



 **PMG** | RETAIL IN FOCUS

# The State of Retail in Q1 2023: Key Trends & Takeaways





# In Brief

Rising prices remain top of mind for millions of U.S. consumers, leading to additional caution around discretionary spending. As 2023 progresses, economic indicators appear to be on a slight upswing, although the health of the consumers' budget and ability to spend remains in question. Analysts have noted the continued disparities between the spending patterns of high- and low- and median-income earners, leading to pockets of opportunity across retail sectors.

For retailers, navigating this moment requires executional excellence paired with a strategy that's focused on brand differentiation and elevation, customer experience, and leveraging insights to engage new audiences while retaining existing ones.

## The Environment

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25%

**Recession Probability** is currently 25 percent, down from 35 percent in January but still above the standard [15 percent](#).

67

February **Consumer Sentiment** continued to trend [upwards](#), although it's still far from reaching pre-pandemic levels of 90-100.

Next release: March 17

6%

In February, **inflation** [continued to cool](#) from its June 2022 peak, but was still significantly above the standard two percent.

-0.4%  
MoM

U.S. Census Bureau [reported](#) that January retail sales were better than expected, however, **February results** of -0.4 percent signify this was likely a temporary recovery due to 'belt-tightening' that occurred at the end of last year.

+3.9%  
Apparel Growth MoM

According to [Mastercard SpendingPulse](#), **February retail sales** were up 6.9 percent year-over-year, with apparel stores showing moderate growth of +3.9 percent.

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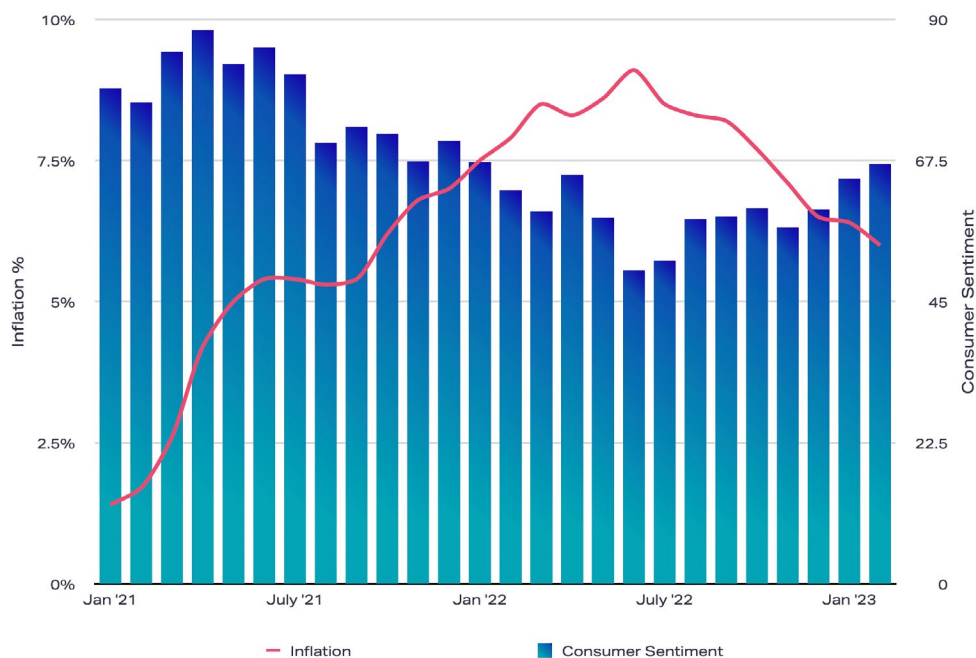
## Consumer Balance Sheet

Despite retail sales up year-over-year, household balance sheets are not in the best place.

**+6.6%** Q4 credit card balances [surpass](#) pre-pandemic high.

**4.7%** January Personal Savings Rate still down significantly from the pandemic peak of [33.8 percent](#).

## INFLATION VERSUS CONSUMER SENTIMENT



Sources: [Consumer Sentiment \(University of Michigan\)](#)  
[Inflation \(US Census Bureau\)](#)

