

# The holiday-shopping season has a different problem this year than last — and it could lead to some deals

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'Last year, it was almost purely about supply. This year, we are really thinking more about demand,' an analyst says. Meanwhile, labor tensions are running higher.



Analysts expect big markdowns this holiday season as chains find themselves with a surplus of clothing and electronics. GETTY IMAGES

DXY +0.25% AMZN -2.77% TGT -0.47% JWN -4.63% TJX -0.55% LULU -3.30%



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In 2021, amid a worldwide supply-chain fiasco, retailers were worried about not having enough merchandise in stores for the holiday shopping season. A year later, as they try to draw inflation-battered shoppers, retailers are worried about having too much.

That means customers could be swimming in deals this holiday season — for personal computers, toys, TVs and other items — amid the retail world’s ongoing inventory cleanout, analysts say.

For stores, and for retail stock investors, the season is likely to see a slowdown in sales growth overall.

“Last year, it was almost purely about supply,” said Tinglong Dai, a business professor at Johns Hopkins University. “This year, we are really thinking more about demand.”

Higher gas and grocery bills and fears of a downturn risk steering spending away from traditional holiday purchases toward household essentials. Any sales that retailers do make could be watered down by the strengthening dollar **DXY, +0.25%**, and earlier promotional sales — such as those from Amazon.com Inc. **AMZN, -2.77%** and Target Corp. **TGT, -0.47%** — could thin the traditional stampede that starts on Black Friday.

There are questions about how much retailers can hike prices, a move they’ve leaned on to bump revenue higher. Conversely, it’s unclear whether consumers will actually pay less in total dollars than they did in recent years, due to the discounts on inflated prices. Meanwhile, retailers are still having trouble attracting workers. The workers who make the holiday-shopping infrastructure function are growing increasingly frustrated with low pay, understaffing and poor working conditions. Those frustrations could sour the overall shopping season.

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All told, the season seems likely to shape up as a mess of contradictions, with consumers spending more despite record discounts, and sales figures higher despite weaker volumes in overall product sold.

## Sales slowdown

Larger, deeper-pocketed retailers, with more technology to track pricing and other costs and more money to hire, are likely to fare better in a volatile holiday environment. Jefferies analysts have said Nordstrom Inc. **JWN**, **-4.63%** is well positioned for younger shoppers looking for a wardrobe reset. More businesses are channeling goods they can't sell through the off-price sector, potentially benefiting names like TJX Cos. **TJX**, **-0.55%**, said Mari Shor, an analyst at Columbia Threadneedle Investments. Analysts have said brands like Lululemon Athletica Inc. **LULU**, **-3.30%** are less likely to see big markdowns.

Adobe Inc. **ADBE**, **-1.62%**, which tracks online shopping trends, on Monday said it expected U.S. online sales of \$209.7 billion through the beginning of November and the end of December. That's a 2.5% gain from last year's holiday season, the lowest growth rate since 2012.

"The shape of the holiday season will look different this year, with early discounting in October pulling up spend that would have occurred around Cyber Week," Patrick Brown, vice president of growth marketing and insights at Adobe, said in a statement.

Last month, Bain Capital forecast overall U.S. holiday retail sales of roughly \$915 billion, up 7.6% from last year's holidays, helped by still-low unemployment and price increases. But the forecast would mark a slowdown from the 13% year-over-year gain booked in 2021.

The National Retail Federation, a trade group, releases its own much-watched holiday sales forecast next month. The picture for holiday consumer spending will also become clearer as more companies report third-quarter earnings in the weeks ahead.

For now, analysts say holiday sales growth is likely to be slower this year, in part because retailers face tougher comparisons to last year. During last year's holiday season, wage increases and savings were still fat enough to drive spending, even as traffic jams at ports and warehouses left everything from Care Bears to Pelotons stuck in containers, pushing prices higher.

But as prices for necessities rose throughout this year — in part due to oil- and grain-market disruptions from the war in Ukraine — customers had to spend more money to cover those expenses.

That forced big retailers like Walmart Inc. **WMT, -1.29%** and Target, as well as their rivals, to cut prices on clothes, TVs and other items that piled up in stockrooms and warehouses amid the consumer pivot to basic purchases. Staggered deliveries of season-specific goods following COVID-related closures of factories in Asia last year — along with over-ordering, ordering too early and overreaction to consumer trends — also led to mismatches in what retailers had and what customers wanted.

“I think the biggest issue for retailers and the brands out there is there’s just far too much inventory,” said Cowen analyst John Kernan. “It’s just far too high relative to where demand is, and that’s going to take some promotions to work through.”

He also noted that much of retailers’ unsold goods was likely brought in at a much higher cost several months ago. Retailers’ gross margins, he said, would likely suffer through the first half of next year.

## ‘Promotions everywhere’

More recent signs from companies like FedEx Corp. **FDX, -2.38%** and Nike Inc. **NKE, -1.87%** also haven’t been great for holiday demand.

FedEx’s ground business intends to cut its holiday-period volume outlook amid waning demand, [Reuters reported last week](#). FedEx, [in a statement to MarketWatch](#), said “[weakening macroeconomic conditions are causing volume softness](#),” and said it was always adjusting operations to customers’ shipping needs.

Meanwhile, Nike’s inventories ballooned by 44% in its first quarter, which ended on Aug. 31. Executives said they expected their rivals to cut prices through at least the rest of this year. CFO Matthew Friend, [during the athletic-gear maker’s earnings call last month](#), said the company was “taking decisive action to clear excess inventory, focusing on specific pockets of seasonally late product, predominantly in apparel.”

