RECESSION 2020 (4/1/2020)

In December 2019, *USA TODAY* reported that economists predicted a low probability of a “brief, mild” recession in 2020. One in three called a recession and compared to the past three recessions, it would be shorter in duration (6 months) with GDP impact similar to the savings & loan crisis leading to the 1990/91 recession and job losses would be minimal with 600,000 lost jobs versus 1.4 million lost jobs in the recessions of 1990/91 and 2001 and the whopping 8.7 million lost jobs during the Great Recession.

In December analysts reported a low probability of a “brief, mild” recession

	LAST THREE U.S. RECESSIONS			33% PROBABILITY
	Jul 1990 to Mar 1991	Mar 2001 to Nov 2001	Dec 2007 to Jun 2009	2020
Primary cause	Savings & Loan crisis	Dot.com boom & bust	Subprime mortgage crisis	Jittery businesses
Duration	8 months	8 months	18 months	6 months
GDP	-1.2%	Up slightly	-4%	-1.2%
Unemployment Rate	5.2% to 6.8%	4.2% to 5.5%	5% to 10%	Rising 1.6 percentage points
Job Losses	1.4 million	1.4 million	8.7 million	600,000

Source: *USA TODAY* (12/30/2019) ToddHale,LLC 1

In the January/February 2020 issue of *Frozen & Refrigerated Buyer*, I wrote an article on the likelihood of a 2020 recession and claimed that “Barring a Zombie apocalypse or some other catastrophe, a 2020 recession will be a small blip on the radar screen versus the Great Recession.” Unfortunately, the catastrophe had already arrived in the form of the coronavirus.

On March 26, Politico reported the Fed Chairman indicating the U.S. could already be in a recession, but the duration will be short, and he expected a fast recovery. Following that, U.S. unemployment claims for the week ending March 21 reached an astonishing 3.3 million. The largest single-month job loss during the Great Recession was 800,000 (16 months into that recession) and it took thirteen months from the start of that recession for cumulative job losses to reach 3.4 million. The $2 trillion coronavirus stimulus bill to minimize an unprecedented level of job losses, business failures and help stop the spread of the virus is a tough pill to swallow, but we are clearly in uncharted territory.

On March 24 the Federal Reserve Bank of St. Louis forecasted severe job losses with an alarming jump in unemployment. Two days later MarketWatch cited less severe figures, but huge in historical terms with unemployment rising to depression-like levels of 15% to 20% and a loss of 20+ million jobs. On March 27, JPMorgan revised their 2020 US GDP forecast with Q1 contracting -10% and Q2 -25% and expects GDP to climb to 6% growth in the second half of the year.

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“We may well be in a recession” with the spread of the coronavirus pandemic

	LAST THREE U.S. RECESSIONS			Highly Likely
	Jul 1990 to Mar 1991	Mar 2001 to Nov 2001	Dec 2007 to Jun 2009	2020
Primary cause	Savings & Loan crisis	Dot.com boom & bust	Subprime mortgage crisis	Coronavirus
Duration	8 months	8 months	18 months	6 months
GDP	-1.2%	Up slightly	-4%	-10% in Q1 -25% in Q2
Unemployment Rate	5.2% to 6.8%	4.2% to 5.5%	5% to 10%	15% to 20%+
Job Losses	1.4 million	1.4 million	8.7 million	20+ million

Source: *USA TODAY* (12/30/2019); politico.com (03/26/2020); Federal Reserve Bank of St. Louis (03/24/2020); MarketWatch (03/27/2020); statista.com (03/24/2020)

ToddHale,LLC 2

WHAT WE LEARNED FROM THE GREAT RECESSION

The severity of a recession in 2020 with high numbers of infected populations and deaths from the COVID-19 crisis; the broader impact across multiple industries; massive short-term job losses; and unknown long-term impacts are a stark contrast to the impact from the Great Recession. Nevertheless, from my work as a Nielsen associate, here are eight key learnings from the Great Recession which may or may not play a role now:

1. **E-commerce and value retailers were the big winners, while discretionary retailers suffered:** retail sales experienced a sharp decline and very few retail channels were able to escape the perils of a huge loss in jobs and a steep decline in consumer confidence. Beginning in August of 2008, total retail sales (measured by the U.S. Census) dropped sharply and continued in the red through December of that year. Even e-commerce, which was posting quarterly dollar growth in 2007 at near or above 20%, experienced negative sales in the fourth quarter of 2008 and losses continued through the first two quarters of 2009 before growth returned. E-commerce sales in the fourth quarter of 2009 grew a respectable 15.3% and double-digit growth continues today, and repercussions continue to be felt as evidenced by continued retail store closings.

