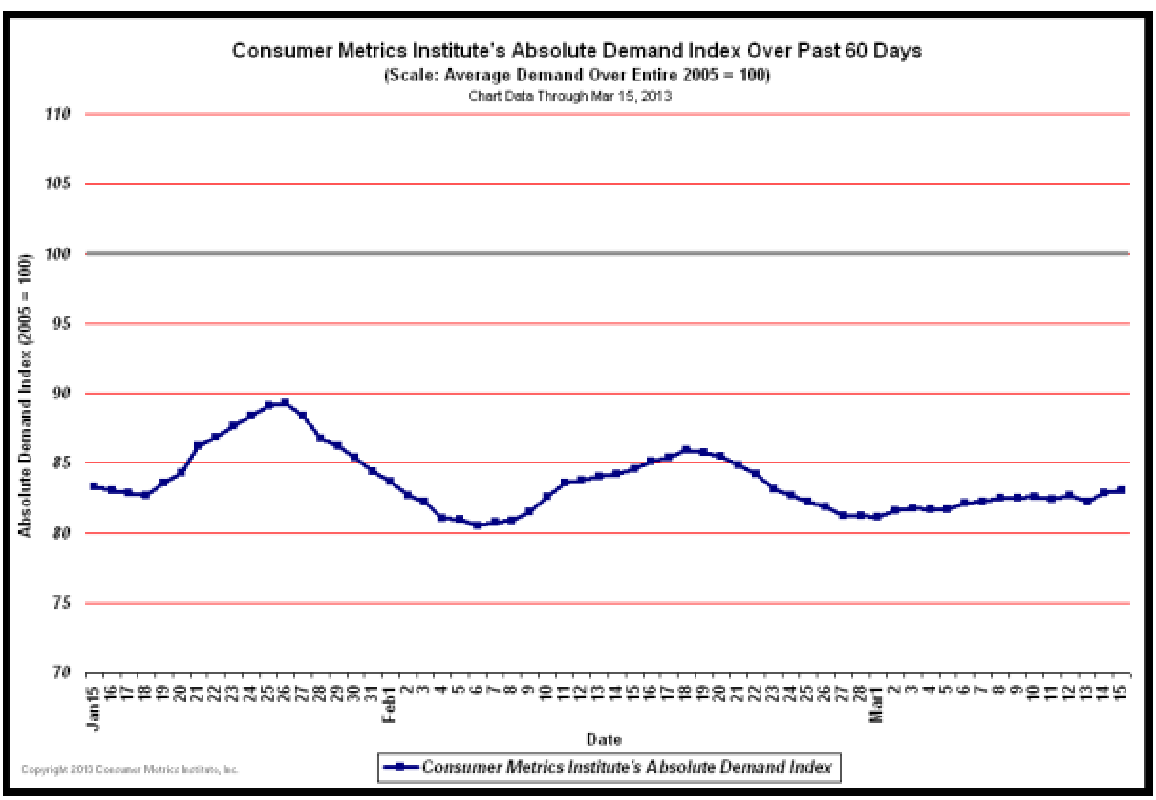
In both election cycles we witnessed a significant fall-off in consumer demand that was broadly coincidental with the election. Additionally we can see the overlaid impact of "Super Storm" Sandy in very late October 2012 through the first week of November. Perhaps more importantly, as we now look back on the entire last quarter of 2012 we can see it diverge significantly downward from 2008. Some observations from the above chart are**:**

-- Year-over-year on-line consumer demand for discretionary durable goods in 2012 was substantially weaker than in 2008 prior to the general election (and long before Sandy appeared on the horizon) -- even though the 2008 election arguably occurred during the very heart of the "Great Recession." We credit a substantial part of that weakness to the tone of the electoral rhetoric -- although 2008 had perhaps more uncertainty associated with it, 2012 was fraught with economic and employment doomsday messages that could give even the most optimistic consumers some reason for caution.

-- Once the incessant and depressing rhetoric from the election campaign had been laid to rest, Washington-politics-as-usual managed to create a new bogeyman: "the Fiscal Cliff." We're not convinced that consumer fear of the "Fiscal Cliff" impacted their behavior in any significant manner, although some will certainly argue that it was the principal cause of the weaker-than-expected holiday season. Now that the "Fiscal Cliff" has morphed into the "Fiscal Slippery Slope" we will have an opportunity to see if consumer behavior changes in any measurable way.

