

THE LOOMING RETAIL BAILOUT

Think America's retail industry is hurting now?
It's about to get way, way worse—and these nine charts prove it.

BY GEORGE ANDERS

While the economy *finally* seems to have recovered from the Great Recession, complete with discussion of full employment and rising wages, the memo must have missed the retail industry, where top executives of Macy's, J.C. Penney, Office Depot and the like pepper quarterly analyst briefings with terms like “softening trends,” “disappointing” and “not satisfied.” Since January, at least a dozen shrinking retailers have announced nearly 3,000 store closings. Even well-regarded companies such as Nordstrom see their shares trading at barely half their 2015 highs.

Trying to explain their plight, retail executives like to cite hard-to-control factors, such as changing consumer preferences and aggressive moves by the industry's six-letter word, Amazon. They argue that retrenchment and better luck at merchandising will turn things around quickly. A close look by *Forbes*, however, reveals that retailing's troubles run far deeper, largely because of three big, self-inflicted problems. The charts that follow show the painful consequences of retailing's bare-bones pay habits, a chronic inability to innovate and an ill-timed rush into the high-debt world of private equity ownership.

For many, these problems won't be fixable. In the short term, expect more store closings, half-empty malls, layoffs and liquidations. In a classic Schumpeterian cycle, new and better-run retailers would emerge, benefiting the shopping public and the overall economy. The problems for the brick-and-mortar chains, however, seem so entrenched that the entire retail infrastructure could collapse. And while there's little support for a retail bailout—especially when Amazon and its ilk make it look so easy—Greg Petro, head of the retail consulting firm First Insight, notes that the closely linked businesses of retail, restaurants and grocery stores employ 28 million people, far more than the U.S. auto industry. Racks of unsold yoga pants won't seem so frivolous if the consequences include broken leases, soaring commercial vacancy rates and a real estate sector that falls behind on its debt payments.

It's hard to see how debt forbearance and job guarantees would fix the problems of any industry that refused to innovate or provide its workers with any realistic path to financial success, but that may not stop politicians—who already subsidize retail's workforce to the tune of many billions of dollars—from promising quick fixes, anyway.



ney

STORE CLOSING!

BIG K mart

SEARS

BCBGMAXAZRIA

STORE CLOSING

STORE CLOSING!

STORE CLOSING Sale!

American Apparel®

STORE CLOSING! AT LEAST

STORE CLOSING EVERYTHING MUST GO!

STORE CLOSING EVERYTHING MUST GO!

REDUCED STORE CLOSING EVERYTHING MUST GO!

Footless ShoeSource

Office DEPOT

STORE CLOSING



EASTERN MOUNTAIN SPORTS

BUY ONE GET ONE 1/2 OFF EVERYTHING go

4.99 7.49

STORE CLOSING NO HING IN WELD BACK!

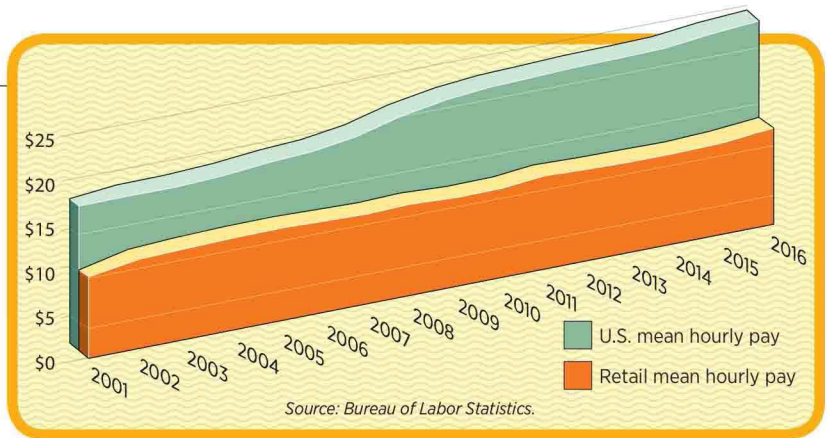
JUNE 13, 2017 FORBES

EVERYTHING MUST GO! STORE CLOSING

RETAIL BAILOUT

CHEAP LABOR HAS BECOME A WAY OF LIFE

About 4.5 million people in the U.S. work as retail salespersons. It's a tough way to make a living. These workers earn about 55% of the average U.S. wage. And it's been getting worse: In 2001, that figure was 62%. These are already lousy jobs. Given the decent employment market, struggling retailers won't make up shortfalls by cutting wages.

