



# Will this be a jolly holiday season?

Back-to-school sales suggest holiday sales growth is at risk

December 4, 2019

## Main Points

Retail stocks typically underperform in December.

Tariffs and projected weak holiday sales growth are additional risks for Retailing.

While internet sales continue to take share from department stores, even companies like Amazon aren't insulated.

(e.g. 2017, 2018).

Retailing is also at risk from tariffs related to a China trade agreement. While the planned October 15 tariff increase (from 25% to 30%) was held off, the December tariff increase of 15% is still on the table.

This could impact common holiday gift items like cellphones, laptop computers, clothing, and toys.

Retailing has become more competitive. Internet sales continue to grow at the expense of

department store sales.

Even Amazon doesn't seem to be insulated. While Amazon's internet sales have continued to grow, its investment in one-day shipping and other ventures has caused a year-over-year profit decline for the first time since 2017. In addition, there are signs that Amazon's sales growth rate for its cloud business, while still robust, may be slowing.

The bottom line is that retail stocks, including Amazon's stock, face relatively difficult challenges this holiday season.

December has not been kind to the Retailing Industry group.

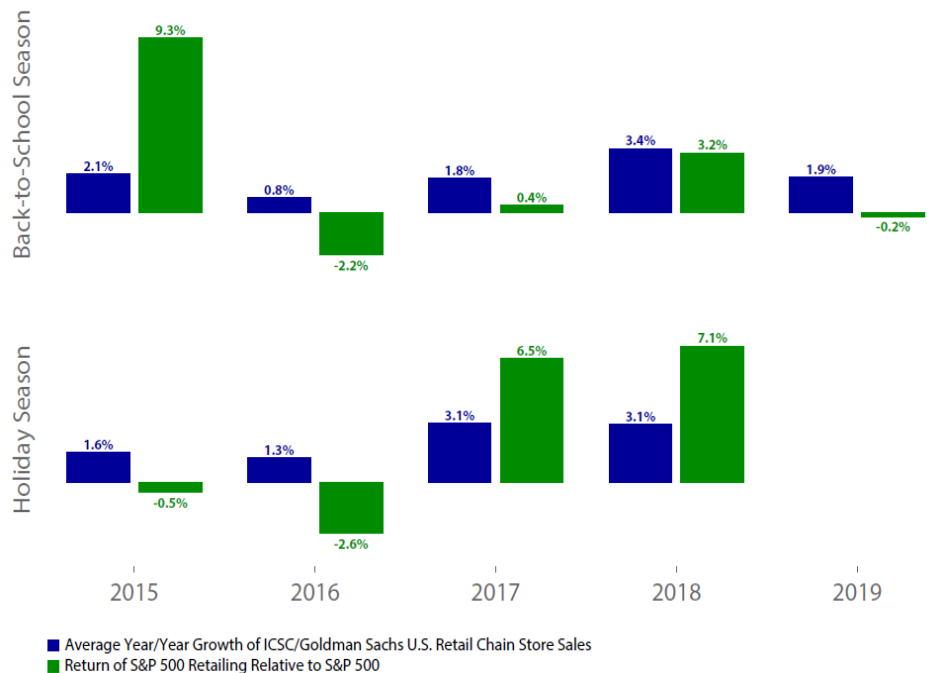
Historically, S&P Retailing has only outperformed in December 35% of the time, going back to 1954. This December may be particularly challenged given the risks.

In 2019, back-to-school growth was only 1.9% (**chart right**), a large drop from last year's 3.4% rate.

Back-to-school sales growth is typically a good predictor of holiday sales growth, so we could see weaker growth versus 2018.

According to Ned Davis Research, S&P 500 Retailing tends to underperform during the holiday season when the year-over-year growth rate slows (e.g. 2016), and outperform when the year-over-year growth is similar or higher

Back-to-school sales suggest weak holiday sales



Back-to-School Season = 1st Friday on or after July 5th through 2nd Friday of September.  
 Holiday Season = 4th Friday of November through 2nd Friday of January.

Source: Bloomberg Finance L.P.  
 S&P Dow Jones Indices