-- As we predicted in our last newsletter, the economic "green shoots" some pundits saw within the 2012 "Black Friday" retail reports were actually (once again) only sales pulled forward from the more traditional December spending season.

And reflecting a little deeper on the last point above, when you look at our "Absolute Demand Index" for the past 60 days you can see what is perhaps the new structural norm for the seasonal holiday spending patterns of the American shopper**:**



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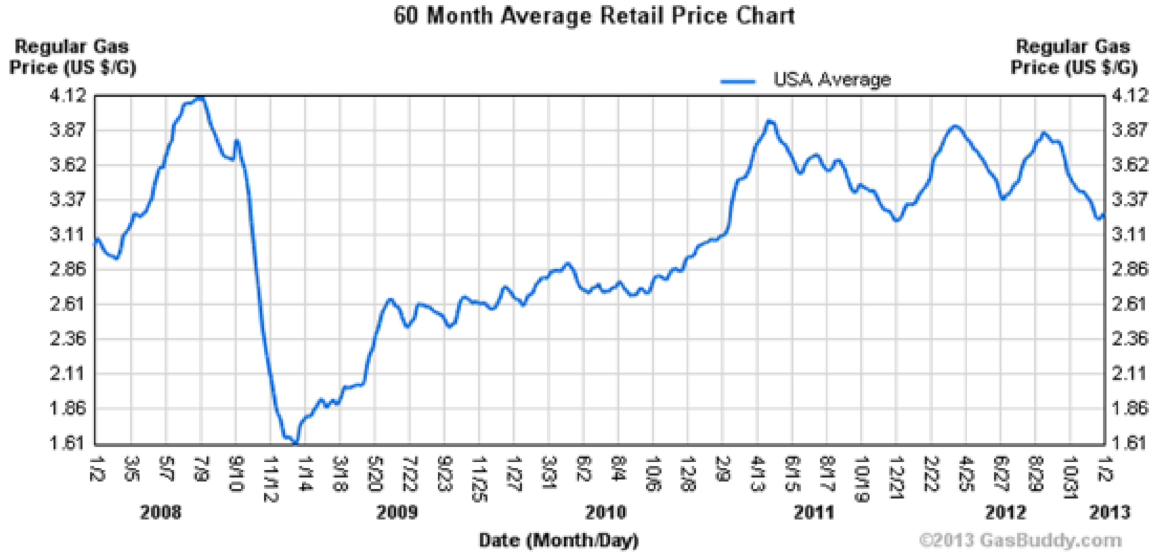
This chart shows three distinct peaks during the holiday season**:** (1) the broad first peak roughly coincident with "Black Friday"; (2) a sharper and slightly higher pre-Christmas spike; and (3) a post-Christmas peak that is at least as intense as the pre-Christmas spike. *(Note that the nature of our data -- i.e., on-line transactions -- probably moves the pre-Christmas spike forward by several days relative to brick-and-mortar store sales as consumers compensate for shipping times.)*

While the existence of the three peaks is nothing new, the shape of the peaks has changed**:**

-- The front slope of the "Black Friday" peak has broadened substantially by moving earlier into November -- as a direct consequence of retailers pushing their promotions into the weeks preceding Thanksgiving. In the above chart we are seeing the on-line equivalent of brick-and-mortar retailers moving the "door opening" specials from 8:00am "Black Friday" to 6:00am and then to 4:00am and then to midnight and then ultimately to Thanksgiving evening. In a zero-sum economy such aggressive and serially earlier promotions only pull sales forward from more traditional time frames. The danger lies in not recognizing the zero-sum aspect and forecasting improved holiday sales based on the earliest returns alone.

-- We would also argue that the shift to earlier spending is the result of frugal (or "cash strapped") shoppers becoming more savvy over the past few years and taking extremely good deals when they see them. The flip side of that argument is that retailers have now trained their customers to snap at only the most deeply discounted (and earliest -- or alternately post-Christmas) promotions. The result is an interplay between cautious consumers and increasingly desperate/aggressive retailers that ultimately reduces aggregate retailer margins.

