

SPOTLIGHT



THREATS & OPPORTUNITIES IN THE RETAIL SECTOR

Retailers the world over are feeling the effects of the financial crisis. Unable to access credit, they are taking a much closer look at their balance sheets, hoping that some basic structural changes will allow them to outlast the drought. This is serious enough, but everyday consumers are also suffering, forcing retailers into making price cuts that they and their cashflows can ill afford. This effect is discernible on both sides of the Atlantic, but there are notable differences between some of the major concerns faced by retailers in North America and the UK.

In brief: the US retail slowdown and its impact on the global economy

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To say that the performance of the US retail sector in 2008 was 'bleak' is a dramatic understatement. As discretionary income for US consumers was in short supply resulting from a tightening of available credit, increased unemployment and a sharp decline in home values – a primary component of most Americans' assets – retail sales (particularly during the holiday season) were dismal, with December sales declining 3.1 percent from the previous year. ('Sharp decline in US retail sales',

news.bbc.co.uk, 14 January 2009.) The lingering credit crisis, coupled with poor sales, led to bankruptcy filings and the eventual liquidation of a number of large US retailers, including Circuit City, Mervyn's, The Sharper Image and Linens n' Things. Rumours of additional US retail bankruptcies and liquidations are pervasive.

While the weakness of the retail sector has sent ripples through the US economy, the effects of this crisis are by no means isolated to

the US. Indeed, the struggles of US retailers will have a profound effect on the global economy for months, if not years, to come. As US retailers struggle under the weight of current inventory levels, their demand for additional inventories, most of which are imported, will continue to decline in the near term ('Shipments to US stores likely to drop 11.8%', *The Financial Times*, 8 February 2009). A decrease in US inventory demand will necessarily lead to decreased production activity by foreign

manufacturers, undoubtedly having a measurable impact on a number of foreign economies – particularly in Asia, Eastern Europe and South America, which depend heavily on US retail demand.

Is the end in sight? So long as US consumers continue to be saddled with debt and declining home prices, and until the credit markets are opened up to struggling retailers, the unfortunate answer is 'no.' While the bailout of US financial institutions, as well as the eco-

nomics stimulus package, which was widely debated by the US Congress, ultimately may provide some relief to the retail sector, the efficacy of such measures must be viewed with a healthy dose of scepticism. Indeed, our current economic woes may be a harbinger of a new American consumer model akin to our European and Asian counterparts, in which saving takes precedence over spending, and in which the tightening of consumer credit causes Americans to take a more measured approach

in relation to discretionary purchases. If so, our overseas trading partners will be forced to accept the fact that demand for consumer goods may stagnate for the foreseeable future. ■

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