   Among publicly traded retailers, dollar stores posted the strongest gains in same-store-sales during the Great Recession. Dollar General averaged same-store-sales growth in 2009 of 9.6%, while Dollar Tree averaged 7.3% growth. Same-store-sales for discretionary retailers were off considerably (e.g., Macy’s (-6.4%), Lowe’s (-6.3%), and Home Depot (-5.9%)). Three big retailers which are driving successful growth in today’s economy, struggled in 2009. Target reported average same-store-sales growth of -3% in 2009, but posted average gains of 4.5% in the latest 2019; Walmart with -0.1% growth in 2009, but up 3.4% in 2019; Costco was up just 1.1% in 2009 and delivered same-store-sales growth of 5.6% in the latest 52-weeks.
2. **Coupon redemptions increased after years of steady declines, but redemptions skewed to extreme users:** Inmar reported how a reinvigorated coupon craze took off as our economy worsened with redemptions up 27% in 2009 and reversing a significant downward trend over the prior 10 plus years. Redemptions grew 13% in the first quarter of 2010 but slipped in the next two quarters to +1% and -1% against peak year ago performance. While free-standing-inserts represented the lion’s share of coupons distributed and redeemed, Inmar reported a shift from clipping paper coupons to internet searches. Nielsen research at that time reported about 80% of redemptions were skewed to only about 20% of coupon redeemers.
3. **Private brands became a viable choice for more consumers:** without question, private brands benefitted greatly from the Great Recession. Consumer interest was high and retailer focus was strong as retailers looked to private brands to provide shoppers greater value and to bolster retailer margins. For the 52-weeks ended 06/13/2009, Nielsen reported total private brand dollar sales grew 8.0% while brand sales fell 0.8%.

4. **Away-from-home eating tanked:** from an April 2009 Nielsen Homescan survey, when asked: "Thinking about our current economic environment, name two things you are doing to save on household expenses". There were 62% of surveyed households claiming they were doing something to save with 50 unique mentions of ways to save. The most dominant response was "eat out less" at 46%, more than 20 percentage points higher than the next most often mentioned way to save. This aligned well with a sharp drop in same-store sales during the time period for many restaurant chains.
5. **Edible categories outperformed non-edibles:** edible departments led the way in terms of dollar sales growth with lower growth in non-edibles or more discretionary departments (non-food, health & beauty and general merchandise) and in the dairy department where prices were down significantly in categories like milk and eggs.
6. **Back to basics drove category food buying:** On a dollar basis, **t**he top 15 fastest growing categories for the 52-weeks ended 6/13/2009 were mostly food staples which grew on average by 15%. Fueled by rising commodity prices, top sellers included dry vegetables & grains (+25%), flour (+23%), pasta (+20%), and shortening & oil (+13%). Butter & margarine (+11%) was the only diary or frozen department category to make this list. In terms of unit sales, the back to basics theme resonated loudly. From canning supplies (+14.5%) with some consumers taking control of their food production to fresh meat (+5.9%) to dry mix prepared foods (+5.2%) to pasta (+4.3%) and cheese (+2.3%). In addition to cheese, other frozen and refrigerated categories on the top 15 list included frozen novelties (+3.4%), refrigerated juices & drinks (+2.9%), and yogurt (+2.5%). When I presented this content at an event in Copenhagen, a Nielsen associate suggested I change the title on the slide to **"If you can't eat it, you don't need it".**
7. **DIY movement (from canning foods at home to home-made detergents) spurred growth:** with some older established brands like Arm & Hammer Baking Soda and 20 Mule Team Borax delivered surprising growth.
8. **Health & Wellness took a short-term hit:** The economy took a toll on organics (which had been growing at about 25% in the months prior to the Great Recession and dropped to single-digit growth during the recession) and other wellness claims. While a leading a healthy lifestyle was on the minds of many, getting a better price was on the minds of more.

Unlike the Great Recession, the COVID-19 crisis has led to near complete shutdowns or significant reductions in operations across most industries including health, schools, churches, sporting events, bars, restaurants, travel, entertainment, and non-essential businesses & retail outlets. State and local governments are warning of job cuts due to big declines in sales tax receipts and unexpected expenses related to the pandemic. In the era of physical or social distancing, some of these industries will likely see continued impact for months or years to come!

For retailers selling food and other essentials, sales increases are at record levels, but operations have been curtailed or significantly altered as they struggle to meet demand and keep their stores staffed, stocked, and safe for both employees and shoppers.

