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Wal-Mart Jobs and Opportunity Zones Program Consumer Trends Report February 2008

ABSTRACT

Wal-Mart Stores, Inc. has produced this Consumer Trends Report for neighboring small business owners to provide insight into general economic trends. The report provides economic information regarding four categories: consumer purchasing power; retail and financial trends; environment; and employer concerns. This report is part of the Wal-Mart Jobs and Opportunity program designed to spur economic growth in ten select cities. Key findings include:

- **Purchasing Power:** *Consumers are opting to shop closer to home with a tight economy and higher gas prices, and research has found a spike in the number of people comparison shopping based on newspaper ads¹.*
- **Financial Trends:** *The increase in credit card borrowing has left consumers in a difficult financial position as consumer debt and more specifically credit card debt is at an all-time high¹.*
- **Environmentally Friendly Products:** *The popularity of organic goods and textiles has jumped as these items are becoming more accessible and better priced, with organic foods comprising nearly three percent of total food sales in 2006, reaching \$16.7 billion for the calendar year².*
- **Employer Concerns:** *Surveys have found that small business owners are worried about hiring good employees and retaining them; increasing selling prices; and using credit cards as a source of financing³.*

Introduction

In addition to the jobs created, millions of dollars in state and local tax revenue generated and the hundreds of thousands of dollars donated to local charities, we have created an annual “Wal-Mart Trends Report” for use exclusively with the small business community. This is the first installment of the JOZ report.

The data and analysis of the JOZ report breaks down key trends that may be of interest to small businesses across the country. A number of factors are examined including the rise in sustainable and eco-friendly products, the nationwide population growth, retail purchasing trends and the average financial outlook for American consumers.

In this report, small business owners will also learn what products are moving off the shelves, how the price of gas affects dining out and whether the upswing in organic purchasing is a just a fad or here to stay. Hopefully this annual report will assist small businesses across the country and allow business owners to better tailor their goods and services toward the needs and wants of their shoppers.

Municipalities and Consumer Purchasing Power

A growing population means more consumers and increased purchases. The five fastest growing states in the U.S., according to the most recent Census data, are Nevada, Arizona, Idaho, Florida and Utah. These findings fall in line with a trend among home buyers choosing to move away from high-priced markets to more moderately priced locales. Atlanta, Dallas, Jacksonville, Phoenix and Portland, Oregon, are often seen as desirable cities due to the price of homes in these markets. However, California, Texas and New York still rank as the most populous states in the U.S., despite the reasonable housing prices and growing population base of other American cities.

According to data released in July 2007⁴, major markets continue to grow at a strong clip. Job growth was spread across the U.S. with the Riverside-San Bernardino (CA) market seeing the greatest jump, followed by Salt Lake City. Other strong performers over a three month period ending in July 2007 were Houston, Austin, Los Angeles and New York City. A few cities (New Orleans, Cincinnati, Detroit and the Northern Virginia region) were subject to an economic downturn over this same timeframe. In Southern California, job growth in Orange County was also down slightly as the market suffered its first layoffs from the collapse of the sub-prime mortgage sector. The economic downturn in these markets may affect consumer purchase power⁴.

And like the fallout from the mortgage collapse, fuel prices are also playing a major role in shopping habits. Roughly 16 percent of consumers nationwide are reducing their grocery expenditures due to high gas prices. Consumers are also opting to shop closer to home due to the price at the pump, while almost 32 percent have reduced their frequency of dining out thanks to the rising cost of gas. There has also been a spike in the number of people engaging in comparison shopping based on ads seen in newspapers, with 33 percent of surveyed Americans claiming they shop for sales more often today than in the past¹.

Despite these cost-cutting trends, economic experts contend that business owners should not be concerned. The second quarter of 2007 was stronger than previously estimated and consumer confidence continues to rise. Unemployment has stayed relatively low in most markets, and across the nation, August was the first month in almost four straight years that new job additions slightly dipped. Despite this abnormal

downturn, the economy remains on a steady path and earnings continuing to grow nationwide.

An early indicator of growing consumer confidence may be the number of shoppers who are purchasing both 'wants' and 'needs.' In 2003, more than 60 percent of Americans focused their purchasing habits more on what was needed than wanted. In August of 2007, that number dipped to nearly 47 percent, with a similar drop in the number of those who claim their purchases are "practical" and "realistic."

This growth in more 'material' and less 'practical' purchases could account for the nationwide rise in consumers who shop at stores focusing on interior design and decoration – great news for shops with paints, wallpaper, lighting fixtures, mirrors and other assorted design accessories on their shelves. Hardware stores might also see the benefits of this renewed interest in remodeling and renovation.

Retail and Financial Trends

While a number of outside factors are on the minds of consumers – gas prices, war, health care costs – researchers suggest these issues are not impacting the bulk of store earnings across the country. As previously indicated, retail sales for the second quarter (particularly July) exceeded expectations, which is normally a quarter of negative profits.