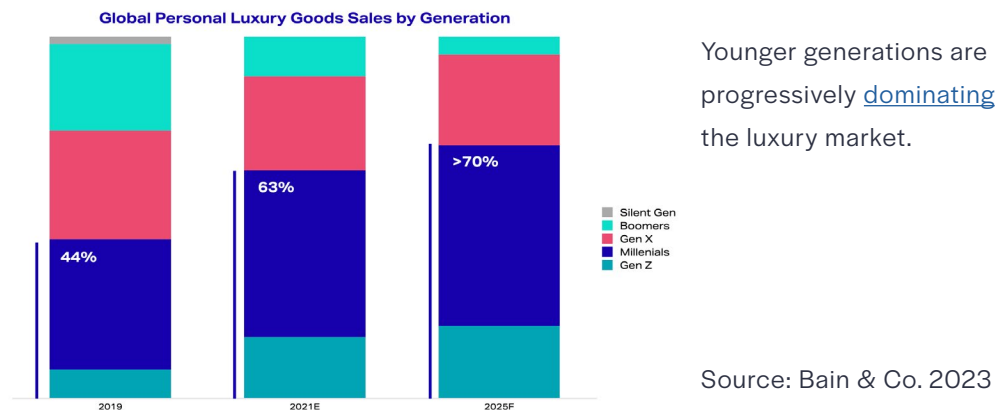
## State of Retail, by Sector

### Luxury

In 2023, luxury is [expected](#) to grow between five to ten percent, down from 2022's 22 percent growth, while the rest of the fashion industry is forecasted to land between negative two to three percent.

**5-10%**  
Projected YoY Growth

The luxury market will likely be the primary driver of growth for the [fashion industry](#) in 2023.



### Off-Price

Off-price retailers can expect to have a strong 2023 as consumers “trade down” from full-price. (Off-price includes retailers like TJ Maxx, Marshalls and Burlington Coat Factory.)

**63%**

Of U.S. adults [reported](#) shopping at discount stores to save money.

**72%**

Of U.S. adults [reported](#) looking for deals and coupons.

### Wholesale

Wholesale apparel sales continued to see year-over-year decreases moving into 2023. In early Q1, brands with high exposure in wholesale channels pushed harder into direct-to-consumer efforts to clear inventory.

**-8.7%**  
Projected YoY Growth

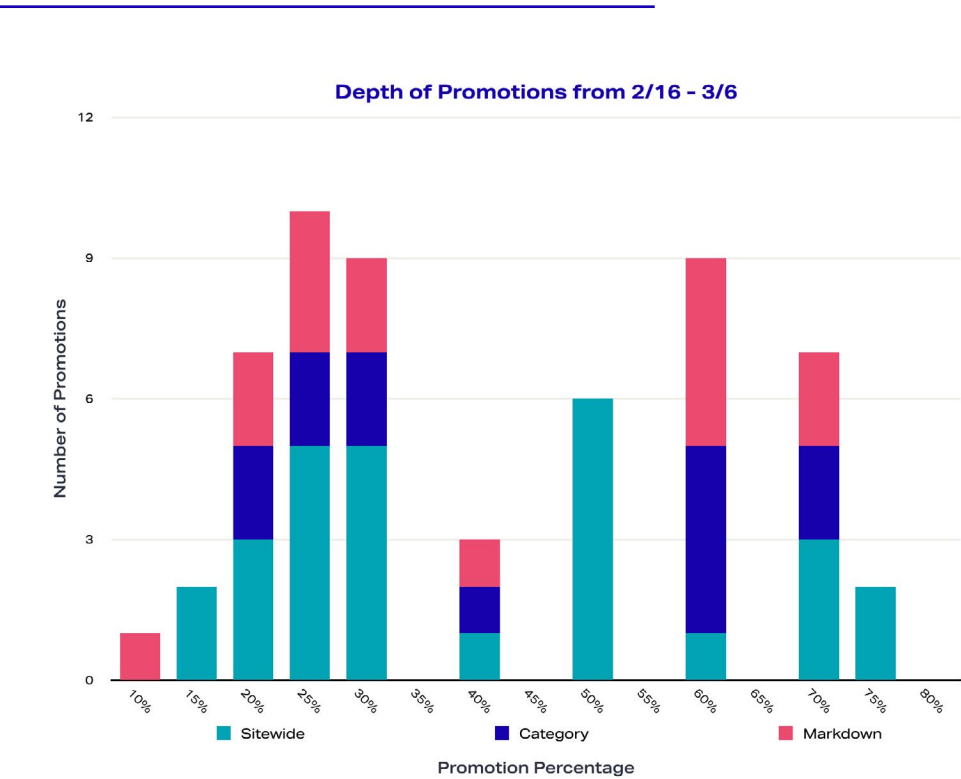
January monthly **apparel wholesale sales** [decreased](#) 8.7 percent year-over-year and -0.6 percent [month-over-month](#).

