

Predictive Analytics

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Elevated inventories and tumbling imports

This report contains a range of alternative datasets showing the latest reads on inventories, supply chain and promotional activity. We continue to observe signs of excessive inventories and elevated promotional activity efforts as companies look to destock. And as importers react to high inventories, as per Panjiva, total US seaborne imports have fallen back to pre-COVID levels. In the case of apparel and home furnishings, imports are lower than in 2019. Lower imports should help with the destocking process provided demand remains relatively intact and we note the positive correlation between retail margins and imports—when inventories get low enough and imports rise again, history suggests margins may follow. In semiconductors, where supply remained tight over the last two years, imports have improved and are now back to pre-COVID levels. Our analysis on US earnings calls finds mentions of “excessive inventory” and “inventory destocking” to be at a 5+ year high in 1Q23 earnings calls. The inventory indicator from Ken Hoexter’s shipper’s survey has reached its all-time high level as shippers continue to see overstocked inventory.

Demand softens, promotions remain high in 2023

Our keyword analysis of earnings calls that took place in 1Q23 show that mentions of “weak demand” have reached levels not seen since the pandemic. BAC aggregated credit and debit card spending growth(y/y) in furniture and apparel has been negative for the last several months, which may partially reflect lower pricing. Our discounting tracker that monitors promotional activity at select online fashion retailers suggests that elevated discounting continued into 2023 after picking up last year, and the average percentage of stock on discounts in a month has risen to levels slightly higher than in 2019. A similar trend was observed in Home Depot pricing data, the avg markdown on home appliances and big ticket items is higher so far in 2023 than it was in 2019 and above the supply constrained pandemic years. But consistent with declining imports, retailers are actively trying to reduce inventories. BofA Retail analyst, Lorraine Hutchinson suggests in this report: [Lululemon inventory growth](#) should moderate to 30-35% in 1Q as the company works through its stock. The company expects gross margin improvement in F23. While in this report: [inventory at Walmart declined 2.6%](#) in F4Q after rising 32% in F1Q. Excess inventories and looser supply chains mean lower prices and according to the US Economics team in this report: core [goods prices to fall](#) Y/Y in ‘23.

Home inventories off lows, houses selling below list price

According to Redfin, a national real estate brokerage, Active listings of homes are now off the lows. In markets including Austin and Phoenix, where buyers were bidding above list prices, especially in the Spring of 2021 and 2022, houses are now selling below listing prices with sale to list price ratio falling below one.

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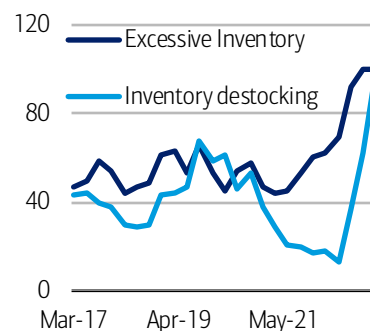
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Exhibit 1: Mentions of “excessive inventory” and “inventory destocking” rose to 5+ years high in 2023Q1 US earnings calls

Mentions of “excessive inventory” and “inventory destocking” in US earnings calls



Source: Alphasense

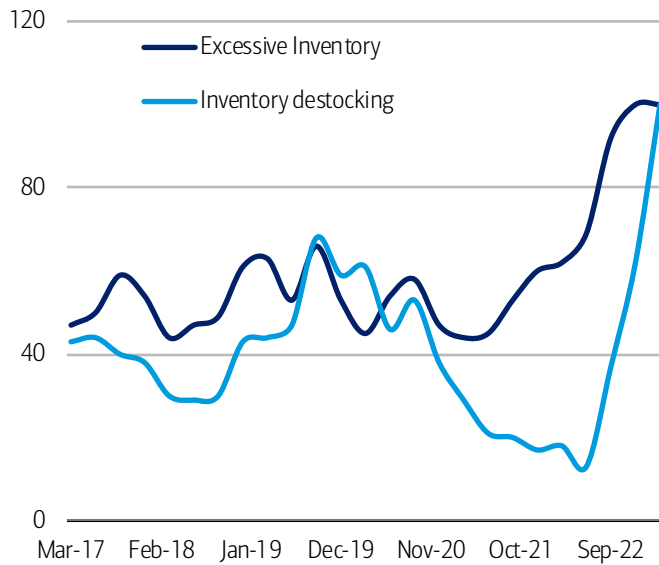
Trend line is normalized of no. of documents with keyword/ total number of documents, trend line for each searched pattern shows the change relative to its own history

