

2023 Back to School Preview

Key Takeaways

- 1 Consumers expect most of their shopping in physical stores, but online deals and buy online pickup in store (BOPIS) remain
- 2 Back-to-School shopping got a head start; 59% of consumers intend to allocate the bulk of their spending towards the month of July
- 3 Technology and electronics will drive the increase in total spending

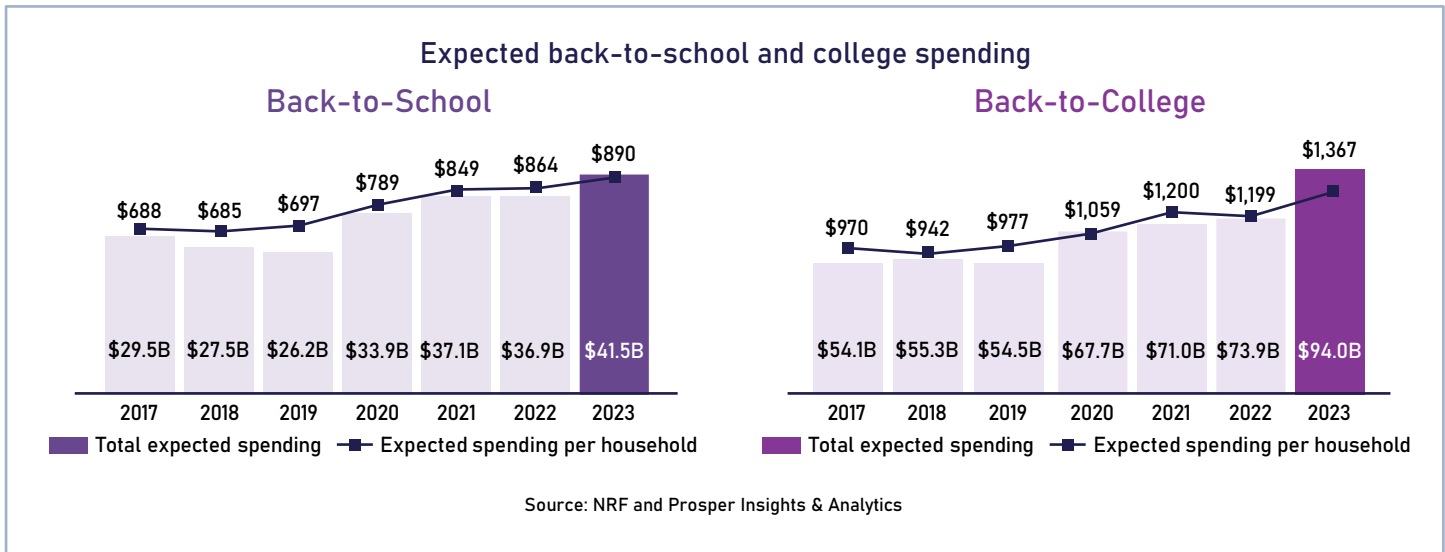
So far in 2023, consumers have maintained their spending resiliency amidst higher interest rates and inflationary pressures. However, spending is still focused on non-discretionary essentials, as discretionary spending has shifted from buying goods to spending on services, travel, and other experiential activities. In July 2023, the Conference's Board monthly Consumer Confidence Index reached 117, up from June's figure of 110.1 and the highest level since July 2021. This improvement was broad-based and may partially reflect consumers feeling a bit more confident with inflation levels coming down (3% in June), but these measurements are also very temporary and volatile.

Recent better-than-expected economic data led Goldman Sachs to cut its odds of a U.S. recession to 20% from 25%. In addition, our latest retail sales report for June marked the third consecutive monthly rise in retail sales, with an increase of 0.2%, led by rebounds in furniture (+1.4%) and electronics (+1.1%). Clothing and clothing accessories were up 0.6%. These are categories that will play a key role in Back-to-School (BTS) and Back-to-College (BTC) spending.

