



U.S. RETAIL SERVICES

September 19, 2011

Retail TrendWatch

Consumer Credit Quality and its Impact on Retail Sales in a Bifurcating Market

Consumer credit quality has improved throughout 2011, and at a much faster rate than many anticipated. Household financial obligations continue to decrease allowing consumers to allocate a higher percentage of their disposable income to debt pay down. Coupled with more stringent consumer credit qualification requirements, consumers have been able to reduce overall loan delinquencies, decreasing the overall number of bankruptcy filings.

What does this mean for retail? Continued improvement in consumer credit quality is forecasted to have a positive impact on quarterly retail sales, which are projected to increase by approximately 19% by 2014. Despite a possible short term slowing of retail sales growth due to ongoing uncertainty in the job market, still volatile stock portfolios, and recent concerns of a double-dip recession, the improvement in consumer credit quality will likely translate into sustained long term growth.

In this context, the bifurcation of the retail market is expected to continue, and likely widen. According to the *Gini Index*, a widely accepted measure of income inequality, the gap between high income and low income households in the US continues to grow while America's middle class contracts. This "barbell of prosperity" has implications for all retail categories from apparel to consumer products as the high end luxury and low end discount segments continue to grow and thrive while the middle market segment shrinks.

Luxury retailers are primary beneficiaries of this trend, resulting in higher rents along high streets in gateway cities throughout the World. According to Cushman & Wakefield's recently released *Main Streets Across the World* report, over 81% of the 63 countries surveyed recorded prime rents increasing or remaining stable from June 2010 to June 2011.

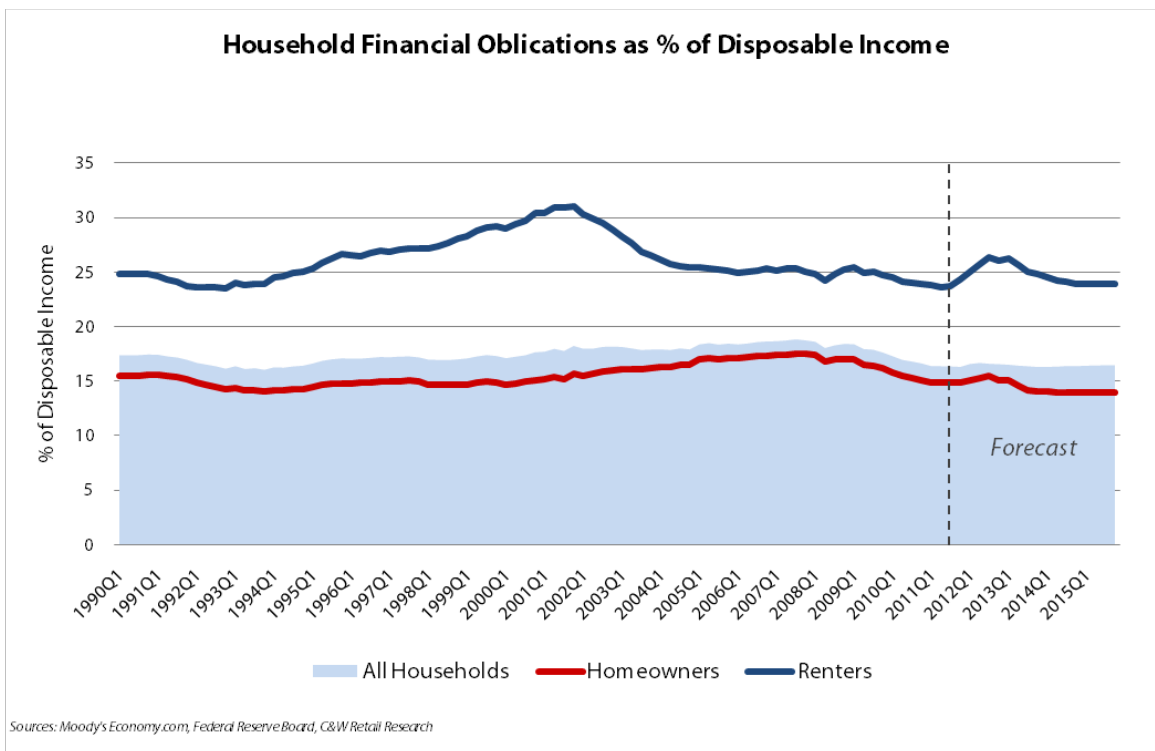
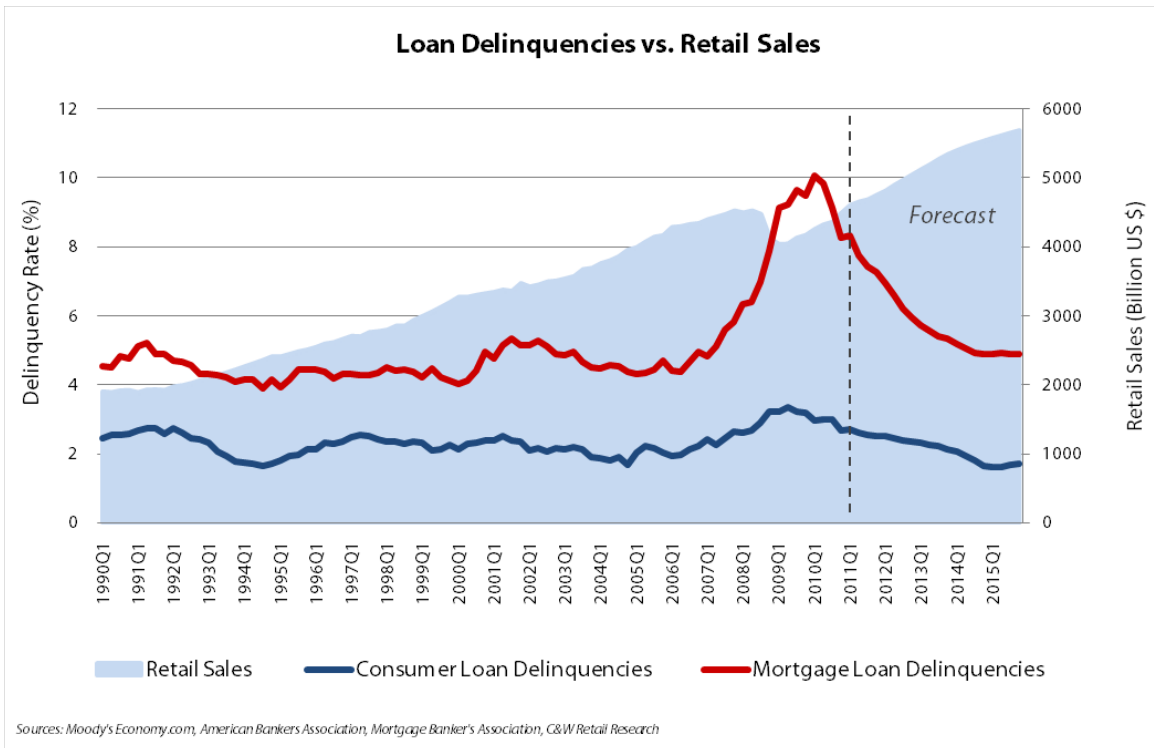
Continued growth in the market for discount retail and lower priced products is expected as well. According to a recent Booz & Co. survey, 55% of US consumers now define themselves as "spend shifters" meaning they are spending on "needs and not wants" and