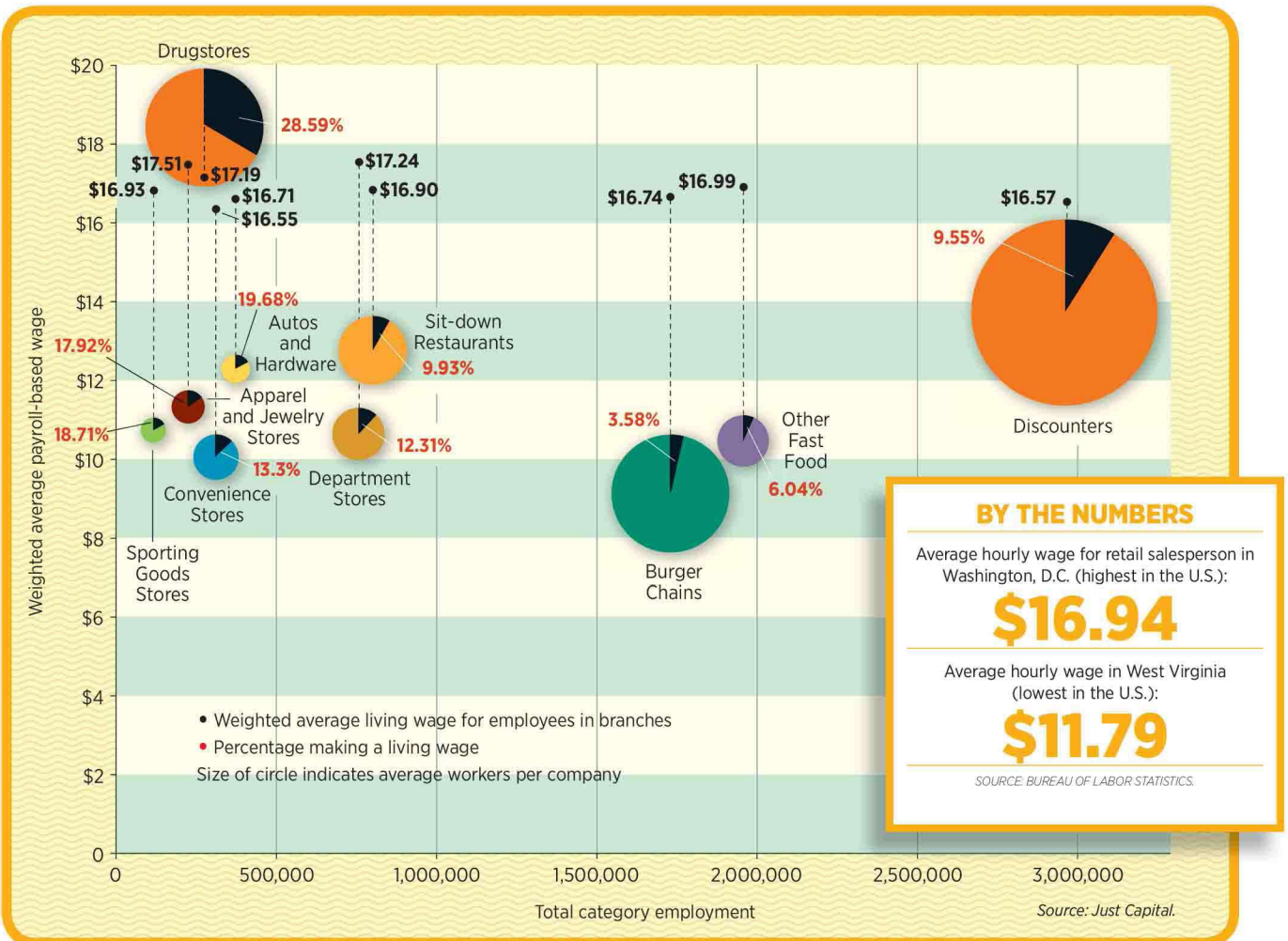


MANY RETAILERS NOW PAY BELOW A LIVING WAGE

MIT economist Amy Glasmeier has modeled the earnings that different-size families would need to pay for food, housing, transportation, clothing and personal effects on their own, without government help. Her "living wage" model doesn't include vacations, savings or other nonessentials.

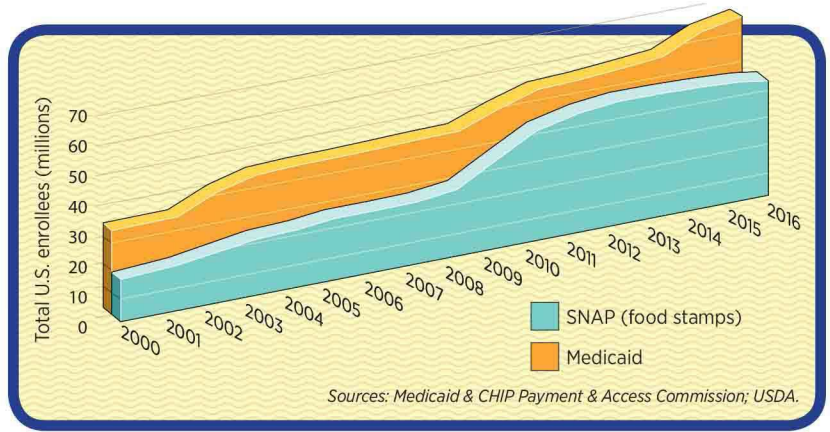
Drawing on salary data from Glassdoor, analysts at New York-based Just Capital tested the degree to which typical pay for different retail sectors compares with Glasmeier's norms. They found that between 71% and 96% of the time, depending on the sector, retail workers failed to earn a living wage on average.

