

Economics Group

Special Commentary

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Are Grocery Store Sales Making a Comeback?

Executive Summary

The birth of the warehouse club and superstores distribution channel within the retail sector, several decades ago, continues to redraw the boundaries of an industry in permanent flux. There are clear winners and losers as well as some sectors that are making a timid, but nonetheless, important comeback. Clear winners are the warehouse clubs and superstores as well as non-store retailers (i.e., e-commerce), while the clear losers include department stores and discount department stores.¹ Meanwhile, a sector that has started to make an important comeback, especially compared to what has happened during the decades before the Great Recession, has been the grocery store industry. Growth in this industry has resumed after several decades of almost stagnation, whereas growth in the warehouse clubs and supercenters industry has downshifted considerably compared to the rates we saw before the Great Recession. This could be pointing to upper limits on the penetration potential by the warehouse clubs and superstores over the past several decades against the grocery store space. This resumption of growth in terms of real sales and employment by the grocery store industry is, perhaps, the consequence of the changes that have occurred since the end of the Great Recession, as new consumers stay closer to downtown city areas of the country, which favor grocery store sales versus large warehouse clubs and supercenters stores.

Warehouse Clubs and Supercenters Versus Grocery Stores

The expansion of the warehouse club and supercenter distribution channel has changed the landscape of the U.S. retail sector over the past several decades. The growth in this distribution channel has been impressive and has dislocated other traditional sectors of retail along the road. Figure 1 shows the impressive growth of this industry over nearly two and a half decades compared to other distribution channels, like department stores, which have suffered the brunt of the warehouse club and supercenter success.²

The birth of the warehouse club and supercenter distribution channel has changed the landscape of the U.S. retail sector over the past several decades.

¹ We have covered the non-store, e-commerce retail sector in the past and thus will not cover it here.

² We need to note that warehouse clubs and supercenters' sales are more aligned with sales at groceries stores than department stores. However, as Ali Horrtacsu and Chad Syverson argue, "The coincident timing of the expansion of warehouse clubs/supercenters and the contraction of traditional department stores points to the possibility that the former grew at least partially at the expense of the latter." Furthermore, they also highlight that "the geographic and across-product patterns in the data also point to the expansion of warehouse clubs/supercenters as a key driver of the contraction of the old-line department stores." "The Ongoing Evolution of US Retail: A Format Tug-of-War," *Journal of Economic Perspectives*—Volume 29, Number 4—Fall 2015—Pages 89-112.



Figure 1

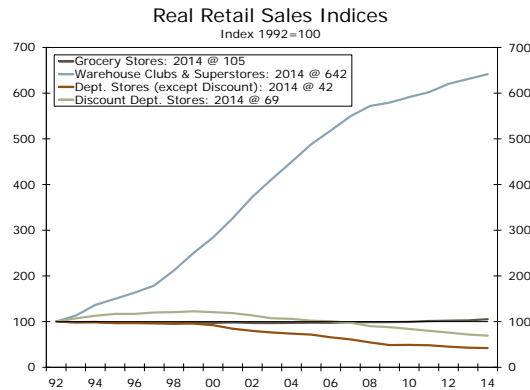
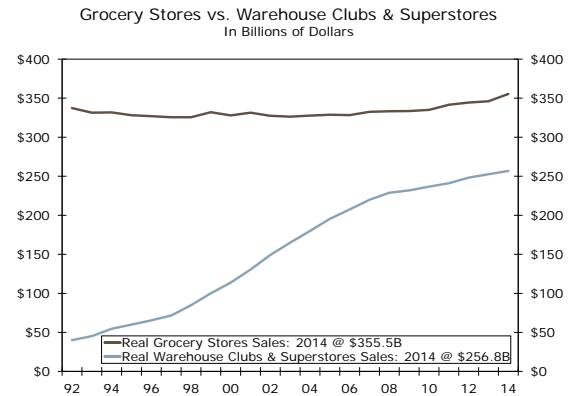


Figure 2



Source: U.S. Department of Commerce and Wells Fargo Securities

As we stated earlier, one of the industries that was negatively affected by this uninhibited growth spurt was the grocery store industry, which had seen its sales stagnate during the past several decades and up to the Great Recession.³ However, grocery stores real sales have seen some timid, but nonetheless, important improvement since the Great Recession, both in terms of real sales as well as in terms of employment. The improvement in sales and employment by the U.S. grocery store industry is probably indicating that the warehouse club and supercenter model has reached an upper boundary in terms of grocery sales penetration as some customers move into downtown areas and avoid the suburbs where warehouse clubs and supercenters are more prevalent.

Employment in the grocery store industry is, today, 4.9 percent higher than the previous peak, which was recorded in April 2000. Meanwhile, real sales for this industry are 5 percent higher than the peak in 1992, which is the first year for this series. Compared to the year 2000, which was the peak in terms of employment in the grocery industry, employment today is up about 8.3 percent.

