AMERICAN CHAIN OF WAREHOUSES
linking you to your markets

ACWI ADVANCE

David Sparkman, Editor | Volume 11, Issue 7 | April 15, 2023

Retail Confronts Recession Threat

Once again, the differing predictions about how retail consumers will act over the rest of the year depend on where you sit. Most industry leaders expect a healthy, if not spectacular spending trend, but other economic observers are not so sure.

On March 29 the National Retail Federation today issued its annual forecast, anticipating that retail sales will grow between 4% and 6% in 2023. In total, NRF projects that retail sales will reach between $5.13 trillion and $5.23 trillion this year.

"In just the last three years, the retail industry has experienced growth that would normally take almost a decade by pre-pandemic standards," NRF President Matthew Shay observed.

"While we expect growth to moderate in the year ahead, it will remain positive as retail sales stabilize to more historical levels."

On the plus side, employment numbers have been good during the first three months of this year. NRF also reported April 7 that imports, while down are at pre-pandemic levels.

The biggest concern right now are West Coast port negotiations with the longshoremen's union, which have stalled resulting in business interests asking the Biden administration to step in.

In regard to NRF's March 29 forecast, keep in mind that NRF's numbers do not include restaurants, gas station or auto sales.

The 2023 figure compares with 7% annual growth to $4.9 trillion in 2022. The 2023 forecast is above the pre-pandemic, average annual retail sales growth rate of 3.6%.

Non-store and online sales, which are included in the total figure, are expected to grow between 10% and 12% year over year to a range of $1.41 trillion to $1.43 trillion.

While many consumers continue to use the conveniences offered by online shopping, much of that growth is driven by multichannel sales, where the physical store still plays an important component in the fulfillment process, NRF said.

As the role of brick-and-mortar stores has evolved in recent years, they remain the primary point of purchase for consumers, accounting for approximately 70% of total retail sales.

NRF projects full-year GDP growth of around 1%, reflecting a slower economic pace and half of the 2.1% increase from 2022. Inflation is on the way down but will remain between 3% and 3.5% for all goods and services for the year.

NRF projects the unemployment rate to exceed 4% before next year. NRF Chief Economist Jack Kleinhenz noted that aggregate economic activity is maintaining despite restrictive monetary policy.

(Continued on next page)

He also acknowledged that recent developments in the financial markets and banking sector as well as some unresolved public policy issues will continue to complicate the outlook.

"It is still too early to know the full effects of the banking industry turmoil, consumer spending is looking quite good for the first quarter of 2023," Kleinhenz added. "While we expect consumers to maintain spending, a softer and likely uneven pace is projected for the balance of the year."

Others Are Less Optimistic

As we pointed out in the previous two issues, confusion reigns over what direction our "weird economy" will take, especially in the wake of threats to the banking system.

More than half of the economist members of the National Association for Business Economics who were recently surveyed believe that the U.S. will slip into a recession sometime this year.

More than two-thirds (69%) of respondents indicate they are "not very confident" or "not at all confident" that the Federal Reserve will be able to bring inflation down to its 2% goal within the next two years without inducing a recession.

Another 30% said they feel confident, somewhat confident, or very confident that the Fed will be able to achieve this outcome – popularly described as a "soft landing."

Asked which factors they believe will be most instrumental in bringing down inflation. Tighter monetary policy is cited by 71% of respondents, lower commodity prices by 44%, supply-chain realignments by 42%, and weaker output growth by 40% of respondents.

Higher productivity growth (cited by 24% of respondents) and a stronger U.S. dollar (cited by 12% of respondents) are less widely seen as instrumental by the NABE members.

Exhibiting the wide spectrum of opinions is the fact that at the other end of the spectrum, 27% of the business economists surveyed suggest that CPI inflation is "unlikely" or "very unlikely" to stay above 4% through the end of 2023.

More than seven in 10 of the economists polled in February believe that growth in the CPI will remain above 4% through the end of 2023. Also, 26% of the respondents indicate CPI inflation is "very likely" to stay above 4% through 2023, while 45% suggest it is "likely" to do so.

Taking the Consumer Temperature

Recent research by WalletHub, the consumer credit services website, show those who are doing the retail spending are pumping the brakes following healthy rates of spending in January and February.

The WalletHub Economic Index decreased by more than 8% between March 2022 and March 2023. This means consumers are over 8% less confident about their financial outlook this month than they were at the same time last year.

The WalletHub Economic Index is a monthly survey that evaluates economic prospects based on 10 components of consumer sentiment. These components revolve around how people feel about their finances, purchasing plans and their perception of employment opportunities.

In March 2023, consumers' optimism about their finances recorded a considerable decrease from the previous month, with their level of optimism having declined by nearly 11% over the past year.