A FEW EYE-POPPING STATS

1. The National Restaurant Association "estimated $25 billion in sales lost during the first 22 days of March and more than 3 million jobs"
2. Coresight Research reporting "15,000 stores could shutter in 2020, far surpassing 2019's record 9,548 closures"
3. Target reported March "overall comp sales are up 20% over a year ago, including more than 50% growth in essentials and food/beverage categories…Apparel and accessories comp sales are down more than 20%".
4. Amazon announced they were "pushing back delivery dates for nonessential orders"
5. CNBC story about "The internet is under huge strain because of coronavirus. Experts say it can cope – for now"
6. Nielsen Media reporting total TV usage from 3/16-to-date grew 22% from previous year

UPS & DOWNS FROM THE CRISIS

1. Campbell's soup business in-market consumption data was up 60% in four-week period ended March 21." Nielsen reported soup dollar sales were off 2.3% in 2019.
2. "CEO of Brio and Bravo casual dining brands says 71 closed restaurants might not reopen if COVID-19 crisis lasts much longer" and "keeping the 21 best restaurants open for curbside pickup and delivery orders."
3. "Yum! …closed roughly 7,000 of its global restaurants, including 1,000 domestic Pizza Hut express and 900-plus KFC's in the U.K. The company operates a total of 50,000 units worldwide."
4. "The Cheesecake Factory Inc. is furloughing 41,000 hourly workers, reducing the pay of executive officers by 20% and warning landlords it will not make lease payments for April"
5. CNN Business reported on April 1 that department "stores are closed and online sales are slow because people are holding back on discretionary purchases like clothing. It's anyone's guess when stores will be able to reopen or if demand will return when they do. That has forced major companies like Macy's, Kohl's, Gap and JCPenney to put roughly half a million people, ranging from hourly associates to corporate employees, on furlough this week."

GOING ABOVE & BEYOND DURING THE CRISIS

1. "P&G to make and donate face masks, hand sanitizer in response to coronavirus"
2. "Nike offers workout app for free as COVID-19 keeps people indoors"
3. "Yum! …closed roughly 7,000 of its global restaurants, including 1,000 domestic Pizza Hut express and 900-plus KFC's in the U.K. The company operates a total of 50,000 units worldwide."
4. "Cincinnati-based app offers free dog training during pandemic"
5. YUM! CEO Donates Salary to Employees" with "funding one-time $1,000 bonus to 1,200 general managers at KFC, Pizza Hut, Taco Bell, and The Habit Burger Grill…remaining cash "will provide financial assistance to those impacted by COVID-19."
6. Following similar approaches in China, Kroger announced "the creation of shared-resource models with companies in hard-hit sectors – such as restaurants, hotels and foodservice distributors – to temporarily flex employees to Kroger roles."
7. "Publix is offering rent relief to businesses operating in Publix-owned shopping centers"
8. "7-Eleven announced… it will donate one million face masks to the Federal Emerging Management Agency (FEMA)"
9. "Ahold-Delhaize USA, … announced a "substantial $10 million relief package to address critical needs in the wake of the coronavirus pandemic."

NEW NORM

1. Reduced store operating hours
2. Special shopping times for seniors or those at risk from virus
3. Restrictions on number of shoppers in stores
4. Sneeze guards at check-out registers
5. Floor decals to manage shopper distancing
6. Curbside pick-up and delivery for specialty retailers (e.g., butchers, seafood stores, pet stores, bakeries, etc.
7. Elimination of self-serve offerings (e.g., salad bars, hot and cold dispensed drinks, bakery cases, etc.)

DON'T SIT THIS ONE OUT!

Retailers and manufacturers sitting on the sidelines will miss out on near- and short-term growth opportunities from this crisis. At-home food/beverages and household/personal care products (to impact the spread of the virus) will likely be the big winners, but savvy companies will thrive via research-driven innovation, pricing, promotion and advertising support. With high-levels of out-of-stocks, many consumers will need to choose a different brand from their normal preference set. Manufacturers and retailers should step up their use of on-pack coupons or recipe/usage tips to create demand for repeat purchases. A unique time for companies to leverage new brand buyers to build future sales.

WHAT'S NEXT?

- Accelerated roll-out of dark stores to facilitate online order, pickup and/or delivery
- Drive-thru operations on steroids: Walgreens has about 7,300 drive-thru locations where they are now offering 60 front-end products
- Personal protection for shoppers and employees a new norm
- Innovative shopping carts, packaging and delivery techniques to minimize product handling and human contact
- The battle to find, reward and keep employees intensifies