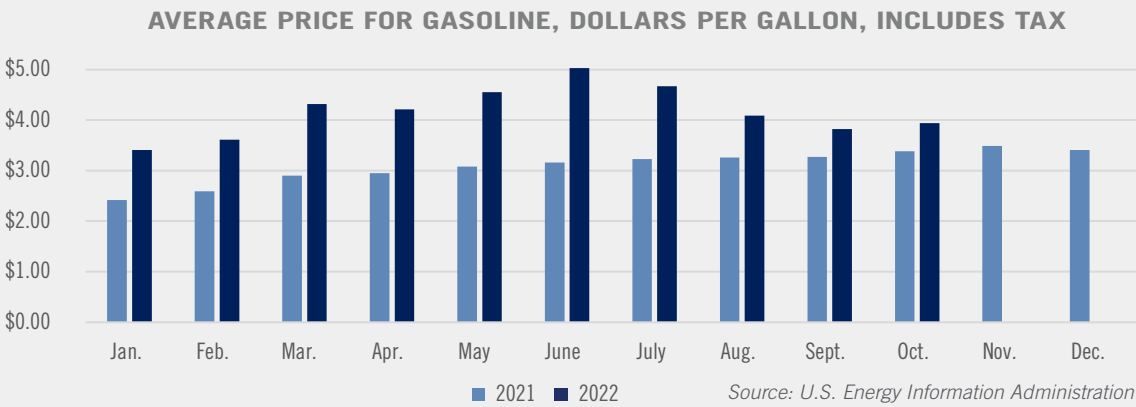


U.S. retail sales have demonstrated strong growth year-over-year in 2022, driven by a healthy job market, wage growth, and pandemic savings. However, inflation, the supply chain, and rising inventory levels continue to be major headwinds.

THE COST OF LIVING LARGE

Commodity items such as gas and groceries, as well as discretionary items, have both seen prices skyrocket. This has resulted in inflated sales on a dollar basis, while sales in units are not always as robust. While prices for some items have come down in recent months, most remain above historical levels.



FOOD:
The food at home price index
↑ 12.4%
for the 12 months ended October 2022.

ENERGY:
The energy services, including electricity and piped gas, price index
↑ 15.6%
for the 12 months ended October 2022.

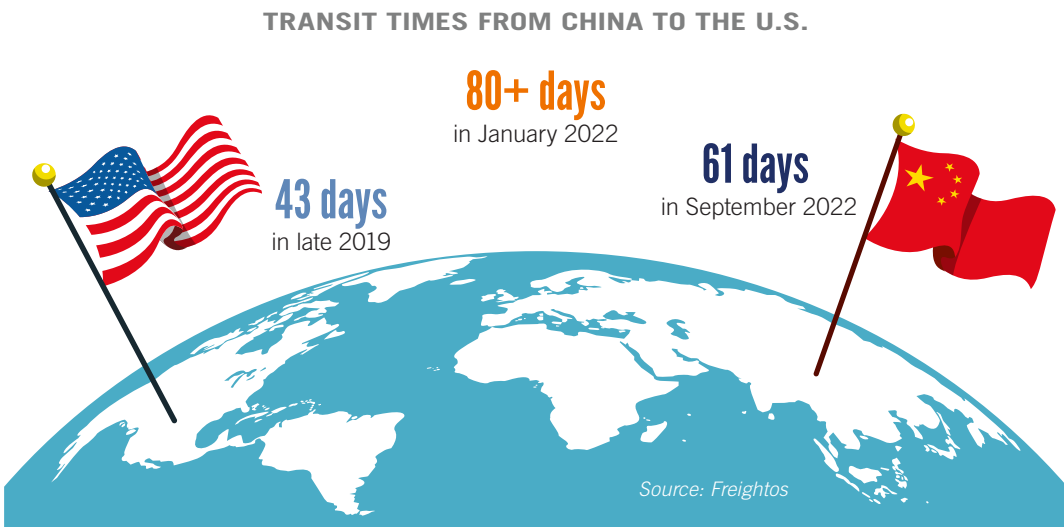
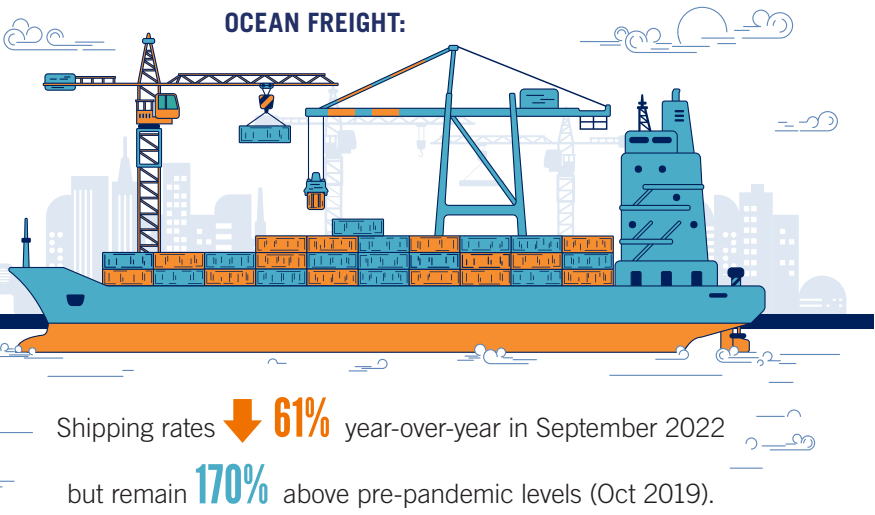
APPAREL:
The apparel price index
↑ 4.1%
for the 12 months ended October 2022.