And in at least one respect the weakness of our consumer data during the holiday season surprised us**:** like 2008 the 2012 holiday season came on the heels of a decline in gasoline prices. Total gasoline consumption in the U.S. for 2012 is expected to be about 130 billion gallons, off about 8% from the consumption level of 2008. Using simple arithmetic (and assuming inelastic short-term demand), each penny in lower gasoline prices saves U.S. consumers and businesses an annualized $1.3 billion of non-discretionary spending. Over the past 5 years the retail price of gasoline has behaved as follows (thanks to the excellent charts provided by the good folks at GasBuddy.com)**:**



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But this chart tells us a couple of things about the recent drop in gasoline prices**:**

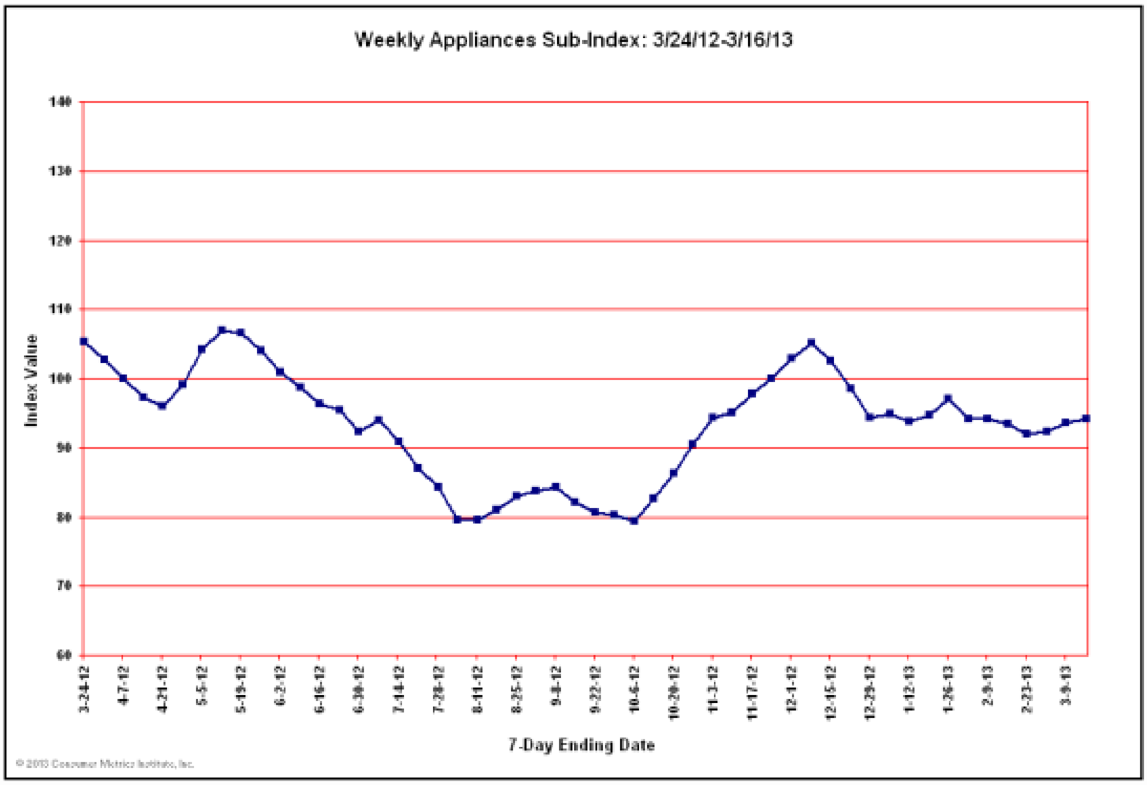
-- Although the fourth quarter drop was nice, the average price of gasoline during all of 2012 was actually at an all-time high -- some 9 cents higher than 2011. It could be argued that the historically high price of gasoline during 2012 ultimately restrained consumer discretionary spending by some $11 billion year-over-year (or roughly 1% of annual durable goods expenditures) -- enough to make the price drop in the fourth quarter a too-little/too-late proposition for consumer holiday budgets.