The examples below all assume a family of three, with one adult working full-time, another working part-time and a child to support. Given the number of single-parent households and those with larger numbers of children, these figures are likely quite conservative.



FAST-GROWING GOVERNMENT AID FILLS THE GAP . . .

Since 2000, the U.S. population has grown about 15%, but the number of people receiving food stamps (formally known as the Supplemental Nutrition Assistance Program) has climbed 157%. Medicaid enrollment has doubled. Just Capital estimates that the retail industry gets the equivalent of a multibillion-dollar annual subsidy from the federal government because of the income-boosting effects of SNAP, Medicaid and other programs on retail employees' finances.



BY THE NUMBERS

Current minimum wage in the District of Columbia, highest in the U.S.:

\$11.50

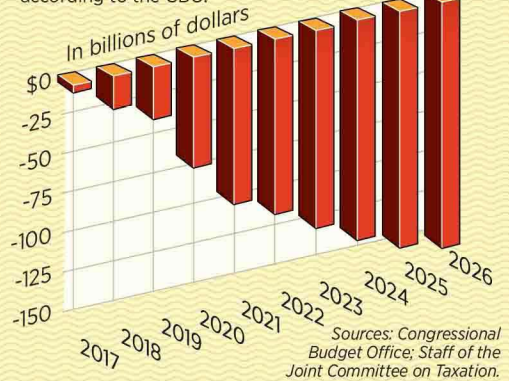
Legislated minimum wage in California for 2022:

\$15.00

BUT GOVERNMENT LARGESSE IS IN DOUBT

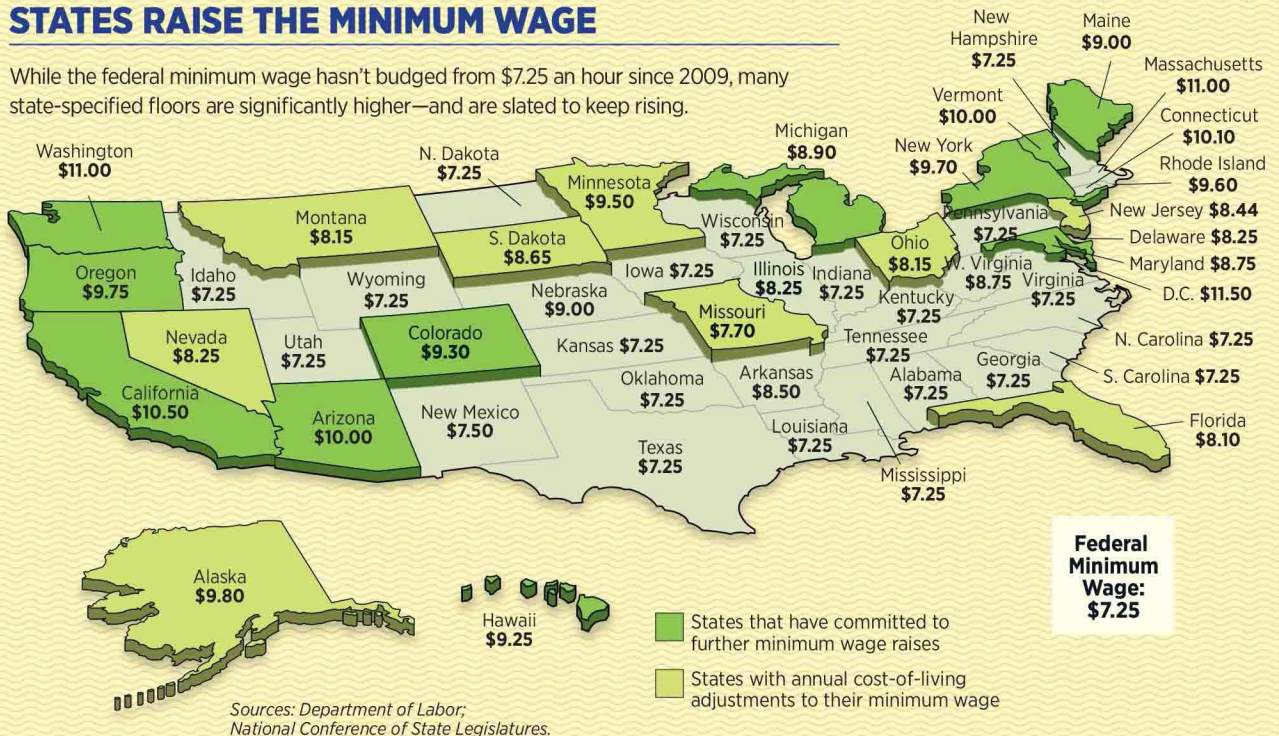
In April, Agriculture secretary Sonny Perdue told senators he wants to see SNAP's food stamps administered "more efficiently and effectively." It's anyone's guess how Congress and the Trump administration will ultimately resolve health care debates, but Medicaid cuts are an important part of many reform proposals.

Expected effect of an early version of Trump's health care bill on Medicaid outlays, according to the CBO.



STATES RAISE THE MINIMUM WAGE

While the federal minimum wage hasn't budged from \$7.25 an hour since 2009, many state-specified floors are significantly higher—and are slated to keep rising.

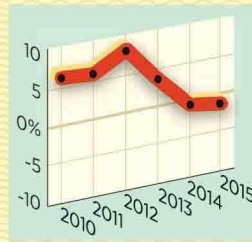


MEANWHILE, RETAIL PRODUCTIVITY HAS STALLED

Retailing—like much of the U.S. economy in the past decade—has been afflicted by dwindling growth in output per worker, i.e., productivity. One big exception: online retailing, where increased efficiency yields rich payoffs. More bad news for the brick-and-mortar retailers, where the problem is centered.



