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Sector Morsel

Taking stock of retail inventories

21 February 2024

Key takeaways

- The pandemic and subsequent waning of consumer demand for goods saw US retailers' inventory positions fluctuate. In early 2023, they found they had too much stock on their hands, adding to downward inflationary pressure. But where do we stand at the start of 2024?
- We use a Bank of America corporate dataset to track US retailers' payments to transportation companies as a proxy for their orders to suppliers. Our data suggests the inventory/sales ratio could be close to levelling off.
- This matters as it could mean the downward pressure on goods price inflation from destocking may be a thing of the past.

Retail inventory gyrations

Navigating supply chain disruptions was a big challenge for retailers during the pandemic. First, the lockdowns, along with fiscal stimulus, turbo-boosted the demand for consumer goods to a level that retailers were hard-pressed to meet. As Exhibit 1 shows, by April 2021, the total inventory-to-sales ratio at US retailers dropped to just 1.1 compared with the 2018-19 average of 1.46, according to data from the Census Bureau.

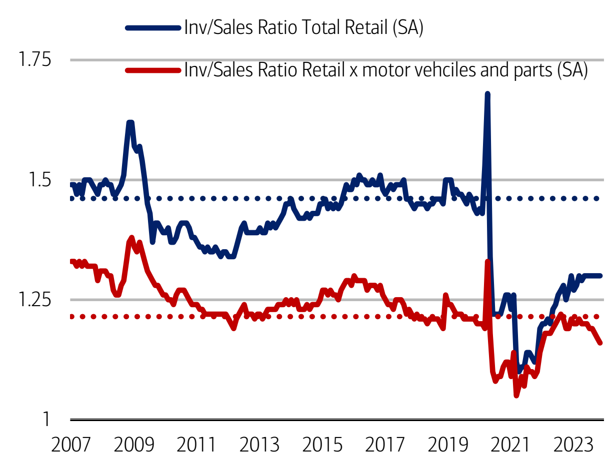
But that wasn't the end of the problem. The subsequent orders placed by retailers to manufacturers to meet demand and restock gummed-up the global supply chain, leading to long shipping delays and escalating freight costs. Gradually, as supply chain issues eased, orders were met and inventories climbed during 2022.

Then, as we moved into 2023, retailers had a new problem on their hands – too much stock, some of which was now out of season. The rise in the inventory/sales ratio was highest for clothing retailers (Exhibit 2). And, worse still, the consumer in 2023 pivoted away strongly from goods and towards services, such as travel, restaurants and live events.

However, over 2023, it appears that outside of motor vehicle sales and parts, most retailers made solid progress in 'right-sizing' their inventory positions, with relatively little change in the inventory/sales ratio between November 2022 and November 2023 (red line in Exhibit 1 and sector detail in Exhibit 2).

Exhibit 1: The inventory rebuild in 2022 arguably went too far given retail demand was soft in 2023

Inventory-to-sales (I/S) ratio: Total retail (seasonally adjusted, %)



Source: Census Bureau

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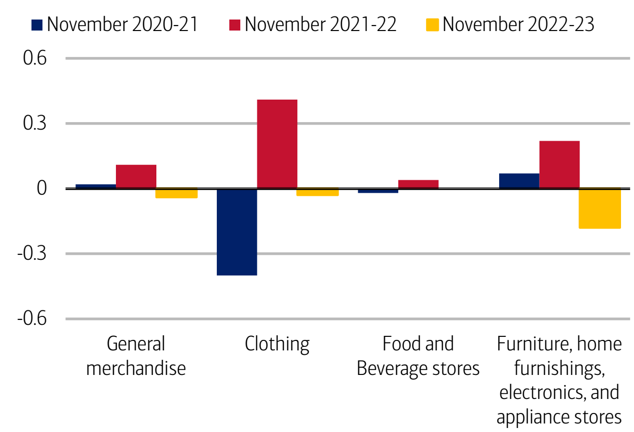
Exhibit 2: Most retail sectors seem to have right sized their inventories after recent gyrations

Change in I/S ratio by retailer type between Novembers (pp)



Source: Census Bureau

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The ships don't lie

Last year we introduced a new Bank of America corporate dataset, which provides an alternative measure of retail inventory through the lens of corporate payments. This aggregated and anonymized data includes both small and large businesses across different industries. We use corporate payments to shipping and transportation companies as a proxy for inventory orders. The dataset includes payments made through automated clearing houses (ACH), cards (debit cards or small business credit cards) and wires from corporate clients with a deposit account, debit card or small business credit card. Most payments in this dataset fall outside auto manufacturers, dealers and parts manufacturers.

