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US importers still destocking, and delaying restocking in uncertain economy

Retail shippers running into slowing consumer demand are trying to "de-risk" inventory while optimizing distribution networks to lower costs. Photo credit: Brett Hondow / Shutterstock.com.

William B. Cassidy, Senior Editor | Jun 7, 2023, 10:52 AM EDT

Shippers eager to see a switch from inventory destocking to restocking may have a long wait ahead. Restocking activity looks scant in a season already expected to be weak, with retailers signaling they will be cautious with new orders in the run-up to the Labor Day weekend and back-to-school sales.

Retailers are finding it harder to predict what consumers will buy and when. "Despite buying [being] down significantly for this spring, seasonal sales have lagged our plan and caused us to be over-inventoried again," Jonathan Ramsden, executive vice president and CFO of Big Lots, said during a May 26 earnings call.

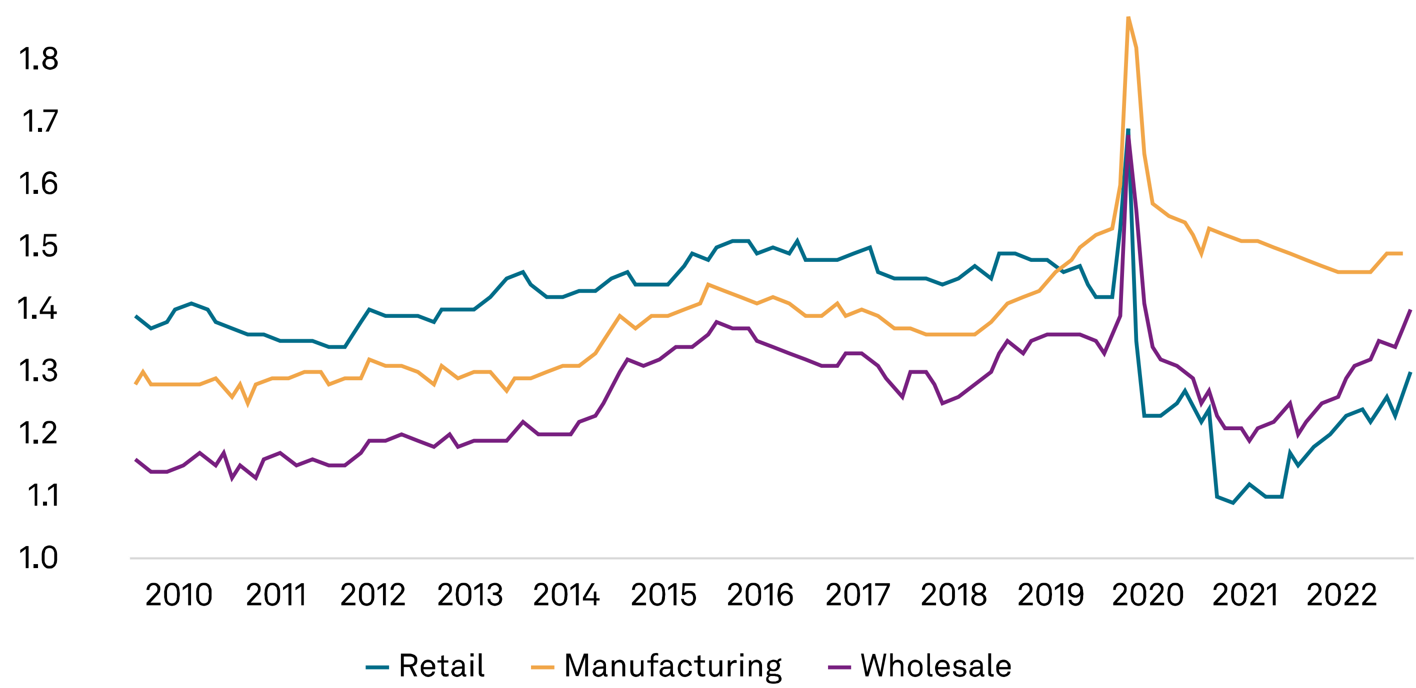
The Great Destocking of 2023 is far from over, and real restocking is still over the horizon, Jason Miller, associate professor of logistics at Michigan State University, said in an interview. “We’re in a trough, in a market that feels 2016-ish,” he said, referring to the deep freight recession that occurred that year. “It’s difficult to see what shock to the system could start activity.”

What’s missing is the “explosive demand” of the past two years, as the National Retail Federation (NRF) said in a recent statement. Current consumer demand is tepid and fits a pattern closer to pre-COVID seasonality. That’s dampening freight demand across modes.

“Our lower-income consumer has been hurt by inflation and by lower tax refunds and higher interest rates and their confidence has been shaken by banking failures,” Bruce Thorn, president and CEO of Big Lots, told investment analysts. Consumers haven’t stopped spending, but consumption is slowing.

Personal consumption expenditures on goods rose 3.6% in April year over year, according to the US Bureau of Economic Analysis. But that’s a step down from the 6.3% increase in spending on goods in April 2022, when many retailers were rushing goods to the US and building up inventories.

US retail, manufacturing, and wholesale: sales to inventory (Census Bureau)



Source: US Census Bureau

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“What we’re seeing is normal seasonality,” said David Spencer, vice president of market intelligence for Arrive Logistics, a third-party logistics provider. “There’s some reason to be optimistic about retail imports improving, but I don’t think anything beyond steady growth from pre-pandemic levels.”

The NRF/Hackett Associates Global Port Tracker forecast does show the year-over-year gap in retail imports narrowing through September, but Hackett Associates believes US imports in 2023 will remain below year-ago levels until consumer inflation rates drop and surplus inventories are reduced.

Destocking differences

As Big Lots and other retailers are finding, right-sizing inventory in this uncertain market is similar to trying to hit a moving target, and often multiple targets, while the ground is shaking. How far destocking has gone may depend on the type of company and the type of products it sells or ships.

“In general merchandise, the situation is certainly better than it was at this time last year,” Miller said. “We are looking at inventory-to-sales ratios that are back at 2017 levels. But a lot of retailers are anticipating a fairly weak holiday season so they will be conservative” when it comes to orders.

Building materials and garden supply retailers, however, have inventory-to-sales ratios still above pre-pandemic levels. In March, their inventory-to-sales ratio was down only 0.2 percentage points from its November high of 1.99, well above the last pre-pandemic high of 1.86 in October 2019.

“Wholesalers of apparel have inventory-to-sales ratios 30 to 40% above pre-COVID levels,” Miller said. “From an import perspective, wholesalers matter as much as retailers. It’s very difficult to make a case that is bullish on import volumes right now. The restocking argument has fallen apart a little.”

US importers across the board are aggressively managing not just inventories but their supply chains, said David Menzel, president and COO of Echo Global Logistics. “There’s an absolute emphasis on getting costs normalized,” he said in an interview. “It’s not just rates, it’s optimization.”

At Big Lots, that optimization included shutting down four distribution centers to remove excess capacity and reduce costs. The retailer is looking for savings in a wide range of areas including transportation, inventory allocation and optimized omni-channel distribution.

Retailers are also struggling to identify the right products to move to shelves. For crafts retailer Jo-Ann, that meant "de-risking" in the right areas, "primarily our seasonal categories" and more reliance on core year-round products, Chris DiTullio, chief customer officer, said Monday.

"We have made strategic pullbacks in higher-risk seasonal categories," he told analysts during an earnings call. The company saw positive sales growth in its core craft and sewing area in the quarter that ended April 29, DiTullio said, which will help the company adjust to market demands in the second half.

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