Still, growth in the warehouse club and supercenters continues, even though it has slowed down considerably since the end of the Great Recession, as seen in Figure 2. In fact, average growth in real sales in the warehouse clubs and supercenters during the period 1992-2008 was an impressive 11.6 percent per annum, while that growth has downshifted to an average of only 1.9 percent during the period 2009-2014. On the other hand, employment in the warehouse clubs and supercenters industry is 125 percent higher today than in 1990 and continues to grow unabated. Still, employment in this industry is nearly 54 percent of employment in the grocery store industry. In 1990, employment in the warehouse clubs and supercenter industry was around 27 percent of employment in the grocery store industry. The good news is that real sales and employment for both industries has improved during the past 16 years, which seems to indicate that both will continue to improve in the future.

Warehouse Clubs and Supercenters Versus Department Stores

The picture looks very different when we compare real sales and employment from warehouse clubs and supercenters to department stores and discount department stores. The hit from the outbreak of warehouse clubs and supercenters has been severe and it has shown no signs of easing or, as it has been the case for the grocery stores industry, of being slightly reversed. The department stores and discount department stores industry has continued to tread water since the early years of this century.

Interestingly, real sales by department stores have been declining since early in the 1990s even though employment in this industry only started to decline early this century. There was a period

³ Grocery stores are facing stiff competition from the “all other general merchandise stores” distribution channel, which includes “dollar” stores sales but are not included in the grocery stores segment of retail sales we discuss in this report.

Still, growth in the warehouse club and supercenters continues, even though it has slowed down considerably since the end of the Great Recession.

of weakness in department stores employment in the early part of the 1990s as a consequence of the recession but by 1994 employment in the industry had turned positive again. However, real sales remained under pressure and have continued to go down since 1992, unabated. Employment in the department stores industry is, today, down 45 percent since the heyday of the industry back in early 2001. Meanwhile, real sales for this industry are down 58 percent since 1992 (down 50 percent since 2001). The story for the discount department stores was a bit more positive until late 1990 as real sales increased from 1992 until 1999, but have followed a similar path than that of department stores since the year 2000. Real sales by the discount department stores industry peaked in 1999 and are down 43 percent from that peak. Meanwhile, employment continued to slowly increase until the end of 2011, even as sales faltered, but has since dropped considerably and has remained flat for the past several years. Employment in this industry is down almost 15 percent since January 2012.

Figure 3

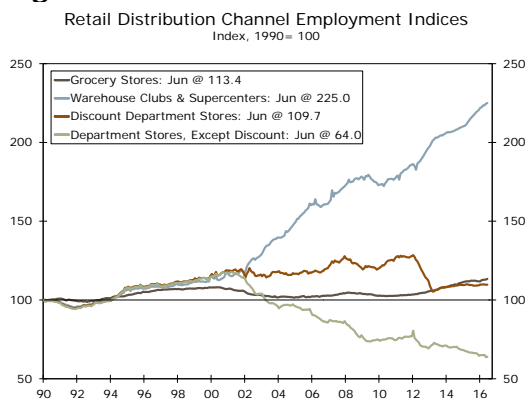
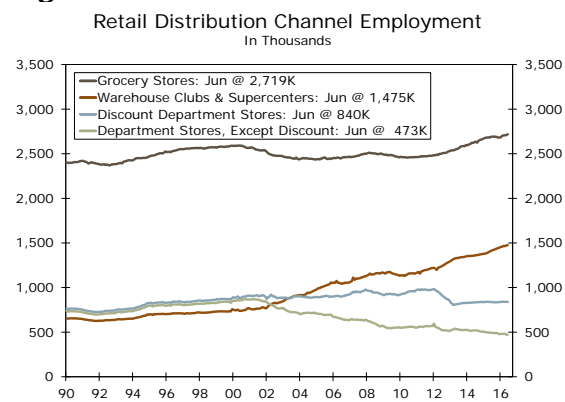


Figure 4



Source: U.S. Department of Labor and Wells Fargo Securities

This information paints a dismal picture of the department store and discount department store industry, which have not been able to recover from the soaring warehouse clubs and superstore industry. Still, it is clear that the department store sector of retail has its consumer base and it would be foolish to think that the sector will disappear. However, if this is a demographic and generational shift, this industry could continue to see further deterioration in the future. Furthermore, the continuous decrease in sales probably calls for an important consolidation of the industry as it will become increasingly difficult for the current participants to remain profitable as sales continue to dwindle.

Conclusion

The retail sector distribution channel has seen important changes over the past several decades. In past reports, we have concentrated on the non-store retail subsector or e-commerce subsector of retail. In this report, we chose to concentrate on the warehouse clubs and supercenters stores, and its effects on the grocery store industry and on the department store and discount department stores industries.

From this analysis, it is clear that the continuous growth of warehouse clubs and supercenters' real sales and employment have continued to negatively affect sales at department stores and discount department stores. However, for the grocery store industry of retail the news is much better than for the department store industry as we have seen some improvement in real sales and employment levels compared to pre-Great Recession performance. Furthermore, growth in the warehouse clubs and superstore industry has slowed down considerably since the Great Recession and compared to the pre-Great Recession period. Thus, this seems to indicate that, maybe, the grocery industry has seen the worst in terms of lost market share versus the warehouse clubs and superstore industry. This may be related to demographic and generational changes, as millennials have chosen to live closer to downtown areas where warehouse clubs and supercenters' locations are not that common.

The department store sector of retail has its consumer base and it would be foolish to think that the sector will disappear.

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