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Traditional Retailers on the Mend?

RETAIL
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Scott Galloway, a professor of marketing at New York University's Stern School of Business once said about Amazon that the company does not want to own a piece of retail, they want to own all of it. With Amazon currently owning around 40% of the retail market with a projected increase to 50% by 2021, along with all online retail sales projected to surpass $1 trillion in the next decade, it certainly seems to be trending in that direction. However, there are several factors indicating that traditional retailers will not go down without a fight.

First, shares of retailers are experiencing their biggest turnarounds in years. The SPDR S&P Retail ETF is up by 11% in 2018, strongly outperforming the S&P 500's modest 3.5% gain. In addition, shares of stores such as Macy's and Dillard's have grown over 55% this year. Not only have these department stores shown market growth, but several companies such as Macy's, Home Depot, Walmart, Dick's Sporting Goods and American Eagle are beating expectations.

While some may attribute this growth to President Trump's tax cuts that went into effect this year, there are two key factors that may lead to a continuation of this trend. First, total spending on logistics such as shipping and warehousing costs hit a record $1.5 trillion in 2017, a 6.2% increase from 2016. The Supreme Court also very recently ruled that retailers must collect sales tax on online sales, regardless of a physical presence in a particular state. When combined, these could lead to increasing costs of online shopping and drive consumers back to the brick and mortar stores.

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