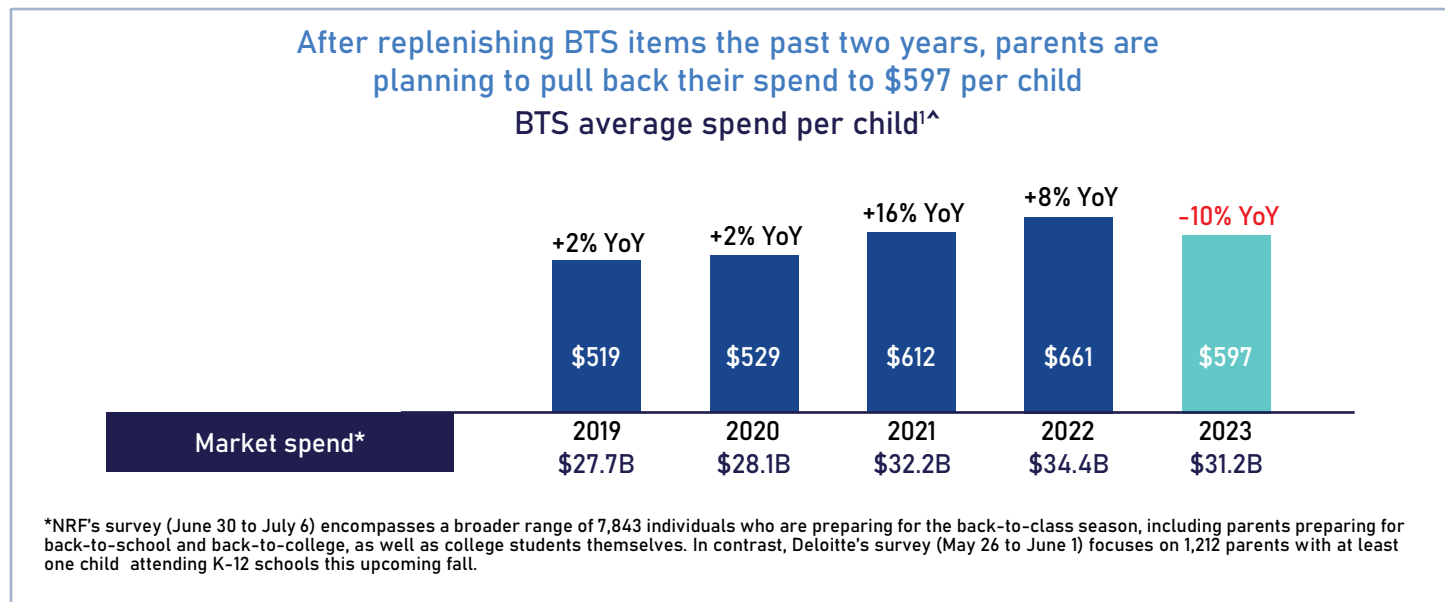
Despite consumer resiliency and recent optimism, we maintain a cautious outlook on the broader economy, where warnings of a recession have been prominent for over a year. Moreover, the resumption of student loan repayment, including interest accrual beginning in September and the first payment due in October, has the potential to significantly impact mid-to-low-income parents' spending during the BTS season and beyond. As this change occurs after BTS spending, it is likely to have a larger impact on the upcoming holiday season. Apparel retailers, especially those that cater to millennials and GenZ consumers, are expected to be hit the hardest. Despite the cooling inflation trends, the Fed recently raised interest rates another 25 bps to its highest level in 22 years, which could increase the risk of a recession.

