Prospects for Recovery Bleak

Large retail

Personal spending in fiscal 1995 still remained low. Improved corporate earnings did not influence hiring and the unemployment rate stands at a disturbing 3%. Consumer incentive was quelled by disasters in the first half of the year and an economic recovery proved impossible for the remainder of fiscal 1995. Price decreases together with a shift in Japanese consumer consciousness, increased spending on "optional products," and decreased spending on "necessities" produced an environment incompatible to a recovery in the retail industry.

For the first time in 45 months, department store sales in November 1995 exceeded the total posted in November 1994 (Japan Department Store Association data). Despite this achievement, figures for the fiscal year as a whole finished below fiscal 1994 totals. The drop in sales targeted at the general public appeared to level out during the latter half of fiscal 1995, but sales to corporations remained depressed. In the apparel sector, a portion of the customers who sought lower prices at discount stores returned to department stores after reassessing the balance between price and quality. This, together with a leveling off in the price free–fall, caused store sales to increase.

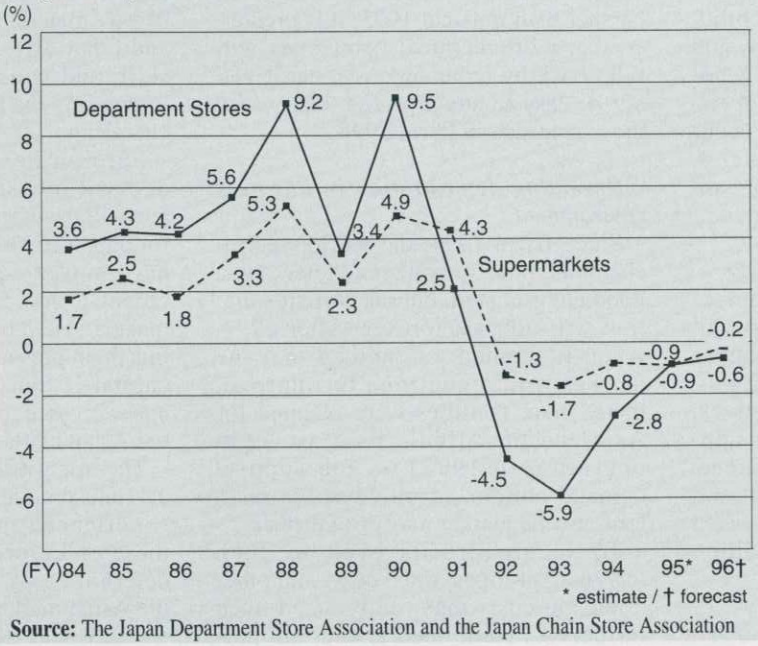
Growth in supermarket sales in fiscal 1995 stalled at around a low 2% (Japan Chain Store Association data). Price decreases greatly affected existing stores and estimates indicate that 1995 will mark the fourth straight year of minus growth. Among other large retail stores, consumer appliance stores are posting favorable sales figures due to the popularization of home personal computers. Although department stores and large supermarkets initiated personal computer sales and increased overall competition, the specialized knowledge required by these products has kept demand at home appliance stores high.

Although personal spending is breaking out of its worst slump, real recovery is unlikely in fiscal 1996. Employee adjustment will continue and consumer incentive will probably take time to recover. Although an increase in demand is expected during the latter half of fiscal 1996, before the consumption tax increase planned for April 1997, a full recovery of consumer sentiment is unlikely. Finally, because prices decrease along with changes in the distribution structure, any price increase in 1996 is unlikely.

By fiscal 1994, department store sales per square meter dropped 20 percentage points compared to the peak in fiscal 1991. These sales figures remain seriously low. If the recovery of public targeted sales seen at the end of fiscal 1995 begins in earnest, depending on the direction of corporate demand, department store sales in fiscal 1996 could increase. However, the department store's inability to respond to changes in consumer consciousness resulted in fewer customers and shrinking sales. Without a change in the industry's structure, this grave situation will continue. To attract customers, department stores are currently pursuing a number of different strategies, i.e., renewing large, top quality fashion stores, or introducing tenants who offer amusement facilities, multi–media shops and so on. How these efforts affect department store trends will be an area to watch in 1996.

Sales at existing supermarket bases dropped due to a decrease in prices for "necessary" items. Although this factor remains, newly established stores in outlying areas may spark increased sales overall. Although more stores spur greater competition, each company works to differentiate from competitors with innovations including re–evaluation of the business itself along with information system and product development. Within product development, achieving lower prices is not the sole aim. Companies must also fulfill consumer "value factor" with products that strike a balance between price and quality. Companies will need to use specified orders based on store data to provide appropriate price/quality balanced merchandise.

Sales Trends in Department Stores and Supermarkets (adjusted by store bases)



Source: The Japan Department Store Association and the Japan Chain Store Association

(Kato Koji, senior economist)