**36.2%**  
YoY

Monthly **apparel wholesale inventories** are up 36.2 percent year-over-year. In January, inventories came down 5.5 percent [month-over-month](#).

## Promotion Trends

At the beginning of Q1, retailers utilized promotions to clear inventory, with a majority of promotions layered across existing clearance product. Brands shifted promotions to full-price items during President’s Day Weekend and, while promotions have naturally eased in the weeks following the holiday, full-price is still the primary promotion offering as of early March. The holiday’s most popular site-wide discount of ‘Up to 50% off’ continues to be the most offered discount at this time.



Up to 50% off  
Average full-price discount

Up to 40% off  
Average markdown discount

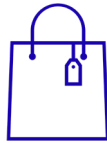
## President's Day Snapshot



87 percent of the 30 observed home and apparel brands were running a promotion during President's Day weekend.



40 percent of brands ran promotions with specific President's Day messaging. The average President's Day full-price discount offered was 60 percent with an average markdown discount of 50 percent.



While retailers primarily ran markdown and gated promotions in the weeks leading up to the holiday, the majority (80 percent) of President's Day promotion discounts were on full-price products.

Source: PMG Internal Analysis, 2023

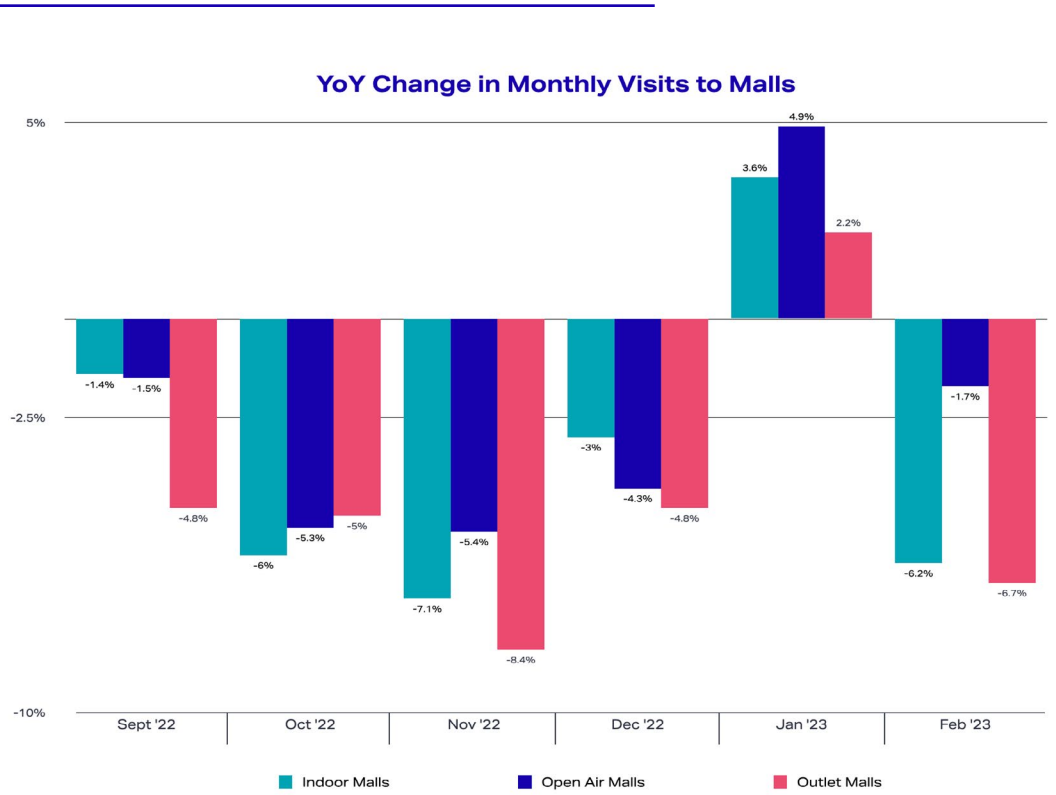
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# Foot Traffic Trends

## Foot Traffic Recovery Limited by Economic Anxiety

After mall foot traffic slightly rebounded in January, all three indexes monitored [declined in February](#), indicating that January’s year-over-year growth was likely driven by the pandemic’s effects on foot traffic the prior year. Results show how the sector’s recovery is still limited by current economic anxieties.

Even in the midst of overall declining foot traffic continuing into Q1, nearly all major urban cities in the U.S have seen domestic tourism recover after the pandemic, and retailers are continuing to expand their physical presence. However, international travel has yet to fully recover, and until then, analysts predict foot traffic to continue seeing declines.