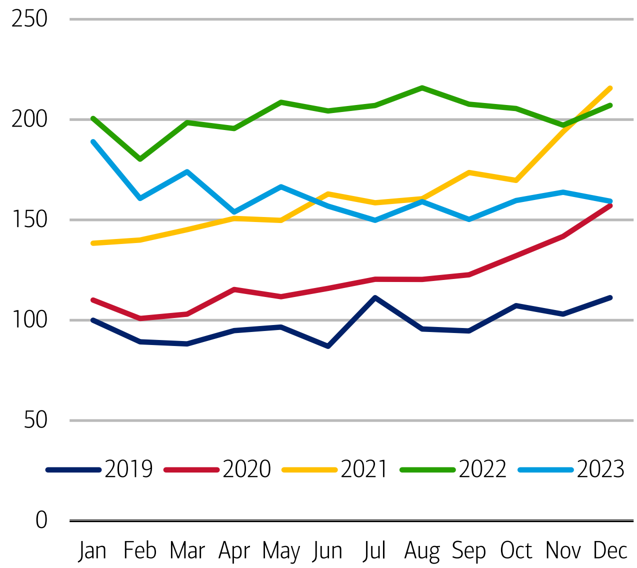
This data gives us further insight into where retailers currently stand. Exhibit 3 shows payment volume per retailer in this corporate dataset to shipping and transportation companies each year. There was a dramatic increase starting in late 2021 that persisted throughout 2022. In 2023, the story was one of more moderation, which lasted to December 2023 with a fairly consistent pattern of payments throughout the year.

Exhibit 4 reveals the ratio of payments from retailers to shipping and transport companies relative to total card spending on retail (ex-gas/autos) in Bank of America internal data. This is a guide to how much orders are keeping up with demand in the retail sector and suggests a fairly flat story – retailers' ordering behavior suggests they are content with their stock levels.

There also appears some directional lead on the retail inventory/sales data from the Census Bureau, which implies that the inventory/sales ratio in the retail (ex-motor vehicle and parts) sector could be close to flattening out from its recent decline.

Exhibit 3: 2023 looks like a story of moderation for retailers' orders

Payment volume per US retailer to shipping and transportation companies (index, Jan 2019 =100, data through December 2023)



Source: Bank of America internal data

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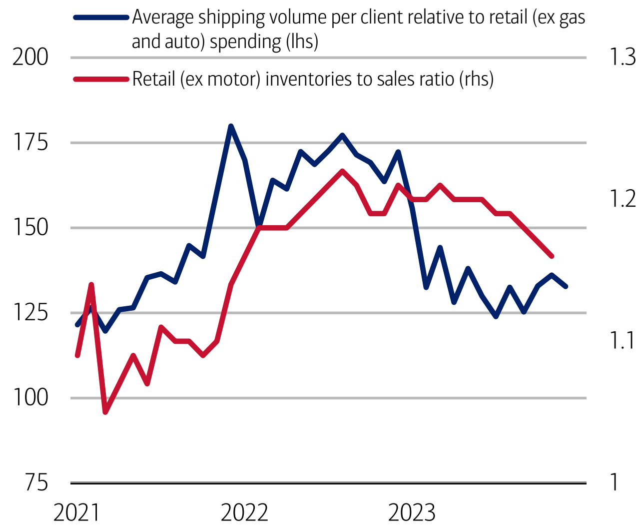
Exhibit 4: The retail inventory/sales ratio could be close to flattening out

Average shipping volume per US retail client relative to total card spending on retail ex autos/gas in Bank of America internal data (Index 2019=100) and the Census Bureau inventory/sales ratio for retailers (ex motor vehicle and parts dealers, SA, %)