-- The scale of the decline in gasoline prices in 4Q-2012 pales in comparison to the price drop in the second half of 2008. In 2008 the price of gasoline dropped a whopping $2.50 per gallon at even greater consumption levels (over 10 billion more gallons consumed that year), freeing up over $350 billion in annualized discretionary spending funds for families and businesses -- the equivalent of nearly 35% of annualized consumer durable goods spending.

We have always argued that the additional $350 billion in annualized discretionary spending funds in late 2008 and early 2009 had much more to do with the timing of the official end of the "Great Recession" in the real-world economy than the subsequent Federal stimulus programs (or the Fed's QE machinations, for that matter).

Updated Charts

Updating some charts that we haven't visited recently (and perhaps trying to understand a little better the economic impact of the just concluded holiday season), let's look first at the weekly year-over-year consumer activity over the past 12 months for a number of spending categories, starting with major appliances**:**



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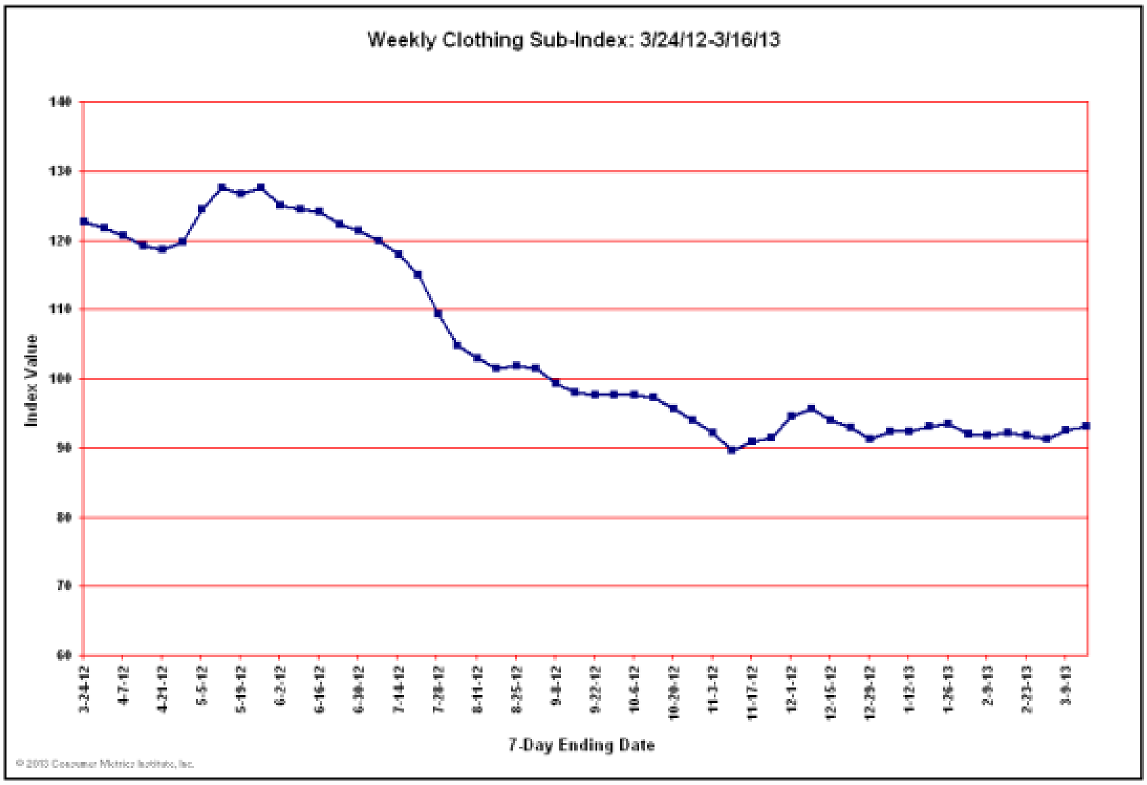
Although the year-over-year levels picked up over the past 6 weeks, this chart shows serious weakness over the preceding 6 months. We generally find this category to be a reasonable proxy for how consumers feel about their revolving credit card debt -- i.e., the purchases are large enough to require some scheduling/planning, yet small enough to not typically require the acquisition of new credit lines. The mid-year softness probably reflects consumer confidence at that time (and in the face of ongoing negative economic rhetoric from the electoral campaigns).