In fact, consumers reported that their stress levels regarding money were considerably worse (up 8.9%) in March 2023 compared to the same period in the previous year.

The share of consumers who feel new employment opportunities are "abundant" is about 2% lower in March 2023 compared to last year. However, their confidence in having a job in the next six months is unchanged in March 2023 compared to last year.

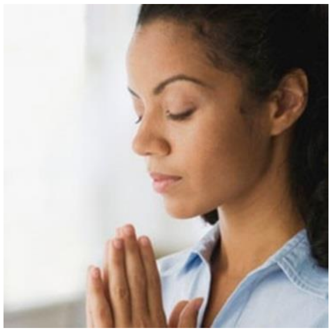
Positive sentiment about finances in March dropped by 10.7% from the previous month. Consumers told WalletHub they were 11.3% less likely to make a big purchase in the next six months.

The likelihood of consumers choosing to buy a car in the next six months slid 9.5% and they reported that the likelihood of buying a home over the same period also was down 5.4%.

Although other reports show consumer debt piling up, the share of consumers who expect to have less debt after the next six months is only slightly lower (down 1.6%) in March 2023 compared to last year.

Fed Contractor Rights Limited

The agency responsible for supervising federal contractors and subcontractors has withdrawn religious protections that had been granted to them by the Trump administration.



The regulation in question was issued in the final days of Trump's presidency. Intended to clarify the religious exemption scope, opponents of the change claimed it created confusion and potentially allowed contractors to discriminate against Gays.

The Trump-era rule applied only to religious corporations, associations, educational institutions or societies that served as federal contractors or subcontractors.

It permitted employment decisions to be based on adherence to religious tenets embraced by the contractor, even where such decisions were not consistent with antidiscrimination law.

"The return to the pre-2020 rule approach to religious exemptions will not impact most businesses that contract with the federal government," observe attorneys Christopher. Durham and Zev Grumet-Morris of the Duane Morris law firm.

"However, religious organizations who had relied on the expanded scope of the exemption under the 2020 rule should evaluate how they are considering religion and applying their religious beliefs and tenets in their employment practices – particularly if they adopted changes to their practices in reliance on the 2020 rule."

DOL's Office of Federal Contract Compliance Programs Director Jenny Yang asserted that the Trump-era rule improperly deviated from anti-discrimination law both by broadening the test for exemption beyond religious grounds and espousing "an inappropriately categorical approach" to how OFCCP handles religious freedom claims.

Laws Apply to Remote Work

Remote working seems to have taken hold in many organizations, and the Department of Labor reminds employers that federal wage and leave laws remain in force when an employee is working at home.

DOL's Wage and Hour Division issued new Field Assistance Bulletin (FAB) regarding how remote employees should be paid under the Fair Labor Standards Act and when they are eligible for leave under the Family and Medical Leave Act.

"The key takeaway from the FAB is that the rules governing when breaks must be treated as hours worked do not change just because an employee is working from home," advise attorneys Robert Pritchard and Dimitrios Markos of the Littler Mendelson law firm.

The FAB reminds employers that federal wage law defines "hours worked" as including all time spent by an employee between their first principal activity and their last principal activity of the day,

The FLSA states that bona fide meal breaks of 30 minutes or more are not considered working time. Similarly, breaks longer than 20 minutes that permit an employee to use the time for their own purposes and during which they are completely relieved of their duties are not seen as hours worked.

In the bulletin, the DOL clarifies that some kinds of breaks are not compensable regardless of the location from which the employees perform their work. For example, if a remote employee takes a 30-minute break to cook dinner or fold laundry, that break is not compensable.

"While an employer may speculate that its teleworking employees are more likely to take a greater number of short breaks throughout the day to attend to personal matters than do their in-office colleagues, the FAB emphasizes that such short breaks still constitute hours worked," Pritchard and Markos explain.

Also keep in mind that federal law now requires employers to provide new mothers with reasonable break time to express breast milk.

Inventory Rise Is Predicted

Inventories in the United States are expected to rise because last year's restocking trend has come to a screeching halt, according to the international economic advisory firm Oxford Economics.

The unprecedented strains in supply chains in recent years mean inventories were unusually lean, the company explains, adding that the resulting wave of restocking is one reason why economic growth has continued to surprise to the upside.

There are plenty of reasons behind the resilience of the economy over the past year, from the stock of excess savings to the continued strength of the labor market, the OE economists admit. But they assert that an overlooked factor unique to this cycle is the continued boost it gets from restocking by firms

"Inventory is no longer low relative to sales and – with the notable exception of the auto sector – inventories in many sectors now appear bloated," Oxford Economics says. "With sales growth slowing and interest rates rising further, we expect a sharp slowdown in inventory accumulation."

As supply chain issues eased and consumers shifted their spending away from goods toward services, real private inventories rose at an average pace of $125 billion annualized in 2022, allowing businesses to rebuild depleted stocks.