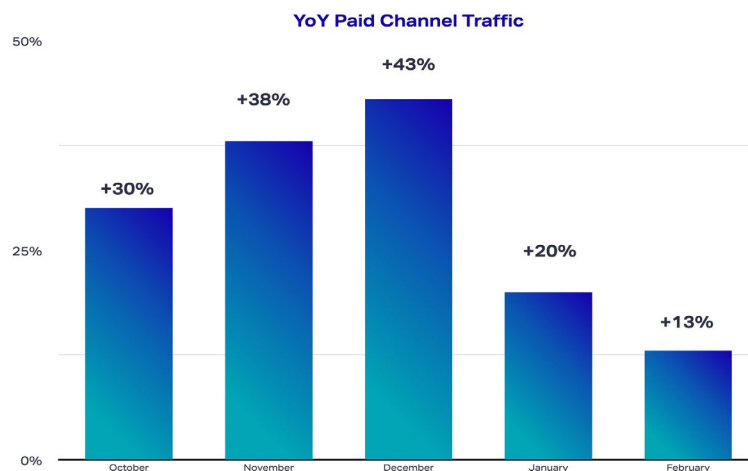
Source: [Placer.AI](#)



## PMG Retail Portfolio Trends

### Traffic Continues to Grow Year-over-year, but at a Slower Pace

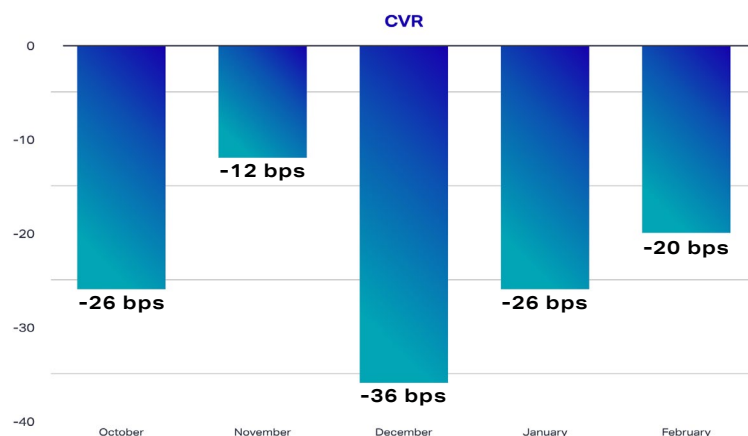
Paid channel traffic was up significantly as 2022 drew to a close, with year-over-year increases of 30 percent. While not quite as strong as Q4, traffic in Q1 has continued to post gains.



Source: PMG Portfolio

### CVR Remains Soft Through February

Conversion trends observed during holiday continued through early 2023, with existing customers primarily driving any conversion success. Early Q1 results came in softer than original plans across revenue and orders, requiring recalibration of Q1 and FY forecasts.



Source: PMG Portfolio

# The Bottom Line

**E**conomic uncertainty is expected to continue throughout 2023. With purchase consideration, discretionary spending, and brand loyalty at record lows, it's more important than ever for brands to meet customers where they are and seek opportunities to provide added value throughout the buying experience. Creating seamless brand experiences that connect with consumers should be an essential piece of any brand's marketing strategy as we look towards the rest of 2023.

1

## Protect Full-Funnel Brand Investment

**During times of uncertainty, it can be tempting to pull back on upper-funnel strategy.** Rather than cutting back, continuing to invest in a full-funnel strategy is critical to maintaining relevancy and keeping pace with consumers' ever-changing preferences and shopping behaviors. Additionally taking an agile approach to performance marketing can be integral to success in an uncertain time.

2

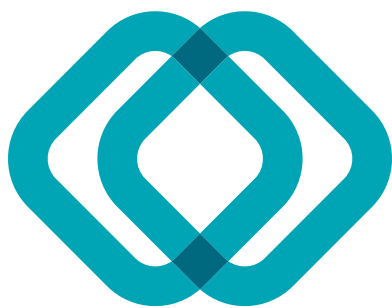
## Win the Customer Experience

**Customer expectations are at an all-time high with foot traffic rebounding, resulting in an omnichannel experience being more important than ever.** Some retailers are winning by leaning into superior service across all touchpoints and providing a truly integrated offering via connected retail.

3

## Engage New Audiences

**Balancing current audience strategies along with engaging new audiences is critical in order for brands to maintain brand awareness, capture share of voice, and ultimately create long-term growth.** Brands are activating new audiences through product strategy, investment in innovation, and platform diversification.



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