BTS and BTC Survey

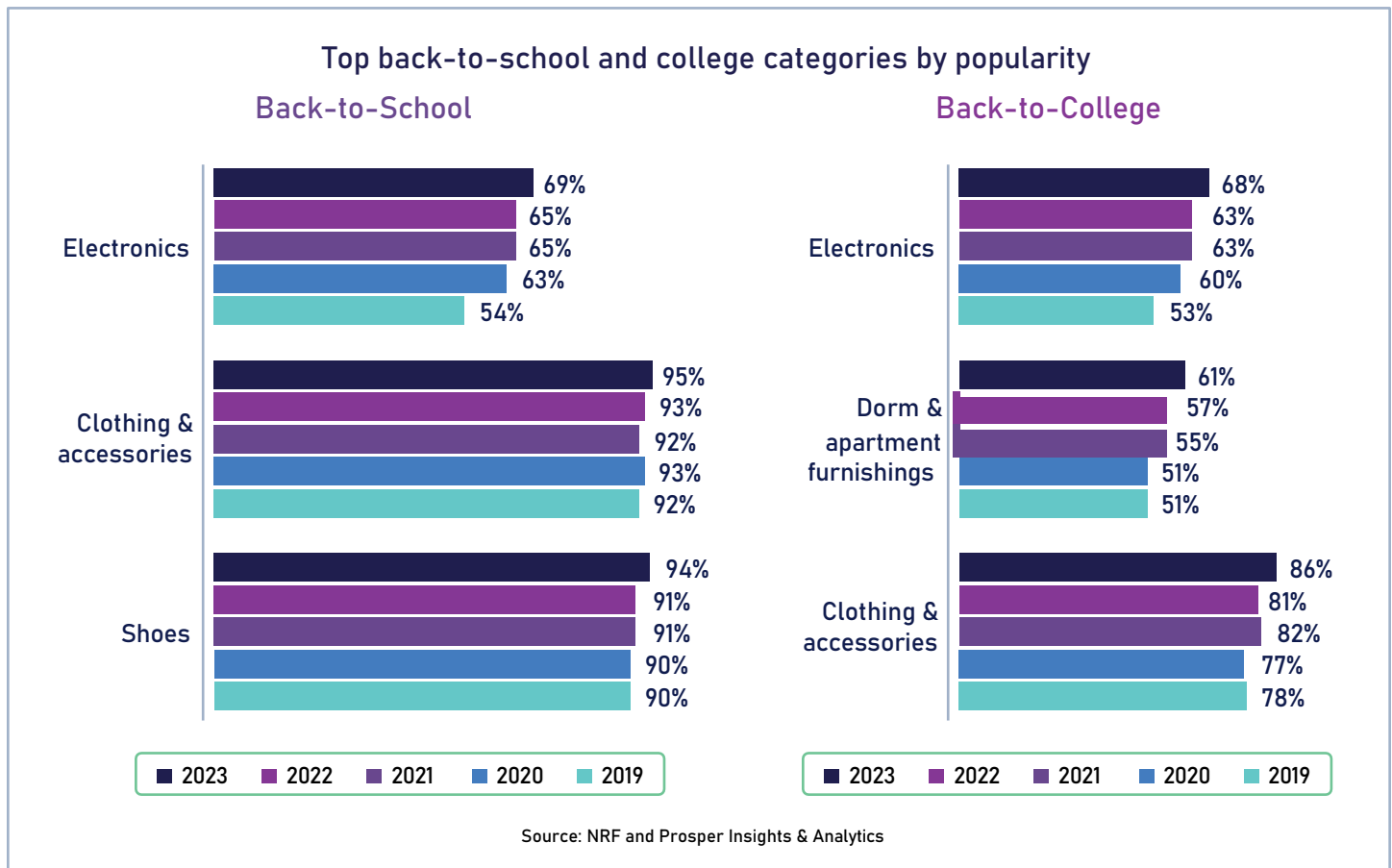
A recent National Retail Federation* (NRF) survey forecasts a record \$41.50 billion in BTS spending, up 12.5%, surpassing both last year's total of \$36.90 billion and the previous high of \$37.10 billion in 2021. Additionally, BTC spending is projected to leap 27% to \$94 billion, exceeding last year's total spend by approximately \$20 billion. According to NRF, on a per household spending basis, these estimates equate to \$890 for BTS and \$1,367 for BTC per household, up 3% and 14% year-over-year, respectively.



On the other hand, Deloitte's* survey focuses solely on BTS spending and predicts a 9.3% decline, estimating a total of \$31.28 billion in BTS spending. The report also predicts spending on a per child basis versus per household, which estimates a 10% decline from the previous year to \$597. Though Deloitte did not conduct a survey on BTC spending this year, a representative from the Company stated that their findings in the past suggest BTC spending closely mirrors BTS trends.



