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Recession Lurks on 2008 Horizon

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Slow holiday retail sales, weak dollar and other factors pave way for economic strife in New Year

The holiday shopping season, the traditional litmus test for U.S. economic health in any given year, has further proven a looming situation that already has begun to seem evident ... recession.

The retail industry, particularly the activity at year's end, most accurately foreshadows economic trends: A boom in retail generally signifies a pending fiscal boom. Slacking retail sales often indicate further monetary woes, including recession. Recession is best defined as a significant decline in economic activity spread over the economy that lasts more than a few months.

The preliminary reports are in on this holiday shopping season and the results aren't full of cheer and goodwill toward the economy. Chain store sales rose only 0.2% for the week ending Dec. 8, chasing the tail of a disheartening 2% sales decline for the prior week, according to a report released on Dec. 11 by the International Council of Shopping Centers. Another analysis by ShopperTrak, which monitors retail activity at 50,000 malls and other retail sites across the United States, says traffic for the week ending Dec. 1 was 4.7% less than the same week last year. The pace wasn't expected to pick up in the final two shopping weeks of the year.

Combine this stark retail landscape with other factors, such as rising inflation rates, low consumer confidence, a slump in the housing market, employment woes and an already uncertain economy, and the economic picture for 2008 is less than rosy.

While some analysts insist the recession has already quietly begun, many concur that it will hit in full force sometime in early 2008. They say this with certainty.

Driving Factors

As 2007 winds down, there's really no good economic news. We're facing an ever-weakening dollar. Layoffs abound. Oil and gas prices continue to climb. Such factors drive people to become leery of the current economy, and as a result, they make a far more conscious choice to spend—or not spend—their hard-earned dollars.

The weakening U.S. dollar sets the stage for the overall economic landscape. It affects imports first. While we haven't seen any notable price escalation on imports and probably won't in time for Christmas, the possibility looms. People are going to read about it, and they're going to get nervous. When they get nervous, they stop spending.

Next, let's factor in the surging price of oil. Prices are hitting record per barrel levels. In fact, in the days prior to Thanksgiving, oil reached a trading record of \$99.29 per barrel. In turn, we're seeing steadily climbing gasoline prices, which are reaching record highs in many areas of the country.

Gasoline prices affect retail. It costs money for manufacturers and retailers to transport goods to market and also for consumers to drive to the mall. It even affects production—many goods are manufactured with plastic and other petroleum-based components.

Oil prices also affect consumer spending in another way. As the weather gets colder, heating-oil prices will climb with demand. Already there has been a rash of negative articles about the pricing continuing to climb into the spring. Consumers read about these predictions and begin to budget their winter finances accordingly. All too often, holiday spending takes a hit on their domestic spreadsheets.

Mortgages also come into play. Not only do we have the subprime mortgage crisis making regular headlines, but we also have many other homeowners who overextended themselves when interest rates were low. They find themselves saddled with overwhelmingly large mortgages in a declining economy where housing is not appreciating as they might have hoped or expected. It's affecting their bottom line ... and their spending.

The overall credit crunch, emerging since late July, clearly signals a progression toward recession. As credit conditions tighten, it generally means the drag on the U.S. economy will soon spread beyond the housing sector, affecting both investment and consumption decisions.

Additionally, there have been big layoffs in all sectors of American business, but particularly on Wall Street. Wall Street is a big indicator of the state of the economy. People are getting skeptical. Such skepticism retards spending.

Retail: The Final Blow

Beyond these driving factors, the retail market always leads the economy in terms of heralding a recession. Why? It's the end of the supply chain.

When consumers stop shopping, retailers stop buying inventory, prompting manufacturers to stop making goods. Manufacturers then slow down operations and begin layoffs. It all adds up to creating conditions favorable for a recession.

The 2007 holiday season showed a marked slowdown even as it got under way. Sales were sluggish in the key months of October and November—the time when merchants are offering their highest-margin goods. People simply were not buying with their usual fervor, which in turn generated sluggish holiday sales in November and December, the two-month period that accounts for as much as 50% of retailers' annual profits and sales.

With just weeks remaining before the close of 2007, analysts have begun to sound warnings of impending recession. All of the pieces of the puzzle—the driving factors—have started to fall neatly into place, paving the way for an economically challenging New Year. All drive people to stop spending, and there are signs showing they have. Such a stoppage signals only one thing—recession. It's imminent.

But there's good news—while the harbinger of recession, retail also leads the exit from such fiscal woes as consumer confidence builds, spending increases and retail sales escalate. Stay tuned.