

# Cautious Consumers Corral Back-to-School Spending

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Consumer Spending to Decline as Inventories Grow and Discounting Increases

## Executive summary

- We expect a weaker back-to-school (BTS) shopping season compared to 2022 as consumers focus on essential spending and purchase fewer items to offset inflation.
- To sell down excess inventory, apparel retailers offer 30%, 50% and as much as 80% discounts, potentially impacting earnings.
- One bright spot is back-to-college spending, which is set to rise to a record driven by TikTok influencers inspiring students to decorate dorm rooms.

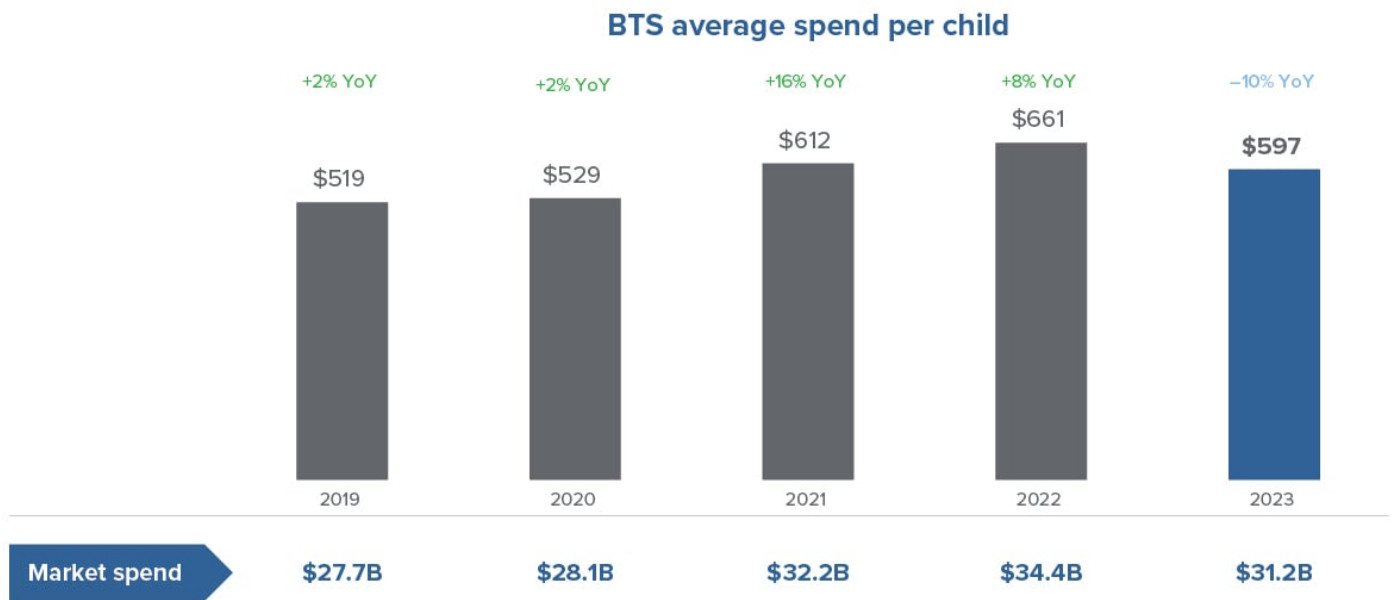
Today's economic consensus seems to fall somewhere between "soft landing" — a mild, almost transitory recession in the next few months — or perhaps no landing at all, avoiding a recession altogether. It's a remarkable turnaround from even earlier this year, when rates were soaring and economists were debating how deep the impending recession was going to become. But stepping away from the macro view, as we do at Westwood, and looking at companies and industries from the bottom up, may provide a different point of view.

