It is well known that retail sales have regular cycles that can be disrupted by external events, such as federal elections. While anecdotally it has been suggested that uncertainty around elections causes shoppers to close their wallets and purses, there appears very little evidence either domestically or globally to support the claim that an election campaign will negatively impact consumer spending.

The Blame Game

Retailers are notorious at playing the “blame game” when it comes to their sales and profit reporting. They too quickly point the finger at Mother Nature, for being too hot or too rainy, the releasing of blockbusters that distract shoppers, and even customers themselves for being too price conscious, chasing discounts that erode their margins.

This month, Myer CEO Richard Umbers warned that the election campaign is expected to hit consumer sentiment and negatively affect Myer’s outlook.

Surprisingly, Australia’s other large department store, David Jones, remained silent. It appears David Jones is just getting on with business and delivering store sales growth twice the rate of the Australian department store sector. Seemingly, there are other factors affecting retail stores sales, other than an impending federal election.

Is there evidence?

Researchers from Princeton University and the University of Chicago found elections had little impact on how consumers actually spend. In their study, spanning four presidential elections, their initial findings identified a correlation between a voters’ “ideological opposition towards a winning candidate” (measured by a voter-ideology score) and a lower score on the Michigan Consumer Sentiment Survey.

However, the correlation did not prove causality. For example, when President George W. Bush was elected in 2000, negative sentiment had no effect on consumers’ self-reported spending plans or on their subsequent automobile purchases and credit-card use. Consumers ideologically opposed to President Bush were not happy about the election outcome, but this slump in sentiment had no effect on what they planned to spend, or actually spent.

It is a similar picture here in Australia, where commentators are looking a little more closely at claims elections stifle retail spending. A review of the ANZ – Roy Morgan Consumer Confidence Index demonstrates a similar phenomenon to that in the US. With the exception of September to October lead into the November 2001 election, marred by the 9/11 attacks in New York and the collapse of Ansett, in most cases, confidence remained positive.

Prior to the October 9 2004 election, the September consumer confidence grew by over 6% on August. Similarly, October 2007 was up nearly 6.5% on September in the lead up to the November 24 election.

Confident but deferred

The operative word used among consumers during times of uncertainty is “deferred”. IBISWorld chairman Phil Ruthven finds that shoppers tend to take a “wait-and-see approach” during election campaigns, which sees spending curtailed on big ticket items like cars, consumer electronics and high-end fashion, but household basics such as food and basics generally remain insulated. In most cases, consumer confidence tends to bounce directly after elections.

There are far too many variables in play to suggest that an extended federal election alone will derail consumer confidence and stifle retail spending. In fact, some consumers who expect to be the recipients of election sweeteners such as tax cuts, infrastructure projects and or job opportunities, may actually increase spending. The power of suggestion is strong with such consumers. Once consumers anticipate a specific positive outcome will occur, they believe their subsequent thoughts and behaviours will actually help to bring about that outcome.

What retail categories are most affected?

Food, groceries, fuel and basic clothing generally remain well protected during uncertain times. Despite increasing price competition between the players, the food and grocery division remain

moderately strong
.

Ultimately, shoppers still need to put fuel in their cars and food on the table. However, most exposed are “big ticket” retailers selling furniture, consumer electronics and automobiles. Fashion clothing and accessories are expected to struggle as such purchases are tied to discretionary spending.

Other factors?

Granted, the combination of unseasonable warmer weather across Australia and the growth of global fashion retailers like H&M, Uniqlo, Zara, Forever 21 and Top Shop in the domestic market, will definitely pose a challenge for retailers.

This year incumbent players like Myer, David Jones, Premier Investment and Specialty Retail Group are not just competing with one another, but also these new entrants . This year, more than ever before, shoppers have more choice.

While most consumers remain confident, some retailers are certainly looking towards challenging times ahead. Granted, this is the first federal election held during winter in 20 years and timed “smack bang” in the middle of half yearly, stocktake sales. With an eight week election period well underway, shoppers will continue to buy the basics, but will defer upgrading big ticket items until an outcome is announced on July 3.

An unseasonably warm autumn and a glut of global fashion retailers in the market, will encourage incumbent retailers to cut prices little deeper this year. Great for shoppers, but tough on the books. It is looking to be a tough year ahead for retailers.

Gary Mortimer does not work for, consult, own shares in or receive funding from any company or organization that would benefit from this article, and has disclosed no relevant affiliations beyond the academic appointment above.

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