Inventory building and elevated promotional activity

- US earnings call analysis suggests the continued concerns of excessive inventory among US companies. Mentions of “excessive/higher/elevated inventory” and “inventory destocking” have risen to the highest levels since 2017 in 1Q2023 earnings calls. Mentions of “weakening demand” have also surged to Spring 2020 levels. (Exhibit 2 and Exhibit 3)
- Our promotional activity tracker in fashion suggests that elevated discounting continued into 2023 after picking up last year, the average percentage of stock on discounts in a month at select US online retailers has risen to levels slightly higher than 2019. Discounting trends at individual retailers/brands might be different, of course. Home Depot pricing data, provided by alt. data provider Ascential, also suggests higher markdowns on appliances and big-ticket items (list prices of \$500-\$5,000). (Exhibit 7, Exhibit 8 and Exhibit 9)
- Shippers’ view of inventory levels in the latest BofA shipper’s survey (see report and methodology here: [Transportation - Trucking](#), has climbed to its all-time high since Mar-2014 as shippers continue to see overstocked inventory. Their demand outlook for shipping services remains near multi-year lows. Moreover, our BofA analyst inventory outlook gauge that measures BofA analyst sentiment on inventory levels and supply chain improved sequentially throughout last year after hitting lows in Oct-21, it is currently sitting in positive territory and slightly above pre pandemic levels suggesting rising/elevated inventories and easing supply chain. (Exhibit 4 and Exhibit 5)
- As per Panjiva, US total seaborne imports fall to pre-covid levels after being elevated for the last two years. As retailers grow wary of high inventory levels and reduce orders apparel and home furnishing imports are now below pre-covid levels. In semiconductors, where supply remained tight in the last two years, imports improved throughout 2022 and are now back to pre-pandemic levels. (Exhibit 11 - Exhibit 18)
-
- As per WardsAuto InfoBank, total automotive inventory at the end of February 2023 increased 28k units from the end of January 2023 to 1.74mm units, the highest level since April 2021. Our Autos analyst, John Murphy, noted that inventory levels remain well below more “normal” levels of 2.5mm-3.0mm+ units even following the 63% YoY increase (inventories increased ~670k units) and continue to believe part of the sales weakness over the past year+ is a function of limited inventory. He also observed that pickups, vans, and large cars have meaningfully bounced back from the Covid lows and are approaching “normal” levels of inventories. Along with sales data, this suggests that for these categories supply can meet demand. See our report: [Automotive Industry: Weekly automotive pit stop 17 March 2023](#)
-
- Some real estate markets including Austin, TX and Phoenix, AZ that had been hottest have cooled off with selling price going below listing price, share of active listings with price drops are now at pre pandemic levels. (Exhibit 21)

Exhibit 2: Mentions of “excessive inventory” and “inventory destocking” rose to 5+ years high in 2023Q1 US earnings calls

Mentions of “excessive inventory” and “inventory destocking” in US earnings calls