Shopping Trends

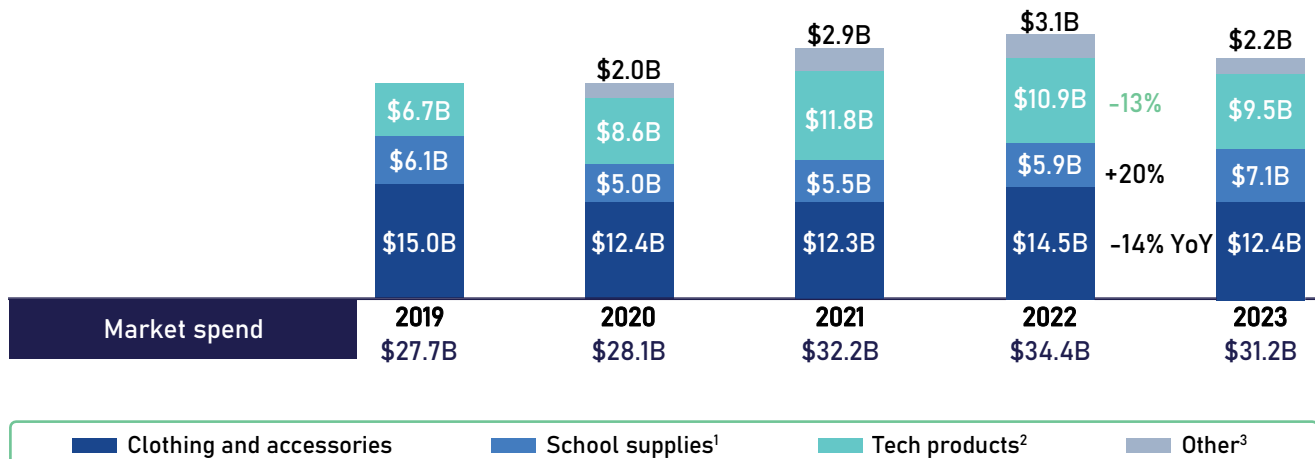


While BTS and BTC shopping consists of various categories, as with previous years, the most popular categories across both surveys include electronics, clothing, and accessories. NRF's data shows the anticipated surge in spending will largely be influenced by electronics. Sales in that category are expected to advance 22% to \$15.20 billion and 25% to \$23.20 billion for BTS and BTC, respectively. Deloitte expects clothing and accessories, its largest BTS category, to fall 14% to \$12.40 billion, while tech is expected to fall 13% to \$9.50 billion.

Teachers at all grade levels, from kindergarten to grade 12, will also provide a boost to BTS spending. According to Office Depot's 3rd Annual Back-to-School survey, teachers are willing to spend an average of \$320 in preparation for the upcoming 2023 - 2024 school year. Their spending priorities mainly revolve around purchasing essential supplies like notebooks and pencils (37%), as well as organization and storage solutions (23%).

Tech has emerged from the pandemic as a dominant category, helping to boost overall market spend since 2019

BTS share of estimated market spend, by category



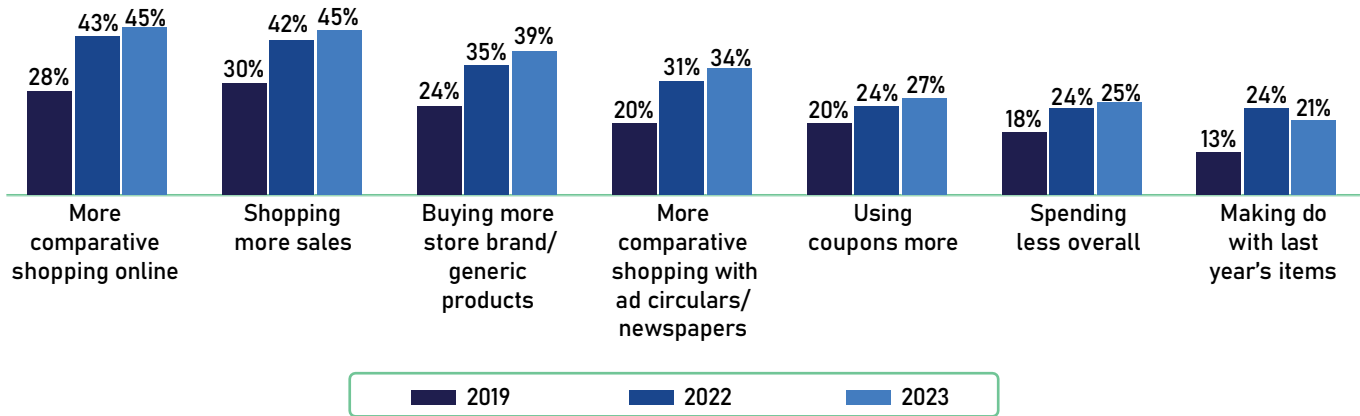
Notes: Deloitte calculations on BTS spend based on annual consumer survey projections (N = 1,212) and K-12 enrollment figures from US Census Bureau's Current Population Survey (CP5)-School Enrollment Supplement. (1) "Preconfigured school kits" were added to school supplies in 2023 and are not included in 2022 or prior years; (2) Tech products include computers and hardware, electronic gadgets, digital subscriptions, and voice/data plans; (3) Other includes COVID-19-related items like sanitizers, face masks, and furniture for home (desks, chairs, etc.).

While the rate of inflation is declining, consumers are still facing elevated costs. According to Deloitte and compared to 2021, stationery and office supplies increased 23.7%, while boys' apparel and girls' apparel increased 7.6% and 7.4%, respectively, and footwear increased 5.4%. Despite their resilience, consumers are likely running low on any savings and stimulus from the COVID era, while credit card debt is reaching unprecedented levels. Thus in 2023, the shopping trends for early bird deals, coupon hunting and brand comparison continue to gain momentum as consumers look to stretch every dollar in the upcoming BTS season. Consumers are prioritizing convenience and efficiency, gravitating towards companies that offer not only competitive prices but also free shipping, flexible return policies, and the convenience of buying online and picking up in-store (BOPIS).