In contrast, clothing purchases generally do not require the same level of budgeting forethought -- and they can often be purely impulse purchases. And we have often thought that spending on clothing can be used by some shoppers as a form of self-medication to salve otherwise depressing economic news. That graph also shows relative weakening during the second half of 2012, but from much higher first half levels:



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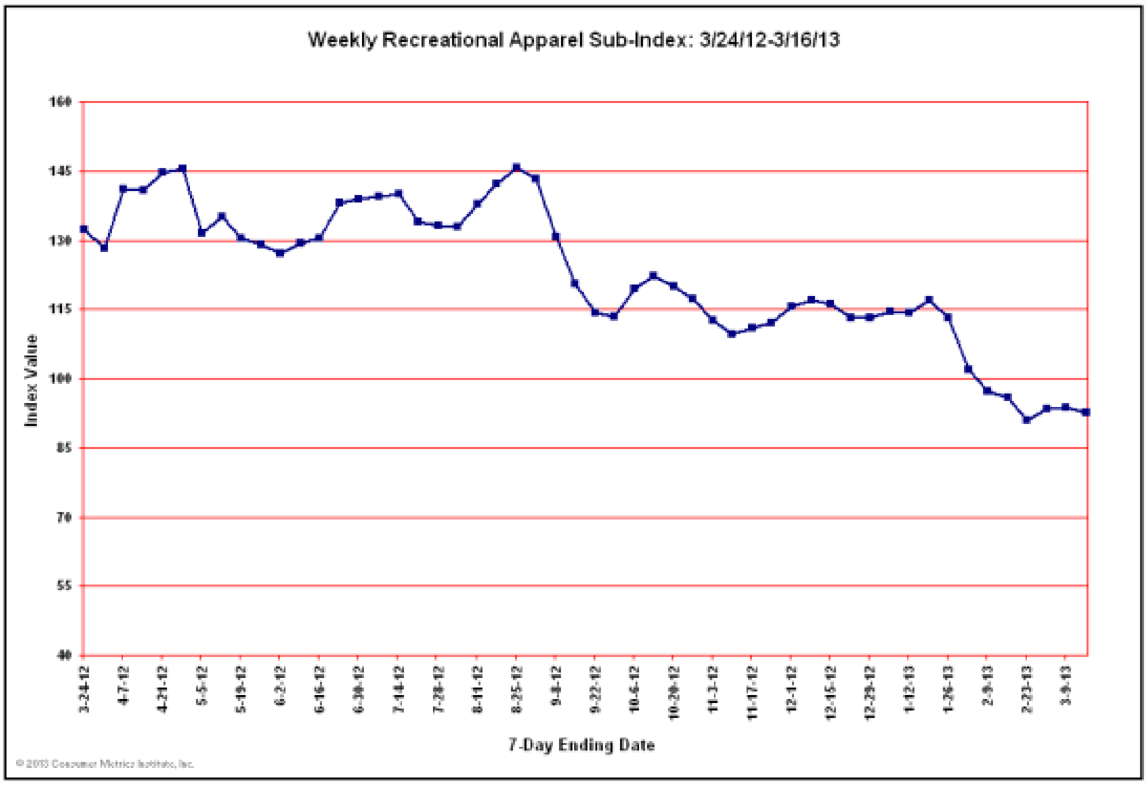
All of the above comments also apply to recreational apparel -- perhaps the ultimate in discretionary clothing. Notice a relative weakness in the fourth quarter -- but from significantly higher first half levels**:**



