



Retail Real Estate Business Conditions

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Economic Perspective **Weatherwise or Otherwise?** *A Look at Weather and Consumer Behavior*

The oft-quoted 1735 saying from Ben Franklin—*a.k.a. Poor Richard*—that “some are weatherwise, some are otherwise,” is fodder for thought. In a special study of the impact of weather on consumer spending decisions that was commissioned by ICSC and SDI/WeatherTrends and undertaken by Opinion Research Corporation, consumers were asked about weather situations and their shopping and spending behavior. This consumer survey of 1,000 adults from across the nation found, not surprisingly, that *some consumers are weatherwise, but some are otherwise. But the most important question is to what degree are retailers weatherwise or not?*

Understanding Unusual and Adverse Weather Impacts

In a series of general questions about weather, consumers were initially asked in the ICSC/SDI survey if they were less likely to shop in heavy snow. Overall, 45% of households agreed with that statement, but, as might be expected, 53% of Midwesterners concurred. Heavy snow, of course, has different regional meaning and implications. However, abnormally heavy rain was likely to deter shopping for 37% of households. Excessively cold or hot weather was a hindrance for shopping for 35% and 30% of households, respectively.

As a general rule, consumers were more concerned about precipitation (snow and rain) than temperature (cold and hot). As another general rule, consumers were inclined to spend more money when weather was “unusually mild,” according to U.S. Department of Commerce research some years ago.

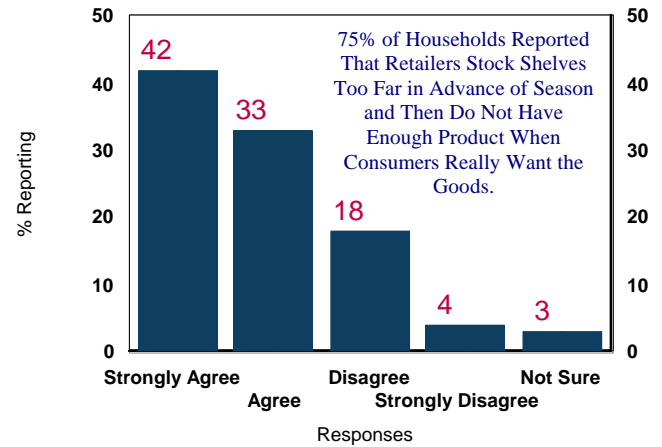
Weather as Catalyst for the Timing of A Purchase

In thinking about summer apparel (shorts, for example), about half of households purchased goods ahead of the season and half tend to wait. This seemed to hold true for hardlines too. When asked about the consumers’ propensity to purchase a new fan or air conditioner, 46% of households responded that they would purchase those items only after it was hot (and assuming they needed to buy), while 45% said they would tend to *buy now* even if they did not need the item immediately.

More generally, buying prior to the new season (back to school/work, winter, spring and summer) seemed to be less of a consumer driver than price. Consumers were asked, “Assuming an early warming trend and maybe even above normal temperatures in late winter, would you say heavy end-of-season winter apparel discounting would entice you to purchase winter apparel now, because of the bargain, even without an immediate need?” The ICSC/SDI weather survey found 57% of households would buy winter apparel for the following year. Women were even more inclined (66%) to buy now for the future, if the price was right.

Some products clearly were perceived to be more seasonal. For example, consumers were asked which products were purchased only in a particular season. Sandals and flu medicines, for example, were viewed as high “seasonal-only” purchases with 55% reporting that view for each item, while a basketball and a sail boat were not viewed as season-only purchases with 29% and 22% of households, respectively, expressing that opinion.

Chart 1
Are Retailers Stocking Shelves Too Early?



Advertising Songbooks to the Choir?