In addition, consumers are increasingly prioritizing discount formats and opting for off-brand or generic store brands, in comparison to last year.

Deloitte and Sensormatic surveys have revealed that a significant majority of consumers, reaching 74% and 79% respectively, have expressed their intentions to carry out their shopping experience in physical brick-and-mortar stores. Further, the surveys show that consumers tend to conduct online research and compare deals before physically visiting the stores, fueling the rise of BOPIS and curbside pickup.

How the state of the economy is impacting back-to-school purchases

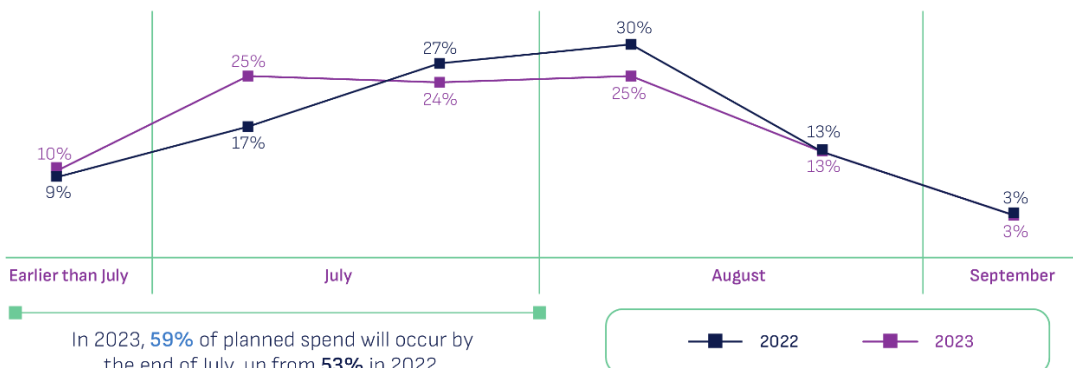


Source: NRF and Prosper Insights & Analytics

The Deloitte survey (below) found that more than half of planned spending (59%) will occur by the end of July, up from 53% last year. Interestingly, the survey stated that 77% of consumers were planning on using cash for purchases (up from 72% in 2022), while credit card usage was expected to decline to 52%, from 54% last year, and just 9% plan to use buy now pay later platforms. According to the NRF survey, conducted about a month later, the results were similar with regards to shopping earlier for BTS and BTC; 55% of consumers reported in early July that they had already begun shopping, in line with last year's survey. At the same time, however, a significant 85% of consumers indicated that despite starting early, they still had more than half of their shopping to complete.

The July spending surge is expected to contribute to a front-loaded BTS shopping season

BTS total spend by shopping periods¹



In 2023, 59% of planned spend will occur by the end of July, up from 53% in 2022.

Questions: (1) "Out of your plan to spend on back-to-school shopping, how much do you plan to spend during the following periods?" (N = 1,212); (2) "Do you plan to shop for back-to-school items on Amazon's Prime Day sales event in July 2023?" (N = 677); (3) "Which of the following statements would you agree with about your back-to-school shopping?" #multi-select (N = 1,212)