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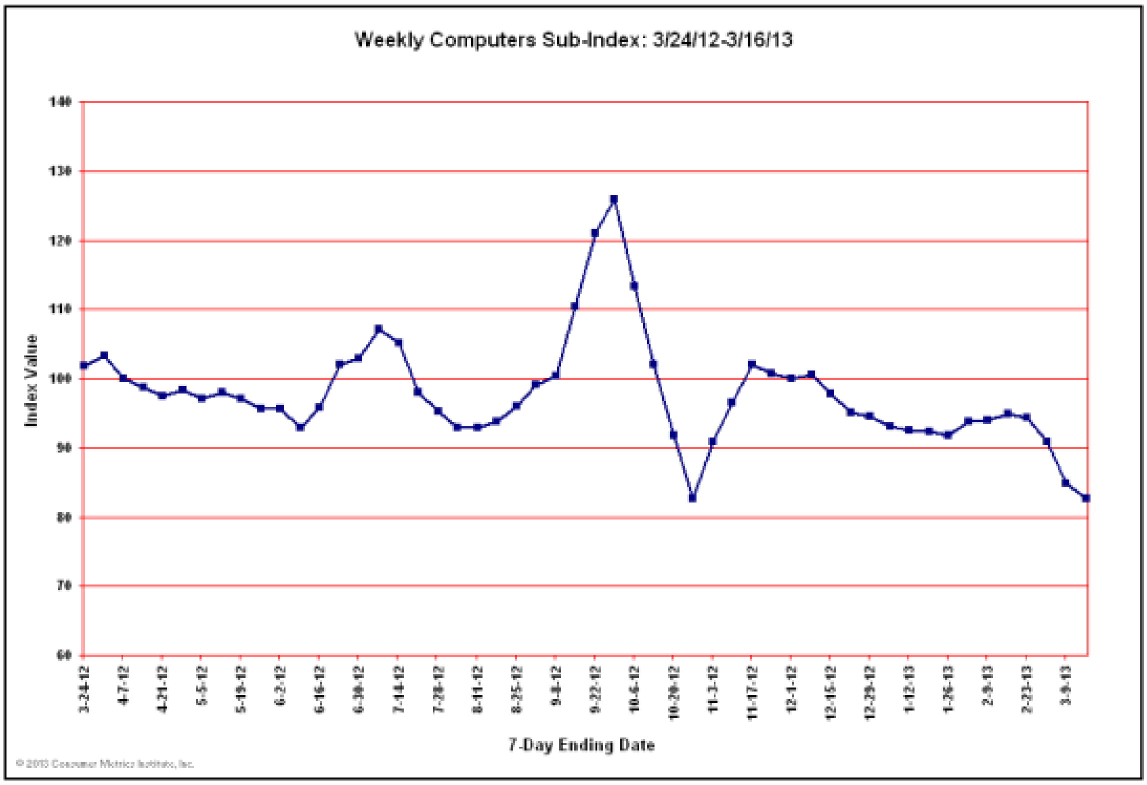
And given all the advertising funds being thrown at new-look operating system interfaces, we thought it might be nice to see if the vast spending is actually generating consumer interest in new computers**:**



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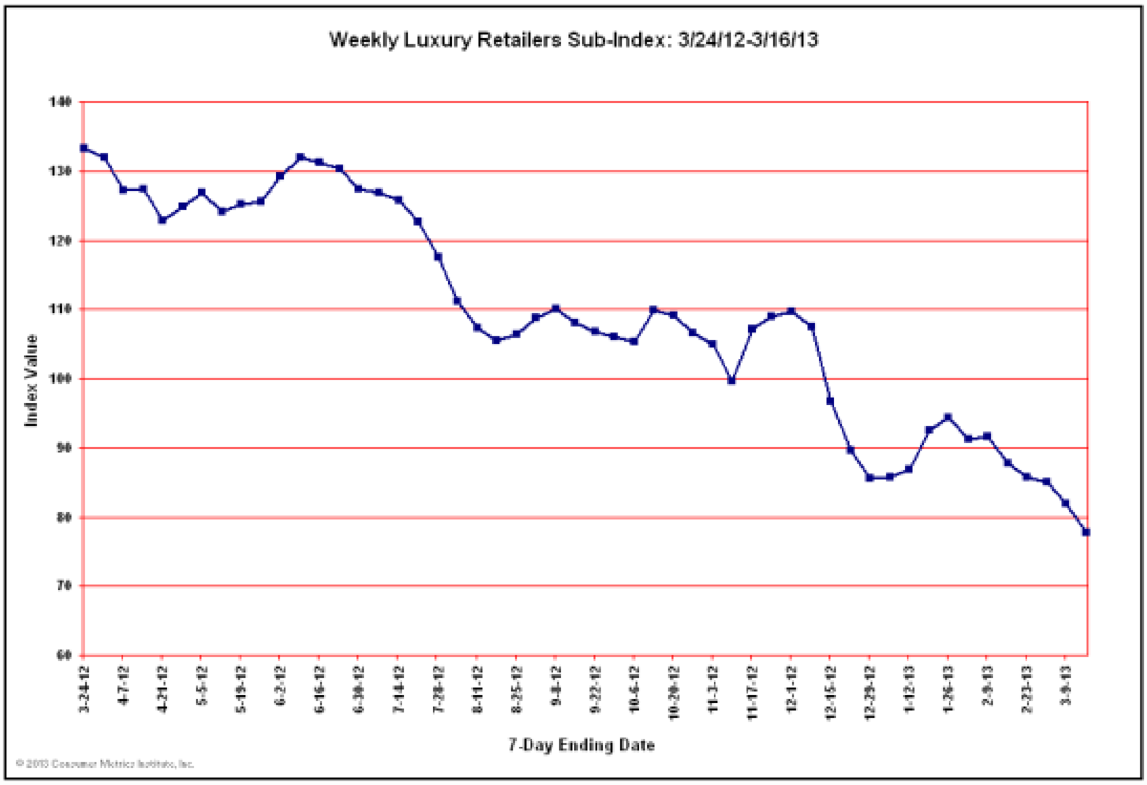
The answer is that the vast spending did spike interest just prior to the holiday season, only to have that interest wane as the shoppers became really serious.