# Back-to-School Spending May Subside

In April, I met with Jack Kleinhenz, chief economist of the National Retail Federation (NRF). Typically, his annual forecast tends to the optimistic side, but this time, he said he saw “the economy fading and back-to-school (BTS) and holiday sales both down year-on-year,” a surprising forecast from a spokesman for retail companies. He reiterated those thoughts in the August edition of the [NRF’s Monthly Economic Review](#), stating that “the stockpile of savings accumulated during the pandemic is dwindling and is no longer providing as much spending power as previously available.”

Mr. Kleinhenz’s comments were reinforced by a recent survey published by Deloitte. The annual [Back-to-School survey](#) of school-age parents found that many expected to rein in spending this season. According to the survey, 68% of parents will spend the same or less on BTS items, with 75% citing inflation as the primary reason, while 51% mentioned reducing disposable income. More than half (51%) believe that the U.S. economy will weaken over the next six months, while 31% said they were in worse financial condition than a year ago.

**After replenishing BTS items the past two years, parents are planning to pull back their spend to \$597 per child**



Source: Deloitte Back-to-School Survey 2023  
For illustrative purposes only.

## Parents are prioritizing school supplies, while tech and clothing take a back seat

Tech has emerged from the pandemic as a dominant category, helping to boost overall market spend since 2019

BTS share of estimated market spend, by category



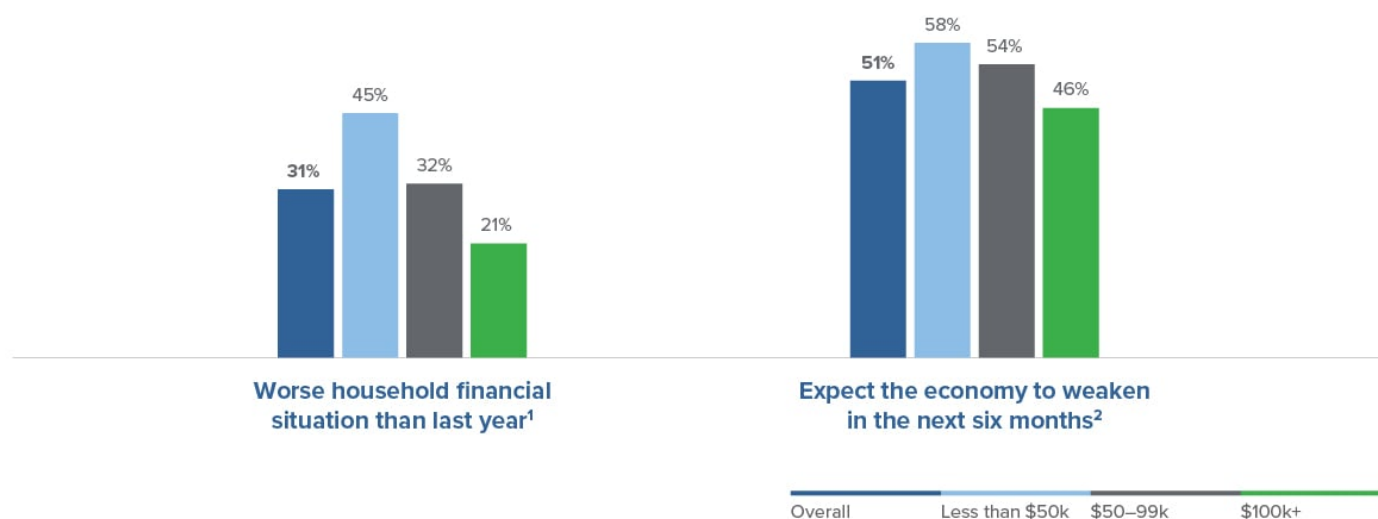
Notes: Deloitte calculations on BTS spend based on annual consumer survey projections (N = 1,212) and K-12 enrollment figures from US Census Bureau's Current Population Survey (CPS)—School Enrollment Supplement. (1) "Preconfigured school kits" were added to school supplies in 2023 and are not included in 2022 or prior years; (2) Tech products include computers and hardware, electronic gadgets, digital subscriptions, and voice/data plans; (3) Other includes COVID-19-related items like sanitizers, face masks, and furniture for home (desks, chairs, etc.).