The strongest performers in retail sales included accessories (such as handbags), women's designer apparel and men's apparel. Consumers have also focused their spending on footwear, children's and juniors clothing, cosmetics, and jewelry. Closing out the summer, retailers noticed a downturn in the purchase of furniture and seasonal summer clothing such as tee-shirts and tank tops. On the global scale, more Europeans are spending vacations in the U.S due to the weak dollar and driving sales of luxury items and clothing. This could potentially spur growth at boutiques and high-end jewelry stores.

While clothing purchases remain high, a portion of the population (17 percent) still chooses to buy clothing only if it's on sale. This trend could be driven by the number of Americans (nearly 40 percent) looking to pay down debt and decrease their outstanding credit card bills.

According to the American Bankers Association, the number of people past due on their credit-card bills rose to a record level in the second quarter of 2007. The increase in credit card borrowings has left consumers in a difficult financial position as consumer debt and more specifically, credit card debt is at an all-time high.

Consumers are defaulting more often and paying less on their outstanding balances. Credit rating agency Moody's reported that credit card lenders had to write off nearly five percent of payments as uncollectible for the first six months of 2007 – a 30 percent increase compared to the same timeframe in 2006. The mortgage meltdown and rising gas prices are contributing factors in this national trend.

Despite these widespread credit issues, many businesses are happy to accept consumers with spotty records who have been rejected by traditional banks, or the "unbanked" that choose not to maintain checking accounts. Explosive growth has taken place in the payday advance business, which has come under heavy scrutiny. In addition, many workers in southern California, Texas and other areas wire an estimated \$10-12 billion to relatives at home, contributing to a booming business growing 15 to 20

percent per year. There are roughly 13,000 check cashing outlets, 14,000 pawn shops, 10,000 payday loan stores and more than 154,000 money transfer agents competing for this popular business today.

Sustainability and the Environment

The purchase of eco-friendly goods such as organic food, beverages and sustainable clothing was on the upswing during the second quarter of 2007. These types of green items are becoming increasingly popular, according to researchers, and are rapidly expanding in households and businesses across the nation. Specifically, the popularity of organic goods and textiles has jumped as these items are becoming more accessible and better priced. According to the Organic Trade Association, organic foods comprised nearly three percent of total food sales in 2006 – reaching \$16.7 billion for the calendar year².

The rise in consumers reporting to use organic products coincides with a surge in first-time organic use. This trend suggests that stores may want to add additional organic products to their shelves. This could include organic cleansers, recycled paper towels, organic fruits and vegetables or clothing made from organic/sustainable materials.

The fastest growing segment of organic food products is in the meat and seafood niche – welcome news to butchers and seafood shops stocking their cases with organic products. Additionally, growth of more than 30 percent occurred in the organic nutrition bars, beer and wine segments of the market, while organic pet products grew 37 percent in 2006 to reach a \$65 million market.

As consumers demand healthier options and stores add additional organic foods and products, the packaging of these items is also affected. Most large corporations have recently learned that by focusing on sustainable efforts, like green packaging, they can appeal to the conscientious consumer, better their business and improve the environment.

From organic fruits to green packaging, sustainable trends are on the rise. Research analysts estimate that this upward swing will continue and by 2010, the green food and beverage industry will total at least \$42 billion in the United States – good news for those businesses carrying eco-friendly products.

Employer Concerns

According to a Sam's Club survey of small business owners, the hiring and retaining of employees are top concerns shaping the day-to-day outlook of owners across the country. Nearly 50 percent of those surveyed said hiring good employees was their primary business worry, with concerns on how to retain those employees following close behind. Providing health care insurance was another concern for employers, with nearly 38 percent of surveyed business owners expressing anxiety over benefits. Marketing worries as well as pension and retirement fund concerns rounded out the top five small business employer concerns³.

Inflation is also a concern for small business owners. According to the National Federation of Independent Business December Small Business Economic Trends report, 16 percent of owners report higher average selling prices, with 21 percent reporting plans to raise prices.

Poor credit card practices are hurting the economy at large but small businesses specifically, according to The National Small Business Association. The NSBA found that access to capital remains an ongoing concern, with bank consolidation and changes in the lending market forcing small business owners to use credit cards. Forty-four percent of business owners use credit cards as a source of financing – more than any other source, including earnings – with 13 percent carrying a balance of more than \$25,000 and 36 percent with more than \$10,000.

Looking Ahead

According to government economists, the nation's economic outlook is strong. The labor market has been steadily adding jobs for the past four years and only 4.8 percent of our population remains unemployed. While the housing market has served as the nation's economic soft spot, the overall business impact has been relatively minor. Purchases are up and retailers enjoyed a strong second quarter, with earnings above forecast. This growth is expected to continue into the next quarter, and demand should stay strong for organic goods, affordable clothing and home renovation products.

1. "Consumer Intentions & Action Survey", BIGresearch, August 2003 – August 2007
2. "Organic Trade Association 2007 Manufacturer Survey," Organic Trade Association, May 6, 2007
3. "SBTV and WPO Interview Questions", Sam's Club, April 18, 2007
4. "Major Market Employment Monitor", Maximus Advisors, August 20, 2007

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