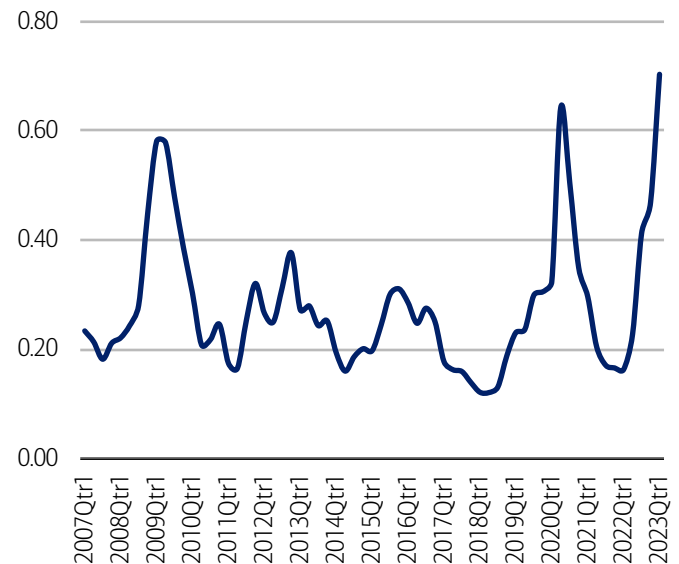
Source: Alphasense

Trend line is normalized of no. of documents with keyword/ total number of documents, trend line for each searched pattern shows the change relative to its own history

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Exhibit 3: Mentions of “weak demand” in US earnings call surged to its Covid highs

Mentions of “weak demand” per company in US earnings calls



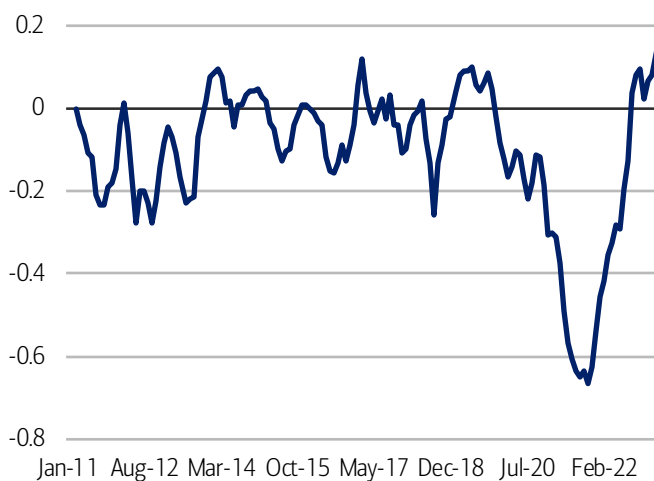
Source: Factset, BofA Global Research

Keywords include 'weak', 'softer', 'low', 'decline' and 'demand'

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Exhibit 4: BofA US Analyst gauge on inventory levels sustained positive levels in Q1'23 after hitting lows in Oct-21, suggesting ease in supply chain and rising inventory levels

BofA US Analyst inventory gauge, excludes oil and energy research reports

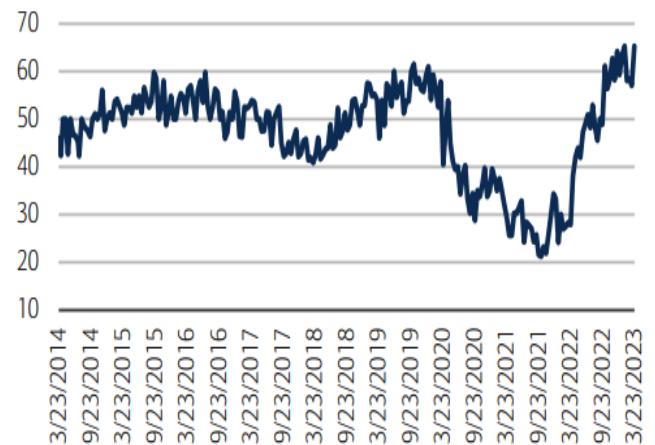


Source: BofA Global Research

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Exhibit 5: Shippers' view of inventory levels reaches its prior all-time high level as shippers continue to see overstocked inventory