In-store and mall-wide advertising have been growing marketing areas to connect with the consumer, who obviously is already shopping and might be inclined to purchase a promotional product right now. Consumers were asked in the ICSC/SDI survey: “If weather is conducive to immediate use of the item are they more likely to notice in-store displays or special promotional signs?” *Nearly two-thirds of households reported that immediate use was a catalyst for noticing those displays.*

Inventory Stocking Strategy

One operational question was asked of consumers: “Do you agree or disagree that retailers are selling products too far in advance of the season, for example, too many bathing suits in February, and then don’t have enough of the products you want when you actually need them, such as, not enough bathing suits in July.” By an overwhelmingly large margin (three-quarters of households were in agreement versus 22% disagreed—see Chart 1) consumers felt the store merchandise was out-of-sync with the timing of their needs. *Can or should retailers shorten the pre-season stocking of shelves? This is an operational issue that stores should revisit.*

How to Be Weatherwise

Understanding weather cycles, using long-term weather predictions and examining weather-consumer studies will help retailers to be more weatherwise.

A research paper by Federal Reserve economist Martha Starr-McCluer observed “unusual weather has a modest but significant role in explaining monthly retail sales fluctuations.” If weather simply affected the timing of purchases then that would be less significant, less interesting and less formidable for retailers since the impact would “wash out” over a short period. However, bouts of unusual seasonal weather can be “non-neutral” (positively and negatively) and may have large non-recoverable or amplifying effects on consumer spending. ***To be weatherwise in business is to know the difference between weather impacts that are temporary and those that are permanent and to respond accordingly.***

Industry and Economic News

- **Canadian Gift Card Usage Up:** Statistics Canada reported that the increased popularity of gift cards contributed to the 2.0% jump in January retail sales following a 1.2% decline in December. Excluding sales by dealers of new, used and recreational vehicles and auto parts, retail sales surged 2.4% in January. The statistical agency noted that with the new record level of retail sales in Canada, this "brought retail sales back in line with the strong upward trend observed since the start of 2004." In a survey of large retailers (representing over 11,000 stores), Statistics Canada reported that **68% of the stores offered gift cards during the last holiday season, which was up considerably from 54%** that did so in the prior year and resulted in some purchases being "pushed...into the new year."
- **Japanese Department Store Sales Tumble:** February department store sales declined by 7.0% from the same month of the prior year, according to the Japan Department Store Association. That marked the first year-over-year decline in two months and was attributed to "lower temperatures hurt sales of seasonal goods." Clothing sales (which account for 36% of department store sales in Japan) tumbled by 11.5%.
- **Federal Reserve Continues to Lean Against the Prevailing Wind:** For the seventh time since June 2004, the Federal Reserve Board's Federal Open Market Committee (FOMC) raised its short-term policy interest rate—the fed funds rate—by a "measured" 25 basis points to 2.75%. The FOMC's announcement of its decision was conditioned on "the stance of monetary policy remains accommodative," which is the catch phrase to expect more rate hikes. The Fed also signaled the possibility of more aggressive action should inflation become more of a problem. The Fed's statement read: "The Committee believes that policy accommodation can be removed at a pace that is likely to be measured. Nonetheless, the Committee will respond to changes in economic prospects as needed to fulfill its obligation to maintain price stability."
- **Lower Credit Card Delinquency:** The American Bankers Association (ABA) reported that the 2004 fourth-quarter past-due credit card account delinquency rate (amount of dollars outstanding) declined to 4.20% of bank card accounts compared with 4.26% for the third quarter. ABA's chief economist noted that "such an impressive improvement is a rare event; [ABA has not] seen an across-the-board decline in delinquencies since 1983."
- **Housing Bubble Deflates A Bit?:** The *Washington Post's* Steven Pearlstein wrote this week that bubbles in the economy are "abounding" and why the Federal Reserve, including its chairman, may be misleading on this point. FRB Chair Greenspan observed that bubbles are hard to detect until after they burst. But last month, Fed transcripts of its meetings in 1999 showed that Greenspan and Company were aware of the stock market bubble and its immense problem. The *Financial Times* also ran articles in recent weeks about why it is better to rent a housing unit than to own. Over the last week, **existing home sales** for February fell by 0.4% to 6.79 mn (including condo sales, which fell by 1.2%) while **new home sales** jumped by 9.4% in February following an 8.6% dip in January. Jointly, new and existing home sales (excluding existing condo sales, which go back to 1999 only) were 7.166 mn. in February—up 1.2% from January—but 2.7% below its record high reach in June 2004 (7.368 mn. units sold). **So, the bottom line is there is a slow leak, so far, in the housing bubble.**
- **Wholesale Inflation Up On Food and Energy:** The February Producer Price Index (PPI) rose by 0.4% from the prior month (or up 4.7% from the same month of the prior year) as food prices hiccupped with an outsized gain of 0.8% while energy prices rose by 1.4%. Excluding food and energy prices, the PPI rose by 0.1% in February held back by a 2.8% temporary dip in light truck prices and a 0.9% drop in passenger car prices. **Despite the volatility in these data, higher inflation is certainly at hand, led (as it often happens) by higher food and energy prices.**
- **High Energy Costs Nudge Up Consumer Inflation:** The Consumer Price Index (CPI) jumped 0.4% in February, the highest in four months. Behind this result was a 2.0% increase in energy prices. But even excluding food and energy, consumer prices edged up 0.3%, the highest since a similar rise in September 2004.
- **Good News In Fight Against Spam Email:** The February *IBM Global Business Security Index*—a monthly index that measures the global security threat landscape—found that spam has actually decreased from 83.11 percent in January to 76.3 percent in February, a decrease of 7.0%.

