

RETAIL CLIMATE

OPTIMISM OUTSHINES REALITY



As they enter 2017 with a new, pro-business administration in Washington, D.C., grocery retailers are feeling more optimistic than they did at the dawn of 2016.

With the exception of 2015, when retailers — and consumers — really began shaking off the post-recession blues, optimism hasn't been this high for more than five years. Just slightly more than a quarter — 26.2 percent — of respondents are feeling less optimistic.

A limited labor pool, perhaps further threatened by immigration reform, as well as the proposed Border Adjustment Tax (BAT) is curbing enthusiasm for the coming year. Food Marketing Institute, the National Grocers Association, BJ's Wholesale, Target, Meijer and Walmart are among the organizations that have joined

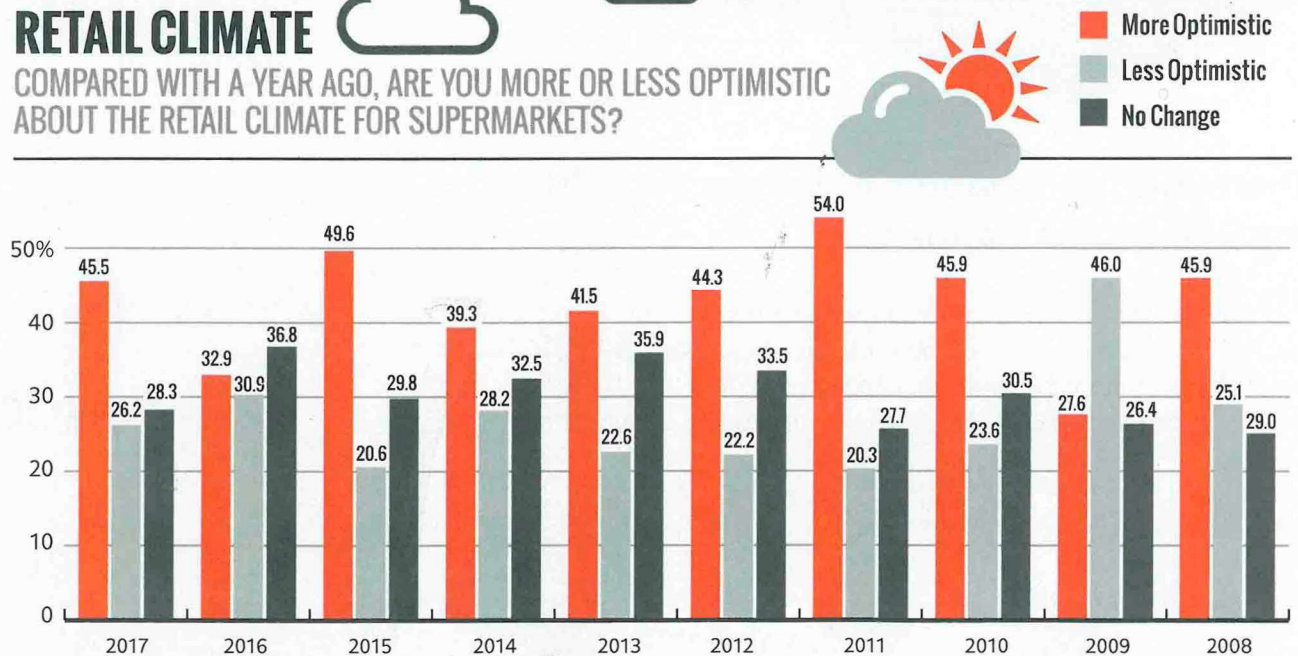
the newly formed Americans for Affordable Products (<https://keepamericaaffordable.com/>) coalition to combat the BAT, which the National Retail Federation forecasts will cause prices to rise 15 percent, costing the average American family an extra \$1,700 a year.

While positive in appearance, performance measures aren't a full picture of industry sentiment. Per-store sales volume was up 1.9 percent in 2016, compared with just less than 1 percent in 2015. These figures translate to an average per-store sales volume of \$17.39 million in 2016, up from \$17.08 million in 2015. Square footage and number of checkouts were also up slightly, painting a rosy picture of growth and the freedom with which consumers are spending.

Nielsen's TDlinx reports total grocery industry growth of 3 percent in 2016, which is based on a sales

RETAIL CLIMATE

COMPARED WITH A YEAR AGO, ARE YOU MORE OR LESS OPTIMISTIC ABOUT THE RETAIL CLIMATE FOR SUPERMARKETS?



Source: Progressive Grocer Market Research, 2017



BATTLING BAT

Americans for Affordable Products launched a campaign to fight the proposed BAT.

increase of 1.9 percent as well as the 1.1 percent increase in store count. But the combination of more stores — a great percentage of which are deep discounters — and current price deflation (which includes lowered egg and meat price adjustments after avian flu and drought a few years back) have definitely softened prospects for many retailers. The retail forecast for 2016 was 69.3 on the optimism scale, but on reflection, retailers rated the year a 62.5.

Still, those pressures aren't holding them back for 2017, with retailers again rating the coming year a 68.6 on a scale of 100. These numbers have been increasing since the low of 58.4 in 2009, when the country was feeling the full impact of the recession.

Retailers might also be buoyed by the Conference Board's Consumer Confidence Index, which hit a high of 114.8 in February 2017, up from 111.6 in January, and the highest since July 2001. With "improved ... short-term outlook for business ... consumers expect the economy to continue expanding in the months ahead," according to Lynn Franco, director of economic indicators at the Conference Board.

Still, the industry will be balancing the high expectations of shoppers with the reality of major retailers, including Kroger and Target, which are reporting diminished gains due to the aforementioned deflation and competitive woes, including ecommerce. ●

THE BOTTOM LINE

HOW WAS 2016? HOW ARE PROSPECTS FOR 2017?

Rated on a scale of 0-100, where 0=Awful, 100=Sensational

2017 Forecast	2016	2015	2014
68.6	62.5	68.1	66.3

Source: Progressive Grocer Market Research, 2017