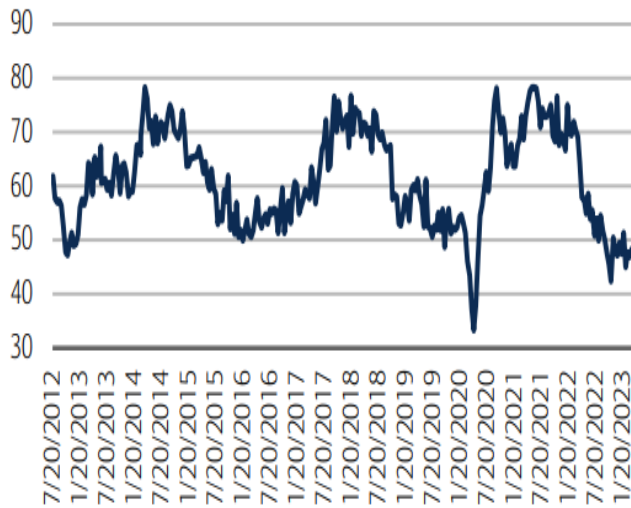
Shippers' view of inventory levels



Source: BofA Global Research

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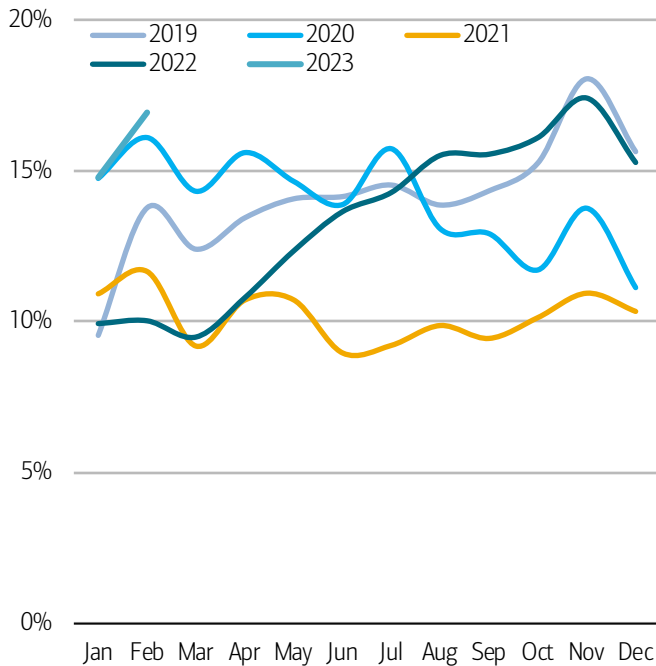
Exhibit 6: Shipper's view on demand stays at lower levels,
0–3 months demand time series



Source: BofA Global Research

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Exhibit 8: Promotions on appliances at Home Depot in Jan & Feb '23 were above levels seen in the last few years
Average appliance* promotions advertised at Home Depot

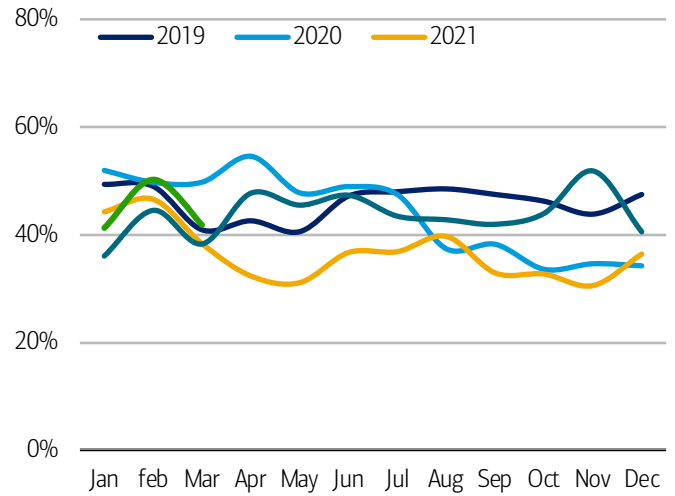


Source: Ascential

*Appliances with list prices of \$500-\$5,000
February '23 data is through 2/20/23

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Exhibit 7: Promotional activity at select fashion retailers* in 2023 remains elevated and slightly above 2019 levels. 2021 saw low promotions due to supply constraints and strong demand
Percentage of stock on discount at select US online retailers*