35%

believe better deals occur earlier in the season versus

26%

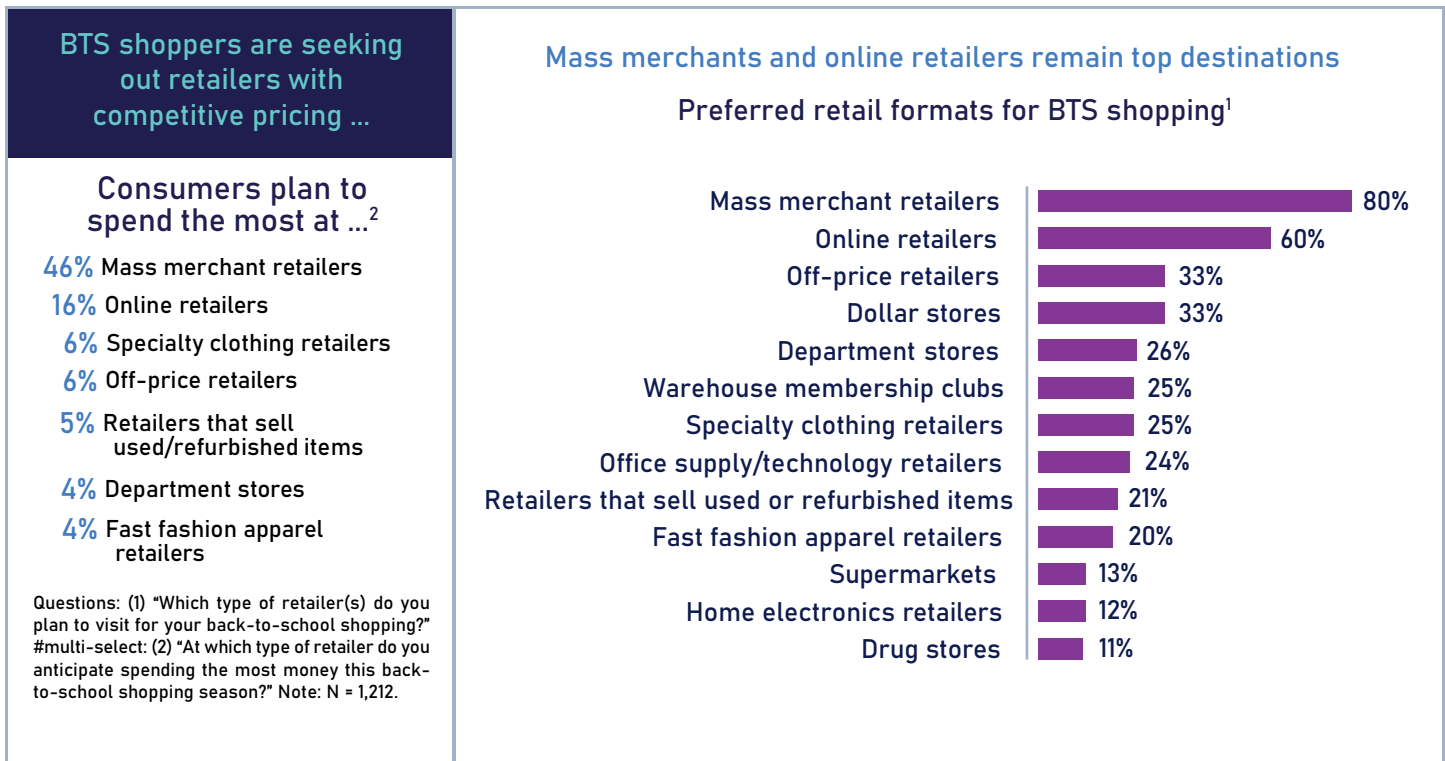
who believe they occur later in the season²

69%

plan to shop for BTS items on Amazon's Prime Day in July³

Top Retailers

According to Deloitte, consumers showed a strong preference for mass merchandisers, online retailers, and discount formats when shopping for BTS supplies. Although retailers in 2023 have been relatively cautious on providing guidance due to the pullback in discretionary spending, there is a silver lining. Many retailers, especially mass merchandisers, have corrected their inventory levels from last year, which should help yield much improved margins.