Source: Deloitte Back-to-School Survey 2023

For illustrative purposes only.

## The pullback comes as families are feeling fatigued by continuing financial stress

3 in 10 are in a worse financial situation than last year, while half expect the economy to weaken in the next six months



Questions: (1) "Thinking about your household's assets (home, cash, car, etc.) and your liabilities (credit card bills, mortgage, etc.), would you say your household's financial situation today is worse than it was last year?"; (2) "What is your overall outlook for the US economy in the next six months in 2023 compared with today?"  
Note: N = 1,212.

Source: Deloitte Back-to-School Survey 2023

For illustrative purposes only.

## Small Businesses Face Squeeze on Pricing, Credit

If large-scale brick-and-mortar merchants stand to benefit, then it could be a difficult fall for small businesses, given that 90% of retail is small business. The National Federation of Independent Businesses, the small-business lobbying group, has a negative outlook. “Halfway through the year, small business owners remain very pessimistic about future business conditions and their sales prospects,” according to NFIB Chief Economist Bill Dunkelberg. “Inflation and labor shortages continue to be great challenges for small businesses. Owners are still raising selling prices at an inflationary level to try to pass on higher inventory, labor, and energy costs,” he said. While the [NFIB Small Business Optimism Index](#) rose 1.6 points in June to 91, it has remained below the 50-year average for 18 consecutive months.

Financing challenges also impact smaller businesses, as banks rein in financing and increase credit standards. [According to](#) venture capitalist Kevin O’Leary, “If you’re in the S&P 500, you have no trouble financing your business. You can’t say that about small business anymore. The cost of capital has gone through the roof.” Further, from our conversations at a Texas Bankers Association conference in August, we learned that banks are tightening lending standards, focusing on core customers with deposits at the bank rather than loan-only customers. Banks are also participating in fewer syndications, limiting opportunities for larger loans with multiple banks, which can serve as a further crimp on credit.

## **Company Earnings Impacted by Consumer Pullback**

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Looking at individual companies in our coverage, the news is still murky. In the earnings call from Target, they mentioned their customers were approaching back to school “with a value-conscious deal-driven mindset,” while Foot Locker reported a “weaker start to back to school.” Walmart, however, noted that their back-to-school sales were running “ahead of plan,” and that they are “taking an inflation-fighting approach” by offering deals on backpacks and classroom essentials. This implies that consumers may be pinching pennies, seeking bargains, trading down to cheaper goods or simply going without.

Broadening the scope a bit, inventories have grown since the fourth quarter of 2022 and remain relatively high. Sales for these companies have declined since early 2021, so there’s an obvious mismatch between declining sales and rising inventories, something that figures into fundamental analysis. This implies that cost-conscious consumers continue to spend cautiously, even with discounts in place.

While reviewing industries and sectors as a group is interesting, Westwood’s primary focus is bottom-up analysis on a company-by-company basis. But when several companies in the same sector or industry identify the same problems, that can inform our portfolio allocation decisions. In our efforts to identify quality companies and management teams among consumer stocks, we are cautious as the economic environment seems challenging.

*Sources:*

*National Retail Foundation Monthly Economic Review, August 10, 2023; [NRF's Monthly Economic Review](#)*

*Deloitte Insights, 2023 Deloitte Back to School Survey, August 2023; [Deloitte Back-to-School Survey](#)*

*"Small Businesses Raising Prices Falls to Lowest Level Since March 2021," National Federation of Independent Business, July 11, 2023; [Small Businesses Raising Prices Falls to Lowest Level Since March 2021 – NFIB](#)*

*"'Shark Tank' Investor Kevin O'Leary Warns Small Businesses Are Battling a Cash Crunch – And Funding Crisis Is Looming," Business Insider, July 12, 2023; [Kevin O'Leary Warns Small Businesses Face Cash Crisis As Rates Soar \(businessinsider.com\)](#)*



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*Disclosure*

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