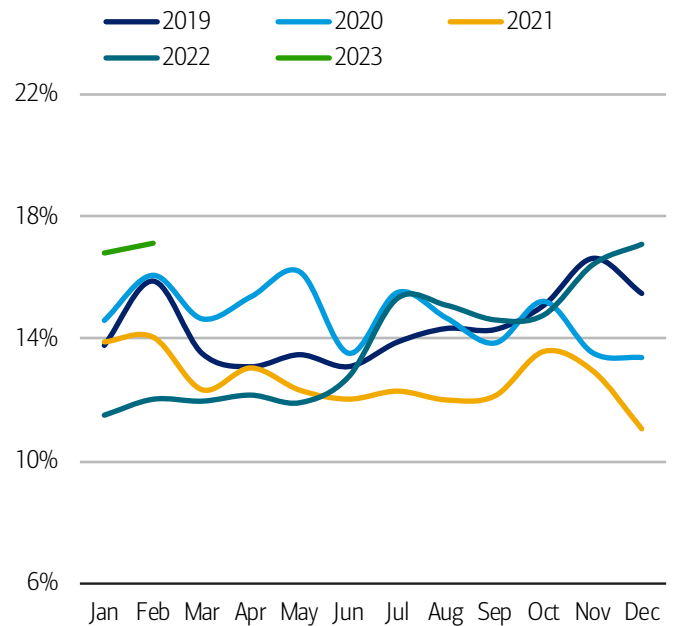


Source: Ascential

Retailers include: ASOS, Dick's sporting goods, Finishline

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Exhibit 9: Promotions on big-ticket items in all categories sold at Home Depot are running above 2019 levels year-to-date in 2023
Average big ticket* promotions advertised at Home Depot



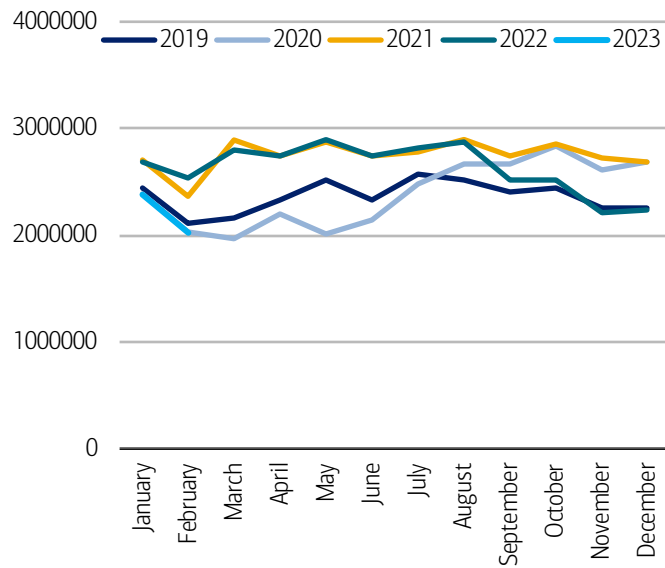
Source: Ascential

*Items with list prices of \$500-\$5,000
February '23 data is through 2/20/23

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Exhibit 10: US total imports back to pre-covid levels after being elevated for last 2 years

US total seaborne imports (Y-axis: TEUs)



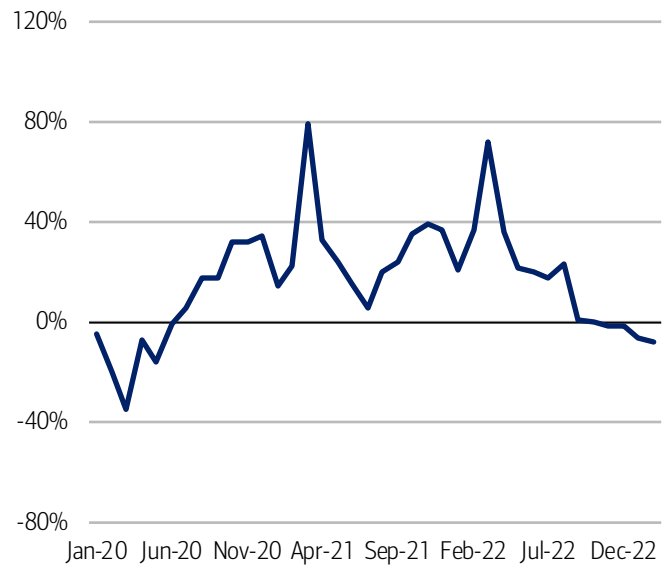
Source: Panjiva

TEU: Twenty Equipment Unit' or in other terms a '20-foot container

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Exhibit 11: US seaborne imports from China sees negative growth (y/y compared to 2019) for the first time in last 2+ years