Source: Bank of America internal data, Census Bureau

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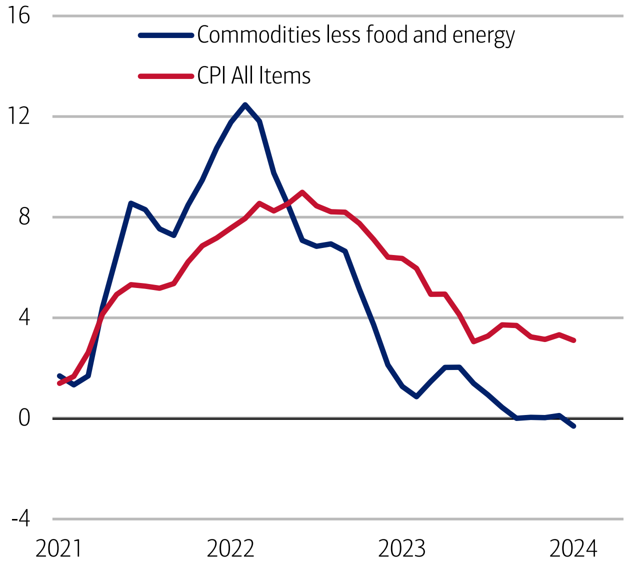
Why does this matter?

Well, one key driver of the decline in US inflation in 2023 was the softening retail goods prices (Exhibit 5), which in part reflected weaker consumer demand alongside excess inventory. But if retailers are close to a position where they are no longer aiming to reduce inventory, then the downside pressure on prices from this area will likely diminish.

At the same time, if consumer demand were to swing back to goods and away from services, which currently has moved a long way in favor of services (Exhibit 6), then, in this scenario, retailers could find themselves with relatively light inventory.

Finally, another complication for retailers could be current disruptions to global shipping due to attacks on vessels in the Red Sea. Conceivably, this could add delays and costs if retailers do need to build inventories. However, BofA Global Research has suggested that for most US retailers these frictions should be relatively limited given this is not a key shipping route between Asia and the US. There is also a significant amount of new ship capacity coming in 2024, which can also help any supply issues.

Exhibit 5: Goods disinflation has helped to reduce overall inflation
Consumer price indices (% YoY)



Source: Haver Analytics

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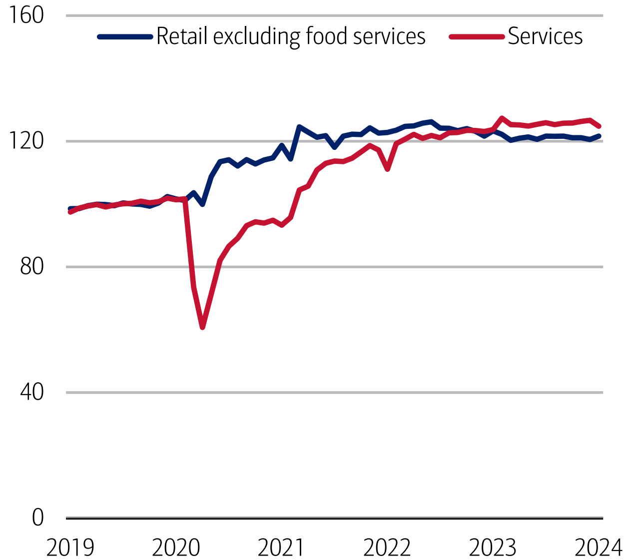
Exhibit 6: Services spending has outpaced spending on goods
Total card spending on retail excluding food services and services (2019=100, seasonally-adjusted)



Source: Bank of America internal data

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Methodology

Selected Bank of America transaction data is used to inform the macroeconomic views expressed in this report and should be considered in the context of other economic indicators and publicly available information. In certain instances, the data may provide directional and/or predictive value. The data used is not comprehensive; it is based on aggregated and anonymized selections of Bank of America data and may reflect a degree of selection bias and limitations on the data available.

All retailer clients are US-based. Corporate payments referenced in this report only include payments through automated clearing houses (ACH), cards (debit cards or small business credit cards) and wires from corporate clients with a deposit account, debit card or small business credit card.

Data regarding companies making or receiving payments are identified and classified by the North American Industry Classification System (NAICS) defined by Census Bureau. Specifically, Bank of America corporate clients that are in the retail sector include those in the following subsectors: Specialty Retail, Diversified Wholesalers, Food Products, and Multiline Retail. Shipping and Transpiration companies that receive such payments include those in the following subsectors: Air Freight & Logistics, Marine, Road & Rail, and Transportation Infrastructure.

Unless otherwise stated, data is not adjusted for seasonality, processing days or portfolio changes, and may be subject to periodic revisions.

Additional information about the methodology used to aggregate the data is available upon request.

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Sources

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Disclosures