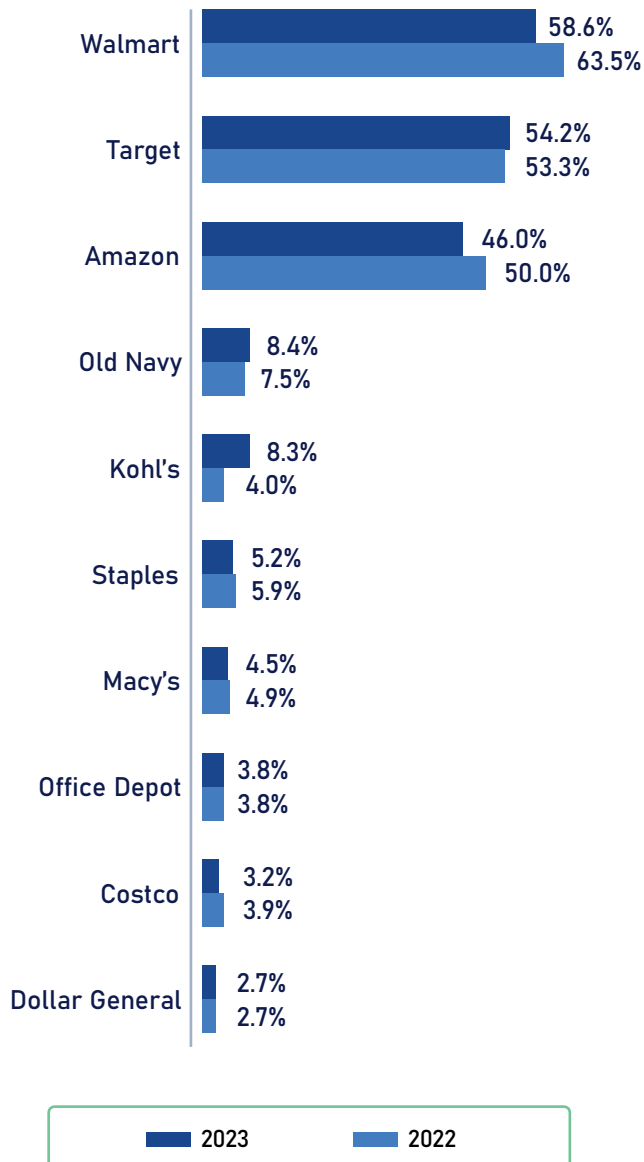


Further, JLL's BTS survey of 1,000 parents resulted in Walmart, Target and Amazon being listed as the top three retailers that came to mind for BTS shopping. In fact, Deloitte (image above) stated that 69% planned to shop for BTS items during Amazon Prime Day, which ran from July 11 through 12 this year. Prime Day sales rose 6.1% to a record \$12.70 billion. According to Adobe Analytics Insight, online sales surged in BTS and BTC defined categories; electronics (18%), apparel (17%) and stationery and office supplies items were up a significant 76%.

As has been the trend over the last few years, many other retailers, including Target and Walmart, proactively took aim at Prime Day, launching their own sales campaigns in "Target Circle Week" and "Walmart Plus Week," aligning with the BTS and BTC season. In addition, Target announced that college students who are members of its free loyalty program Target Circle, would receive a one-time 20% discount on their entire shopping trip between July 16 to July 26. Teachers who are members of Target Circle also receive the discount, but the timeline is extended to August 26.

Walmart also announced its own offering, which included maintaining the same school supplies price points as last year. More than 100 essential school items are priced at under one dollar and starting at \$0.25. The Company also launched various digital tools to support BTS and BTC consumers, including: a digital college checklist for students as well as new augmented reality home experience for students purchasing furniture for their dorms or apartments. Additionally, management noted it has more supplies for BOPIS and customers can utilize same-day delivery or free two-day delivery via Walmart+. Ultimately, although many retailers have refrained from speculating on the upcoming back-to-school and back-to-college season, a handful appear to be optimistic. It will be interesting to see who benefits most from Bed, Bath & Beyond's liquidation earlier this year. The Company has been a significant player in the BTS space for a long time. Last year the Company operated nearly 1,000 Bed, Bath stores and recorded \$1.44 billion in sales during its back to college quarter ended August 27. Many retailers such as At Home and The Container Store have marketed enhanced back-to-school offerings in an attempt to attract those shoppers.

Please list the top 3 retailers where you plan to shop for Back to School this year



Source: JLL Back-to-School Shopping Survey 2023

Retailer Commentary / States

CALERES

★ 5 ★

Footwear operator Caleres' CEO, Jay Schmidt, commented, "This year, we have a better in-stock position from the beginning on key trending brands and styles that we've reacted to due to our well-managed inventory position."

SHOE CARNIVAL

Shoe Carnival President and CEO, Mark Worden, commented, "This year, we have the athletic brand assortment, depth and freshness in hand that we did not have last year."

URBAN OUTFITTERS

Sheila Harrington, Global CEO Urban Outfitters Group, commented, "We feel like we have more confidence going into the back-to-school time frame, especially August, end of July... I think over the last year, the brand has learned that it can sell the larger range of assortment up to a higher price point, but they've walked an opening price point value consumer. We feel very strongly that we're seeing very good reads from Q1 into Q2" in key categories."

GAP KIDS

The Gaps' kids' segment has faced some pressure but has been gaining market share at Old Navy. In denim, the Company gained market share in 1Q and has positive momentum heading into the back-to-school season in this category.

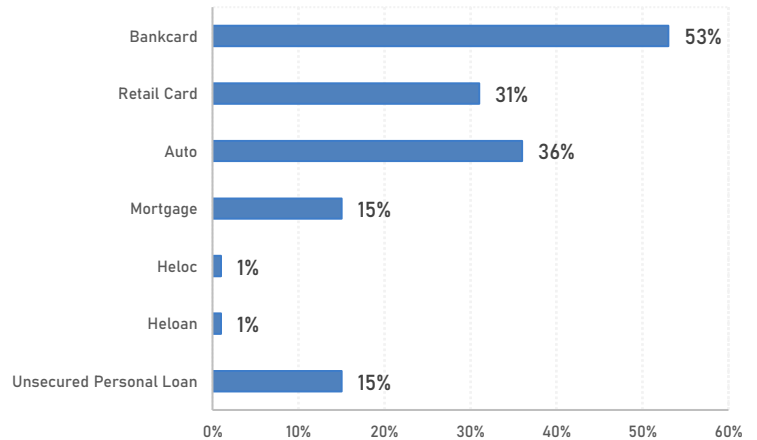
AMERICAN EAGLE

American Eagle Outfitters plans to "promote with intent" and has no plans for increased promotional activity during the back-to-school season. The Company aims to clear goods more profitably in 2Q and maintain similar levels of promotion to the previous year.

