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Beige Book report: Shopping sees the silver lining

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Is this the beginning of the end of the recession? In the most recent Beige Book, the Federal Reserve reported several positive indications. Consumer spending reflected a less widespread decline and the report expressed "more optimism about the near term outlook." In addition, several districts saw signs that activity was stabilizing in some sectors and retail selling prices were reported to have remained steady since the last report.

The statistics also indicate that shoppers are returning to the stores, albeit cautiously. Retail sales picked up in March and were back on or close to plan. For the time being, consumers will most likely be focused on purchasing necessities-but they're shopping. Food and beverage purchases rose 0.5% from the previous month, while health and beauty rose 0.4%. Perhaps shoppers are looking forward to summer? The late Easter shift into April this year along with a cold, dreary spring, may have contributed to the 1.8% decline in apparel and accessory sales. But spring is right around the corner, with longer and warmer days. In fact, most analysts now believe that March and April sales should be assessed together, just as November and December sales are traditionally, to provide a true picture of the holiday shopping season. Only then will we have a real grasp of the retail picture and the degree to which it is improving.

But even with the occasional seasonal slip, this slow rise is exactly what should be happening for both shoppers and retailers in order to produce long-term health. People are saving more and spending less, shoring up their bottom lines, which should position them well for a comeback later in the year. As Dreyfus Bank Securities senior retail analyst Bill Dreher pointed out recently, "Flat is the new up!"

Necessities Rule

Once the effects of the stimulus packages begin wending their ways through the economic system, we should find a new equilibrium that will return customers to the stores. More importantly, these shoppers will be better able to pay their bills, keeping retailers solvent, as well.

Nor is this belief based on faith alone: Shoppers at all levels cannot and will not stay away forever. Consumers may eschew must-have, trendy gadgets, luxury handbags, etc., for the time being, but appliances and tools continue to break and must be replaced, children outgrow their clothing and toys, and fashionistas still account for a substantial share of the purchases, albeit in affordable chic depots like Topshop, Zara, H&M and Mango.

After all, even as the downturn was well underway last fall, shoppers waited in lines for the latest Blackberry model. Amazon.com actually posted its best holiday season ever!

Luxury's downturn will eventually reverse, as well. Will high-end shoppers buy six pairs of shoes at one time in the next few months? Probably not, but will they stay away entirely after months of depriving themselves? Equally unlikely.

The April 2009 Wealth Report Newsletter confirmed that drops in March were less dramatic and even suggested that the economy was working its way out of recession, through such indications as "a rise in factory orders, pick-up in home sales and the powerful stock market rally off of lows in early March."

Value will become the new mantra at all market levels, whether it's discount goods or luxury items. Mid-market shoppers will continue to focus on necessities and rely on the retailers who service their needs at the best prices. Discount clubs are doing especially well, including BJ's Wholesale Club, which reported a merchandise sales increase of 8.5% in March, and Costco at 3%.

As for high-end shoppers, they will also want to get the most for their money. Therefore, savvy retailers will have to provide exceptional service, monitor inventories and prepare for a more scrutinizing customer by utilizing the same multi-channel strategies as mid-market chains, integrating phone, store and Web. Case in point, one of the most prominent proponents of integrated marketing for luxury brands is The Luxury Institute.

The final argument for optimism right now is the time-tested reality that every downturn provides opportunity. Weaker retailers tend to fall by the wayside, which enables new and innovative tenants to expand. Landlords are already becoming more flexible and increasingly willing to take a chance on an entrepreneur with the dream, drive, smarts and work ethics to make it a reality. Ultimately, challenging times-and many of us have lived through plenty-make retailers stronger, as well as consumers more measured and the entire industry, stronger.

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