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Inflation and 'Shrink-flation' Make Their Marks on Retail Industry

Controlling inventory is the key as companies endure supply-chain issues before 'Back to School' and Black Friday periods.

By **Paul Bergeron** | July 06, 2022

Supply chain issues appear to be easing and shipping costs have fallen for retailers and their products. Foot traffic in malls, meanwhile, declined last month, according to data released this week.

At least one analyst is expecting Black Friday sales like never before as companies attempt to get their inventories under control coming out of a most unsteady year.

Derek Anthony, senior vice president/managing director of brokerage for The Woodmont Company, tells GlobeSt.com, that the state of the retail supply chain's current bottle neck depends on who you ask.

"Most of the high-ticket items or 'bulk' items such as furniture, bikes, and other COVID-19 high-demand items are still trying to catch up.

"I fear that the recession is already here, and there will be 'barn burner sales' for Black Friday and heavy blow out inventory sales in Q4 this year and beyond. Keep in mind, the US retailers are just now getting inventory they bought 120 to 180 days ago when demand was at an all-time high, and all those products are in the port or in the retailers' distribution centers stacked to the ceiling.

Expect Retail Sales at 'Record Levels'

Anthony said that now that all the headwinds are here, the sales and discounts are going to be record levels. "Hence: kill their bottom-line/gross margin, just to move the goods and get the inventory off their books," he said.

"Food and commodity items continue to be hit and miss, and we hope that these farmers, distributors and manufacturers don't short-cut on quality just to get them out the door. They have already started 'shrink-flation,' where the food manufacturers are shrinking the gross volume in the package in order to keep the retail price the same on the shelf, so the consumer doesn't have sticker shock."

For example, Anthony said instead of having 16 ounces of cereal in the box, there might only be 12 ounces.

"Consumers don't know it unless they look at the fine print," he said. "So, by Q1 2023, there may be a reverse scenario, where the retailers will be asking to return or hold the containers in the port, due to their distribution center's overflow and no more room."

He said the “Back-To-School” selling season in late July and early August will be a key indicator for Q4 2022 deals or duds.

Mall Foot Traffic Declines

Data this week from Placerai showed that from May to June there was a “notable” fall in mall foot traffic.

Visits in May were up 4.1% at indoor malls, 6.2% at OALCs, and up 2.5% at outlet malls compared to April. But in June, visits were down 3.7% at indoor malls, down 2.4% at OALCs, and up only 0.6% compared to May.

Signs of Easing in Global Supply Chains

A JLL report issued this week showed that there are signs of easing in the global supply chains despite sustained geo-political uncertainty and macroeconomic headwinds and average shipping costs have declined 30% since September 2021.

During first-quarter earnings season, poor inventory management was cited by many as the reason for underperformance.

The second quarter and beyond could become another puzzle for analysts because “if inflation endures, more consumers will likely continue to gravitate towards discount retailers and continue to reduce discretionary consumption,” JLL reported.

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