And how did the various classes of retailers fare? First, let's take a weekly 12-month look at luxury retailers**:**



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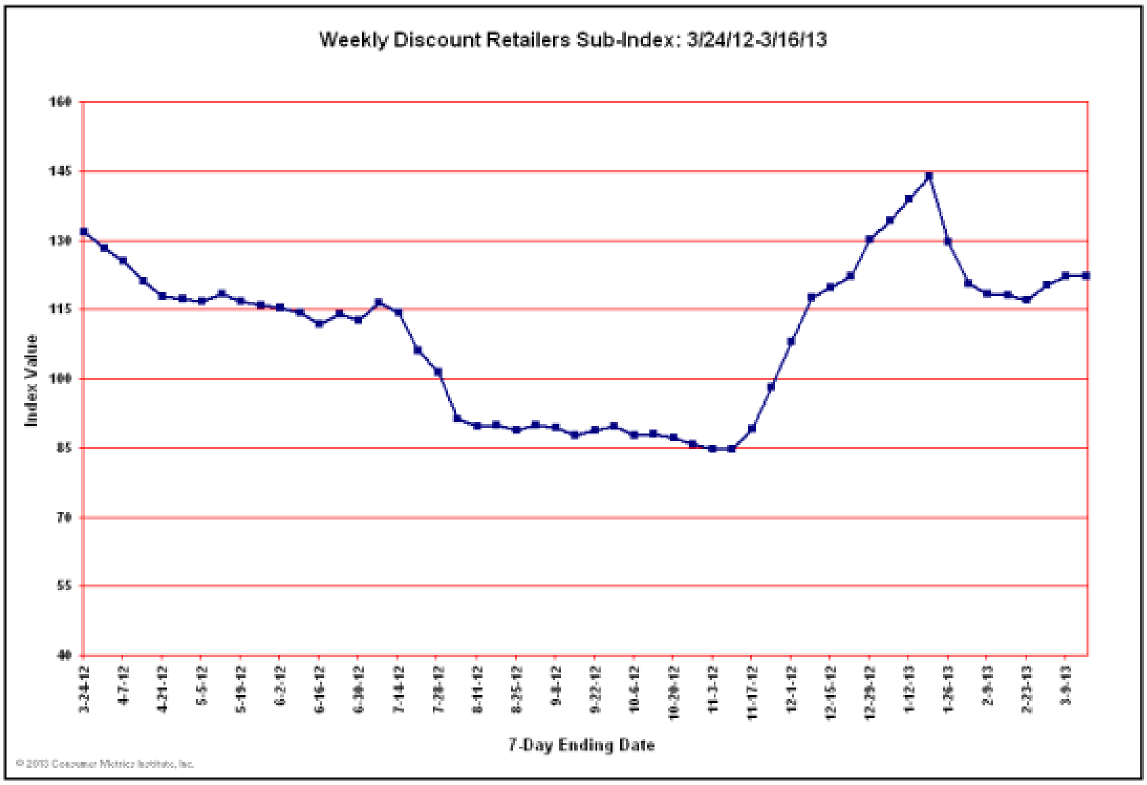
The luxury retailers recorded year-over-year growth for the vast bulk of the year, but again that growth faded in the second half (and particularly at the very end of the year). Meanwhile the discount retailers demonstrated a more dramatic slump in the second half, but with a marked resurgence during the holiday season**:**