International Council of Shopping Centers

Weekly Leading Indicator of Chain Store Sales

Week ending	Index 1977=100	Year/Year Chg.	Weekly Chg.
Mar-12	318.2	0.2%	0.3%
Mar-05	317.1	0.1	0.2
Feb-26	316.4	0.0	0.0
Feb-19	316.5	-0.2	-0.5
Feb-12	318.2	0.4	-0.2
Feb-05	318.9	0.7	0.3
Jan-29	317.8	-0.3	0.0
Jan-22	317.9	-0.7	0.5
Jan-15	316.3	-1.5	1.1
Jan-08	312.8	-1.4	-0.5
Jan-01	314.5	-0.5	-1.4
Dec-25	319.1	0.9	-0.4
Dec-18	320.5	0.9	0.1
Dec-11	320.3	0.6	1.2
Dec-04	316.4	0.2	-0.2

Description of ICSC Leading Indicator

This is a composite leading economic indicator of weekly chain store sales and is compiled from: (1) the ABC News/Money magazine Buying Plans Index; (2) a long-term government interest rate; (3) the MBA Home Purchase Index and (4) initial jobless claims. This cyclical indicator has about a 7-12 month lead time with store performance. © 2005

UPCOMING U.S. ECONOMIC RELEASE SCHEDULE

Date	Time (ET)	Indicator/Event	Consensus	Last
3/29	10:00 AM	Cons Confidence/Mar	103.5	104.0 pp
3/30	8:30 AM	GDP/Q4(f)	+4.0%	+3.8%
	8:30 AM	Chain Price Indx/Q4(f)	+2.1%	+2.2%
3/31	8:30 AM	Initial Claims/Mar-26	325 K	324 K
	8:30 AM	Personal Income/Feb	0.4%	-2.3%
	8:30 AM	Personal Consumption	0.5%	0.0%
	10:00 AM	Factory Orders/Jan	0.6%	0.2%
4/01	8:30 AM	Nonfarm Payrolls/Mar	+225 K	+262 K
	8:30 AM	Unemployment Rate	5.3%	5.4%
	8:30 AM	Ave. Hourly Earnings	0.2%	0.0%
	8:30 AM	Workweek (hours)	33.7	33.7
	9:45 AM	Constn Spending/Feb	+0.8%	+0.7%
	10:00 AM	ISM Mfg Index/Mar	55.0%	55.3%
	10:00 AM	Michigan Sentiment/Mar(f)	92.8	92.9 pts
	— PM	Dom. Vehicle Sales/Mar	13.2 mn	13.0 mn