Intelligencer

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# Target Is Having a Pretty Good Pandemic

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A distinctive characteristic of the ongoing economic crisis is how uneven its effects are throughout the economy. Of course, all crises hit some industries harder than others. But in this case, some major industries are actually coming out ahead while others face a severe or even existential threat, because the crisis is doing far more to *change* the nature of economic activity than to reduce it in the aggregate. This helps explain how, for example, Walmart's stock can be up 11 percent from the start of the year, and Target's up 22 percent.


© Alexi Rosenfeld/Getty Images People lined up outside of Target near Barclays Center in Brooklyn, New York on August 17. Alexi Rosenfeld/Getty Images

General merchandise retailers like Walmart and Target have done especially well under COVID, for a few reasons. Early in the crisis, customers stocked up on necessities, including groceries. Even after their pantries were stocked, people kept buying more groceries than usual, because they have been eating out less. Tens of millions of Americans shifted to doing work and school from home, and they needed supplies for that, like office chairs and computers. The government sent stimulus payments in the spring that made consumers more eager to spend; it also provided unemployment benefits that, through July, provided the benefits that, on average, exceeded workers' prior wages. These funds led to a burst in spending on discretionary goods, like televisions; Walmart said this uptick started right around Easter, as the stimulus payments started showing up in bank accounts. And as whole categories of leisure spending became essentially unavailable, Americans needed to find new ways to spend their time and money — often, that meant home improvement or other at-home activities involving products you might buy at general merchandise stores.

Target, whose comparable sales rose 24 percent in the quarter that ended August 1 compared to the same quarter a year earlier, said its financial performance improved for all those reasons plus some others you probably wouldn't have thought of. Target (like Walmart) had especially strong growth in online sales for pickup and delivery during the pandemic, and the company said rising sale volumes made its online sale operation more efficient — more customers picking up orders at the same time meant employees could pick out multiple orders simultaneously in the store and deliver multiple orders into a parking lot in one trip, saving labor costs per dollar of sales. The pandemic also meant that customers made fewer trips to the store and spent more on each trip, which also allowed the company to sell more efficiently. And Target also said that acquiring more online shopping customers led to more overall spending from those customers, including in-store — a fact that makes sense, if some customers went from seeing Target as just a place to shop in-store to seeing it as the retailer of first resort, however they wanted to obtain a product.

The strong performance at these retailers tells us a few stories about the broader COVID economy. One is the relative strength of goods businesses compared to services businesses. The need to shift away from in-person interactions has a lot of consumers foregoing services they used to buy and substituting goods instead — for example, buying home workout equipment instead of paying for a gym membership, or buying groceries to cook at home instead of going to a restaurant. This is good for certain kinds of retailers, but it's a major problem for providers of services, which are often either small businesses or nonprofits (like universities or hospital systems), and whose misfortune therefore may not show up fully in stock indexes.

Target and Walmart are also exposed to the ongoing failure of the federal government to provide additional economic relief of the sort that supported their sales in the spring and early summer. A key question, which we will learn more about over the next few weeks, is how much of a problem the loss of that aid is for continued robust consumer spending. Walmart says the strength of its sales was already waning in July, with most households having gotten their stimulus payments in April or May. Target, whose customer base is somewhat more upscale than Walmart's, said July was strong but August was beginning to soften. But soft is a relative term here — on an earnings call last week, the company said comparable sales in August were still running at a low- to mid-teens percentage increase over the prior year. The company said the drop in sales growth, which had run around 20 percent in June and July, was driven by weak back-to-school spending, as many parents are unsure about the extent to which children will be going back to schools. Walmart made a similar report, saying sales of at-home education supplies like laptops and tablets are strong, while sales of backpacks and "basic school supplies" are weak.

Stimulus payments and enhanced unemployment insurance payments were an important driver of this spring's improvement in household balance sheets — Americans were saving about a third of their after-tax income at the peak of the lockdowns, a record level — but another key driver was reduced spending, as Americans greatly reduced their travel and restaurant dining, and many stopped commuting to work or school, and stopped buying apparel that they need in order to be seen in public. The continued unavailability of key parts of the economy means that Walmart and Target will continue to benefit from an economic shift toward their business, even if the overall economy remains stagnant. And spring's combination of increased benefits and reduced spending created a financial cushion that many Americans can use to continue spending for a time as they wait for Washington lawmakers to decide what to do about the economy — though of course, many people will be reluctant to spend money even if they have it, if the financial outlook remains so uncertain.

In the long run, a weak consumer recovery is a threat to substantially all industries. If high unemployment is persistent and households are not made close-to-whole for lost income, then consumption will have to drop across categories and it will take longer than necessary to return the economy to full output and employment. Eventually, that should pose a risk even to Walmart and Target. But the companies' investors have lots of offsetting reasons to feel optimistic, and there are a number of forcing events coming over the next few months — including a September 30 deadline to fund the government — that may yet push Washington lawmakers to cut an aid deal.