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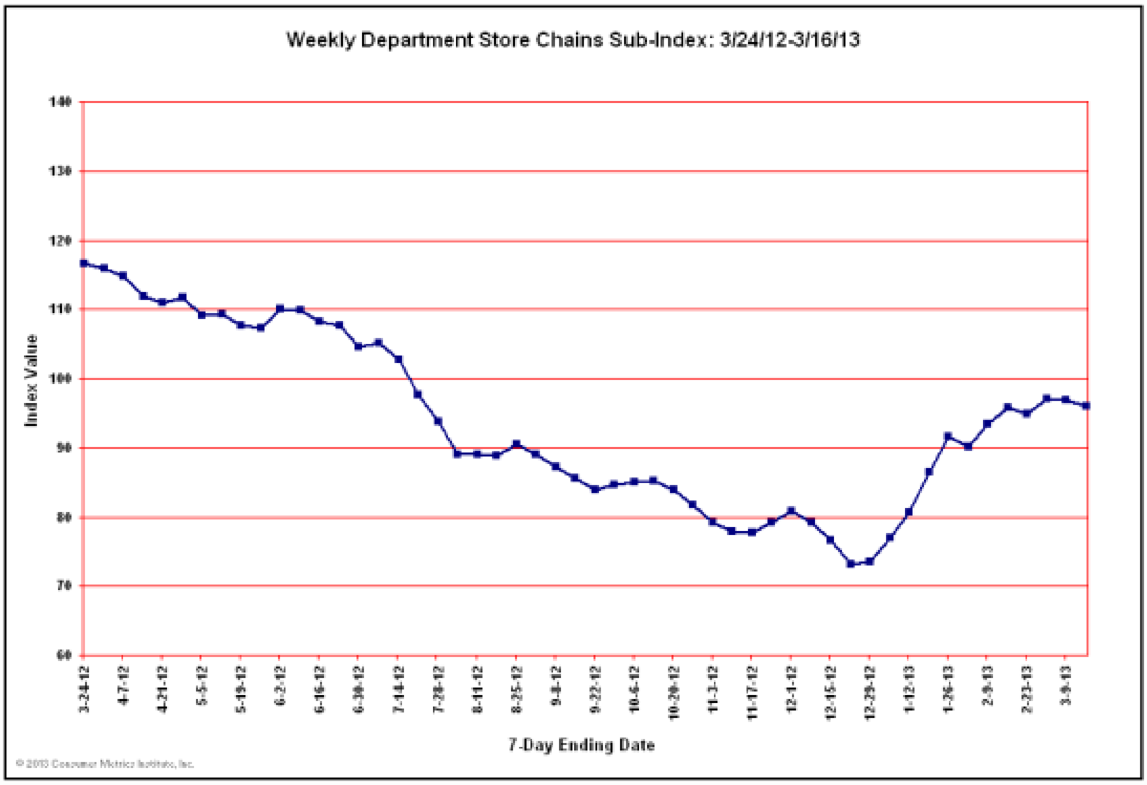
We have wondered from time to time if the contrasts between the two charts immediately above tell us something the distribution of income growth (or contraction) in the U.S. -- and if so the message seems to be that disposable income weakened for everyone mid-year, but with the higher income households more than holding their own relative to less fortunate households. The striking reverse divergences at the very end of the year are more interesting, and it is here perhaps that "Fiscal Cliff" anxiety among the more elite households actually shows up.

And throughout the second half of the year the major brand name department stores experienced weaker on-line consumer demand than in the same year-earlier weeks**:**



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This may also be the clearest indication yet that consumers are being more price conscious as a result of shrinking per-capita disposable income. If so, we should expect the traditional department stores to continue to lose market share to both discounters and lower overhead non-traditional on-line retailers until the growth rate for household disposable income picks up once again.