Auto Parts



Furniture & Home Furnishings



Grocery Stores



Health/Personal Care



Clothing Stores



Shoe Stores



Sporting Goods



Department Stores

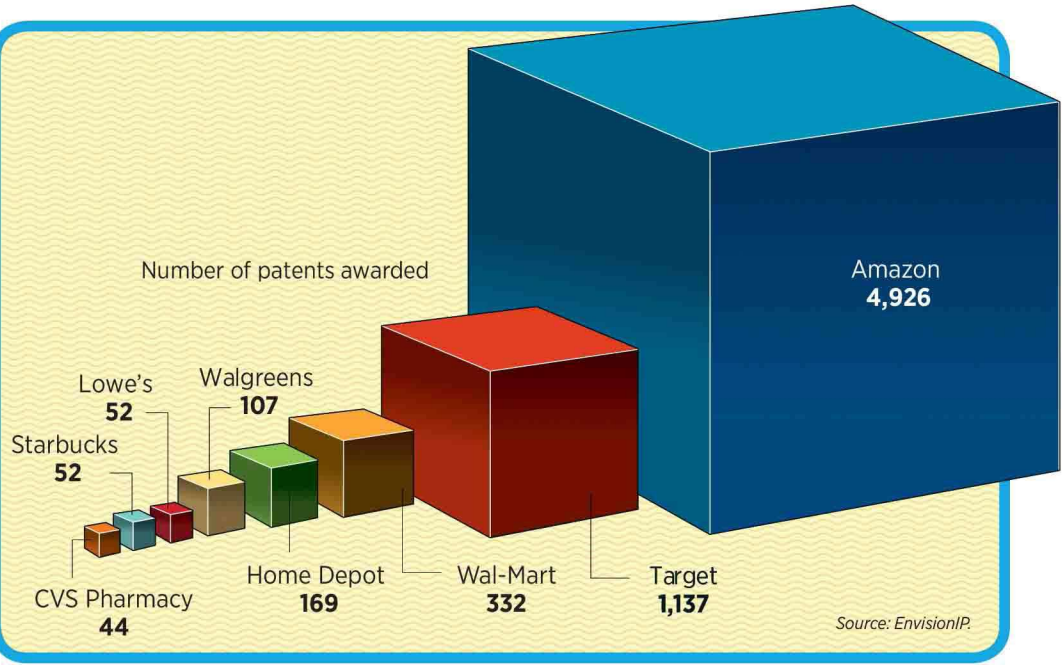


Online & Mail-Order

Source: Bureau of Labor Statistics.

THERE'S LITTLE INNOVATION OUTSIDE OF AMAZON

Retailers file patents so rarely that the U.S. Patent Office doesn't even publicly track them as a distinct industry. The big exception is Amazon, the online-retailing pioneer, which has won nearly 5,000 patents since its founding in 1994. Its inventions cover everything from organizing search-engine results to ensuring that warehouse robots don't bump into human workers.



Source: EnvisionIP.

BY THE NUMBERS

The face value of “distressed” bonds—with credit ratings of triple-C or below—issued by retail and apparel companies, according to Moody’s Investors Service:

\$3.7 BIL

The number of retail and apparel companies that have issued such bonds. The total is the highest since the recession year of 2009:

19

An inability to pay distressed retail bond debt could trigger restructurings or default. The amount of distressed retail bond debt obligated to be repaid by year-end 2018:

30%

PRIVATE EQUITY DEALS CREATE DEBT WORRIES . . .

PetSmart. Neiman Marcus. J. Crew. These retailers and many others have gone private or recapitalized via private equity deals, taking on extra debt in the process. When operating results are strong, debt gets paid down and investors win. But the current climate, in conjunction with the previous lack of investment in innovation, threatens to push numerous retailers into a debt-driven death spiral.



LEADING TO A SURGE IN CHAPTER 11 AND CLOSINGS

At least 12 retailers have announced sizable store-closing plans since the start of 2017. As of May 5, 19 retailers have sought Chapter 11 bankruptcy protection from creditors this year, already surpassing the number of filings (18) for full-year 2016.