TOTAL INFLATION:
The total annual inflation rate in the U.S. was
↑ 7.7%
for the 12 months ended October 2022.

Source: Bureau of Labor Statistics, U.S. Department of Labor

WORKING OUT THE SUPPLY CHAIN KINKS

During 2021, supply chain disruptions significantly impacted the flow of inventory. Recently, the supply chain has shown signs of improving, but some strains remain. Companies have reported that freight costs and lead times are down in recent months from pandemic highs, but remain well above pre-pandemic levels.



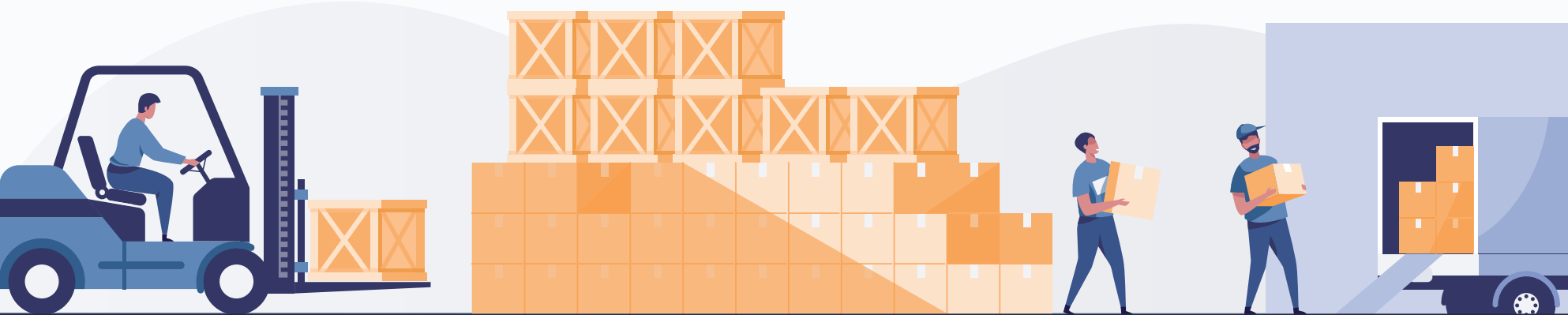
INVENTORY ISSUES

Supply chain challenges prompted many retailers to overbuy last year, and some were left with seasonal goods that arrived too late in the season. Several companies were forced to take steep markdowns to sell off goods ahead of the holiday season. Some companies overpurchased this year, anticipating demand to remain strong, but have found themselves with excess inventory as demand has not met expectations. This has resulted in increased discounting or cancelled orders for some, while others have opted to pack away some seasonal items until the following year. During the second quarter of 2022, major retailers including Target, Walmart, Home Depot, Kohl's, and TJX all reported increases in inventory levels versus the prior year.

SEASONALLY ADJUSTED RETAIL INVENTORIES (YEAR-OVER-YEAR)
RETAIL INVENTORY (IN BILLIONS)

SECTOR	JULY 2022	JULY 2021	JULY 2019
Retail trade (excluding motor vehicles & parts dealers)	\$548.8	\$451.5	\$423.5
General merchandise	\$109.5	\$84.5	\$82.2
Department stores	\$25.0	\$19.1	\$23.2
Clothing/clothing accessories	\$57.3	\$44.9	\$54.2

Source: Federal Reserve Economic Database, Census Bureau



POTENTIALLY CAUTIOUS CONSUMERS

Going into the critical holiday period, it remains to be seen how rising prices will impact consumer shopping habits. Holiday sales are forecasted to experience 7% growth or more compared to last year. But on an inflation-adjusted basis, Bain & Co. is forecasting growth closer to 1% to 3%. The NPD Group has reported that over 40% of consumers surveyed indicated plans to spend less this holiday season. Timing will also be a factor, with some consumers likely shopping earlier to avoid stock outs, and others waiting for later in the season in the hopes of snagging a better deal.