are buying lower priced (and at times lower quality) goods to save money and reduce credit card spending. This trend will continue to have a positive impact on warehouse clubs, outlet malls and apparel retailers like Nordstrom Rack and TJ Maxx.

THE BOTTOM LINE:

Improving consumer credit quality will translate into sustained retail sales growth within an increasingly bifurcated market.



THE FACTS

- Household financial obligations as a % of disposable personal income are at their lowest levels since 1994 for both homeowners and renters.
- According to Equifax, Inc., the average U.S. credit score recently increased to 696, the highest in nearly 4 years.
- Consumer loan delinquency rates (2.6%) are at their lowest levels since 2007, and are expected to continue on a downward trend and forecasted to reach lows of 1.7% by 2014.
- Mortgage delinquency rates (7.8%) are at their lowest levels since 2008, and are expected to continue on a downward trend. Although not expected to reach 1994 lows of 3.9%, delinquencies are expected to drop as low as 4.8% by 2014.
- A reported 1.41 million personal bankruptcies were filed in second quarter 2011, the lowest since early 2009.

THE HEADLINES:

[Study: Consumer Credit Markets Healing Post-Recession](#)

FoxBusiness | August 30, 2011

[Consumer Credit Scores Improve – Highest in 4 Years](#)

Bloomberg News | July 6, 2011

[Times Topics: Credit Card Industry](#)

New York Times | May 20, 2009

[Consumers Hit Savings to Repay Debt, Purchase Durable Goods](#)

Housing Wire | August 29, 2011

[How Consumer Credit and Retail Sales are Helping to Stall the U.S. Economy](#)

Business Insider | August 9, 2011

[Fitch: Credit-Card Charge-Offs Up In August, Reverse 4-Month Decline](#)

Wall Street Journal | September 9, 2011

[As Middle Class Shrinks, P&G Aims High and Low](#)

Wall Street Journal | September 12, 2011

[Retail Sales and Producer Prices Unchanged in August](#)

New York Times | September 14, 2011



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