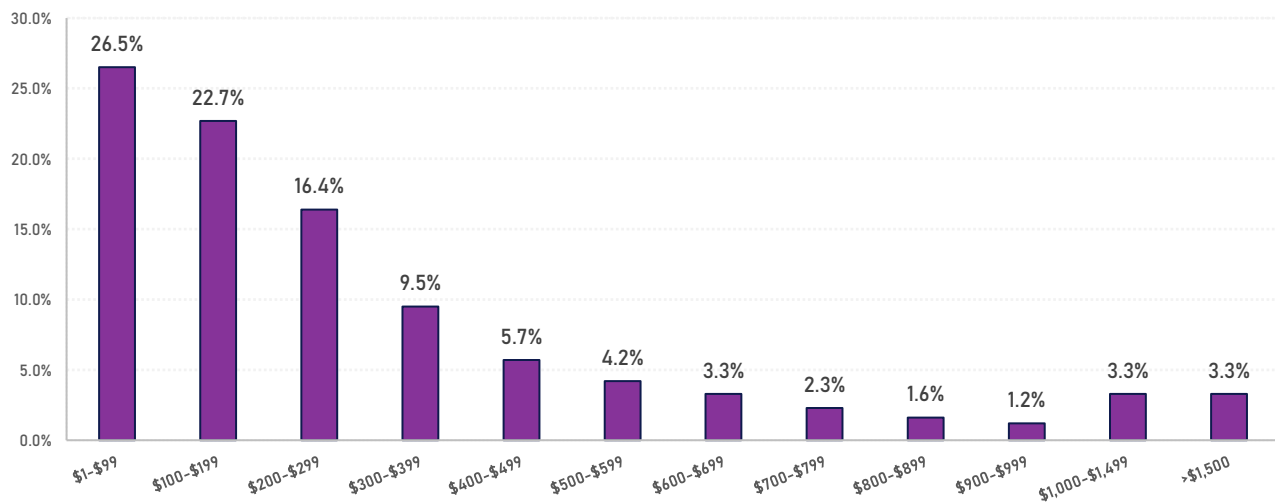
Student Loan Dilemma

As mentioned, the Supreme Court's ruling on June 30, 2023, invalidated the student loan forgiveness program. As a result, payments will resume in October. Consumers will once again face the need to prioritize payments as they navigate through higher prices, marking a shift from the past three years of no payments. According to Transunion, since the gov't paused payments in March 2020, approximately 53% of consumers with student loans increased bank credit card debt, 36% took out new auto loans, 31% added debt on retail cards, 15% added mortgages and unsecured personal loans. Additionally, approximately 51% of borrowers are expected to owe \$200 or more each month. While higher-income individuals are likely to have more flexibility to handle this, lower and middle-income consumers will be forced to tighten their belts when payments resume. That said, the upcoming BTS season is expected to be less affected by these pressures, as it occurs prior to the resumption of payments.

Percentage of Student Loan Borrowers Taking on New Credit Products During the Pandemic





Distribution of Expected Payment Amount for Borrowers Resuming Federal Student Loan Payments





Conclusion


Even though the economic signals appear mixed, at this point consumers are continuing to spend, and unemployment remains low. While inflation causes concern, most consumers consider BTS and BTC spending an essential expense. Consumers, however, remain keenly focused on value, which tends to favor mass merchandisers. The BTS season is lining up to be a push and pull between the economic forces of consumers' desire to spend balanced off against their concerns going forward. Second quarter reporting will kick off in a few weeks and provide a preliminary look at spending, followed by July retail sales, which are reported in the middle of August. While there are differing projections for the BTS season, we suspect there will be some momentum from the last three months of reported increases in retail spending, though inflation, student loan payments, and rising interest rates should keep those gains in check. However, we anticipate retailers, with modest top line improvements and even better margin performance, should see a stronger 2023 back-to-school season.


 Emily Manley, Retail Analyst

 Jim Fritts, Senior Analyst

 Robert Altun, Junior Analyst

 (800) 789-0123 EXT. 153

 (800) 789-0123 EXT. 137

 (800) 789-0123 EXT. 182