“Deals won’t be limited,” Kernan said. “There will be promotions everywhere.”

Target is already rolling out “Black Friday” deals and other holiday promotions. Amazon this week [held a two-day holiday shopping event](#) called the Amazon Prime Early Access Sale.

Adobe said that as retailers deal with oversupply and diminished consumer spending power, prices for computers sold online could be cut as much as 32%, far more than 10% in 2021. Discounts for toys could reach 22%, up from 19% last year. For electronics, the discounts could run as much as 27%, compared to 8% last year. Those would be all-time highs for the three categories, Adobe said.

Adobe said heavy discounts will eat at margins but will still draw enough shoppers to push sales into positive territory. Markdowns might seem larger but may not lead to cheaper purchases, at least compared with prior holiday seasons.

“I think, versus say the prior two years, that out-the-door price will be lower,” said Shor, of Columbia Threadneedle. “But if we think about versus pre-pandemic levels, given the inflation that they have passed through and the pricing they’ve taken over the past few years, I think it’s still fair to assume that the pricing might be higher than, say, 2019 levels.”

She said prices had yet to fall significantly for beauty products and items like handbags, where inventories have been kept tight. But she added that the pace at which retailers have raised prices over the past two years was “unsustainable,” and that chains still had a lot of flexibility cut them. Still, higher prices are likely to do some of the heavy lifting to get sales into positive territory.

“I think what we’re going to see is a slight increase in dollar sales,” said Spencer Shute, principal consultant at Proxima, a consulting firm focused on supply chains. “But if you look at it in terms of a volume perspective, we’re going to see a slight decrease in volume.”

Dai, of Johns Hopkins, said that during holiday seasons prior to the pandemic, retailers were largely focused on markdowns and displays to stimulate demand. During the pandemic — through lockdowns and knots in the supply chain — they were focused on supply. This year, they have to be focused on both.

## ‘A constant game of Tetris’

But some retailers — due to the tight labor market, recession fears or better retention — have tempered their holiday-season hiring this year, while employee demands for a greater say on the job have grown.

On Tuesday, the National Labor Relations Board received a union petition from employees at an Amazon warehouse in Moreno Valley, Calif. Workers at an Amazon warehouse in Albany, N.Y., will vote on whether to unionize over the next several days. And Amazon workers at an air-freight hub in San Bernardino, Calif., plan to strike on Friday, seeking more pay and better working conditions as the cost of living increases.

“We’re working so that we can afford a holiday,” said Rex Evans, 61, who guides incoming jets to gates at that facility. “A lot of these associates can’t afford a holiday. A lot of associates have second jobs.”

Evans, who makes \$18.80 an hour, said employees at the facility work on a tarmac, exposed to jet fumes and sometimes oven-like temperatures. He said management provided solar-powered misters and fans after employees complained about inadequate heat protections in August and September. Still, workers at the facility are demanding a \$5 hourly increase and protections from possible employer retaliation.

Some also say this year's inventory-pruning and holiday preparations have added to the existing stress of racing down aisles and through cramped warehouses to hit order-fulfillment targets.

Adam Ryan, 34, who unloads truck deliveries and stocks shelves at a Target in Christiansburg, Va., said his store was moving some Christmas merchandise onto the sales floor. He said Halloween goods were largely on display, and that the store was still trying to rebound from an earlier influx of the area's college students.

During the back-to-school season, he said, stores were flooded with extra inventory, which workers scrambled to move to the sales floor. But space there and in the store's back room was tight, which complicated the task of maneuvering pallets and shipments and finding space for merchandise.

"It's just like a constant game of Tetris, trying to find the right piece," he said.

Ryan, who has worked at Target for more than five years and is also the founder of Target Workers Unite, a worker-advocacy group, said the inventory deluge had slowed since then. But he said employees are timed on how fast they unload trucks and haul products to shelves. And without sufficient staffing, he said, as employees weave through store aisles and stockrooms, juggling orders for groceries and clothes — at times bundling them with fresh coffee from in-store Starbucks **SBUX, -1.46%** kiosks or multitasking across departments — it's easy to fall behind.

Target did not respond to a request for comment. The chain has plans to hire up to 100,000 workers for the holiday season, roughly the same number as last year.

Ryan said current staffing levels aren't enough. And he said the focus on speed and performance goals has come at the expense of customer service. Despite holiday incentives, he said, pay doesn't keep up with the cost of living.

"We haven't had enough resources before the holidays," he said. "So why would we all of a sudden have resources going into the holidays?"

Other workers suggested the Tetris game was still ongoing. Mariah Molina, 21, who picks and packs items for customer orders at a Target store in Lynchburg, Va., and is also involved with Target Workers Unite, said they have to pick more than 200 items in a four-hour period. Work was already busier, and the pressure to process orders faster has increased, Molina said.

During the holidays and other deal days, maneuvering through denser customer crowds and through the back room can slow workers down, Molina said, adding that finding orders can be more difficult when items are still packed in boxes in the storage area. With customer demand slowing, clothes have piled up in the back of the store.

“Boxes are everywhere,” Molina said. “Sometimes it’s hard to even get a cart through the aisles. Sometimes they just throw stuff in the sheds outside for more storage, because we just have nowhere to put it.”



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