"Our base case is that inventory accumulation swings from a positive for GDP growth in 2022 to a negative in 2023, helping to drag the overall economy into recession," the firm forecasts.

The upside risk to that view is if companies decide to continue building inventories over the coming years as a buffer against supply disruptions.

This inventory bloat will exert a real influence on economic growth, the firm points out. "While inventories are likely to be a drag on the economy this year, perhaps the bigger point over the medium term is that, thanks to the supply shortages of the past few years and growing U.S.-China tensions, inventories are re-emerging as a large source of volatility in the GDP statistics."

ACC Stresses Railroad Safety

The American Chemistry Council told the Senate Commerce Committee its members support the proposed Rail Safety Act and outlined the organization's railroad safety agenda.

ACC supports a multi-layered approach to hauling hazardous materials by rail, which includes a range of measures, President Chris Jahn informed the committee.

This includes reducing derailments and other accidents; minimizing the risk a rail accident will result in the release of hazardous materials; and strengthening emergency response and mitigating the impacts of any railroad hazmat incident that does occur in the future.

Jahn noted that shippers have made significant investments in recent years to upgrade their fleets and are currently working toward a mandated replacement of tank cars used to transport Class 3 flammable liquids by 2029. ACC supports an earlier phaseout deadline for these cars based on the rail equipment industry's tank car manufacturing and retrofit capacity.

ACC also encourages the development of federal standards for the placement and operation of railcar defect detecting equipment. These should be risk- and performance-based, and allow for continued technological advancement, Jahn said.

The council supports expanding the types of hazmat shipments that must be reported in advance to state agencies. It also backs increasing registration fees paid by hazmat shippers and carriers in order to fully-fund federal grant programs designed to assist emergency response planning and training.

"It is critical that emergency responders have the information, training, and resources they need to respond to a rail incident, particularly one involving hazardous materials," Jahn stressed.

SC Leaders Pursue Optimization

A new report released by MHI and Deloitte finds that 74% of supply chain leaders are increasing their supply chain high technology and innovation investments with 90% saying they are planning to spend over $1 million, an increase of 24% over last year, and 36% say they plan to spend more than $10 million, which is up 19%.

These investments include solutions for improved supply chain transparency and sustainability, according to the 2023 MHI Annual Industry Report.

As a result of these increased investments, MHI says that adoption of the 11 categories of technology covered in the report is predicted to rise dramatically over the next five years.

These include inventory and network optimization (87%); cloud computing and storage (86%); sensors and automatic identification (84%); advanced analytics (82%); wearable and mobile technology (80%); robotics and automation (78%); 3D printing (75%); Artificial Intelligence (73%); Internet of Things (68%); blockchain (68%); and driverless vehicles and drones (66%).

"Responsible supply chains must react in real-time to changing conditions, this requires actionable data, automation and automated decision-making," says John Paxton, chief executive officer of MHI.

"Investments in automation and other digital solutions like IoT, advanced analytics and AI not only arm your operations with speed, accuracy, and improved visibility. These solutions enable the real-time decision-making and transparency necessary for reporting and improving performance up and down the responsible supply chain," he stresses.

Once again, hiring and retaining qualified workers (57%) and the talent shortage (56%) were the top supply chain challenges cited by survey respondents. However, this was followed closely by supply chain disruptions (54%), out-of-stock situations (52%) and customer demands (52%).

The worker shortage is spurring companies to invest in technologies that not only improve agility and efficiency but also reduce the need for repetitive, manual labor. These investments create the kind of advanced technology environment that results in more rewarding supply chain jobs that appeal to today's top talent, according to the MHI report.

"This could provide a new path to upskilling current employees and attracting new talent – creating a more modern, capable workforce that can quickly adapt and adjust to changes in the technology and market landscape."

MHI also said that 41% of respondents are reskilling/upskilling workers for emerging technologies, 34% are recruiting for skillsets for future needs and 27% are working to create a culture of innovation.

"Tech investment is only part of the equation," Paxton notes. "Having an innovative culture and the right people in place to implement innovation and to bring it all together to exceed your customer demands and expectations – whether they are fast delivery, personalization, low cost, delivery transparency or sustainability goals."

To prepare for supply chain disruption and build transparency, collaboration is key, MHI explains.

"Company leaders understand that planning for digital supply chain investments now is the only way to create a strategy to win the future – a future where supply chain disruption will be the norm. As a result, 49% are partnering with vendors to understand application/benefits and 31% are piloting new technologies."

In the past, companies could succeed by primarily collaborating with a small set of suppliers and distributors. MHI adds. "However, the supply shocks of the past few years vividly illustrated that a broader approach for collaboration and data sharing is needed to achieve true transparency, sustainability, and resiliency."