% change in US seaborne imports from China compared to 2019



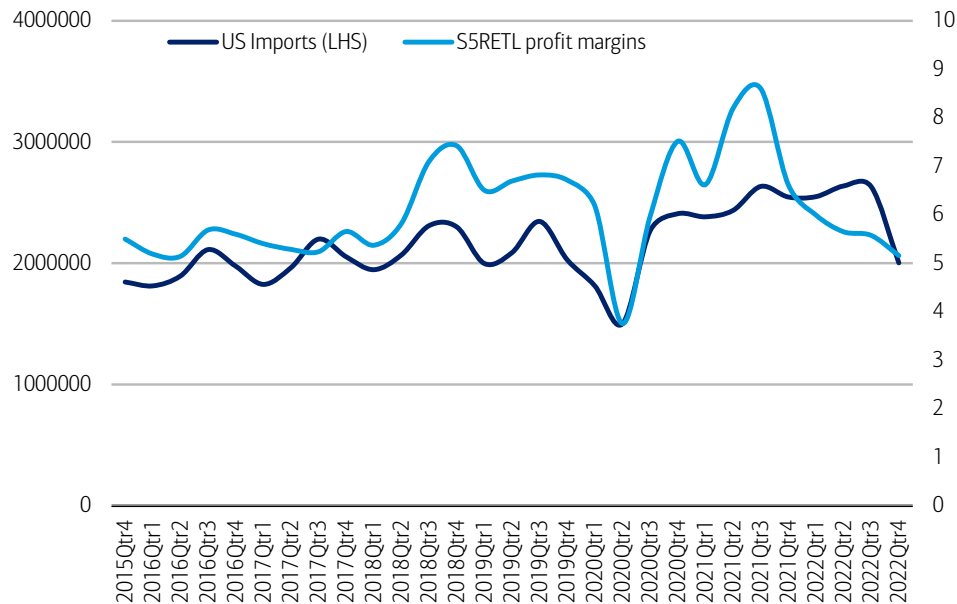
Source: Panjiva

TEU: Twenty Equipment Unit' or in other terms a '20-foot container

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Exhibit 12: US retail imports vs S5RETL margins

S5RETL: SP500 Consumer Discretionary distribution and Retail



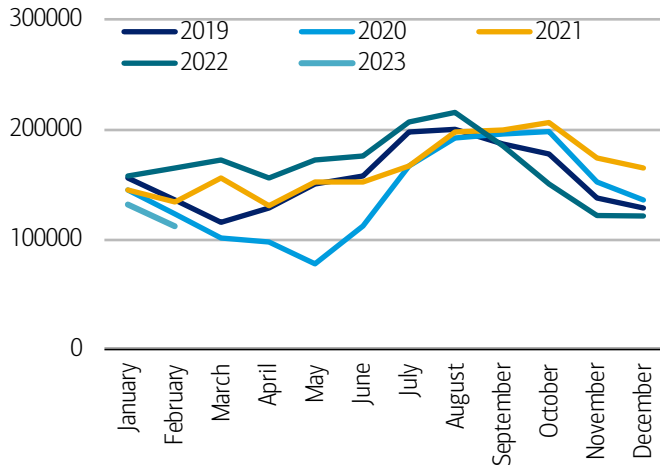
Source: Panjiva, Bloomberg

TEU: Twenty Equipment Unit' or in other terms a '20-foot container

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Exhibit 13: US imports for apparel lowest since 2019

US seaborne imports for apparels (Y-axis: TEUs)



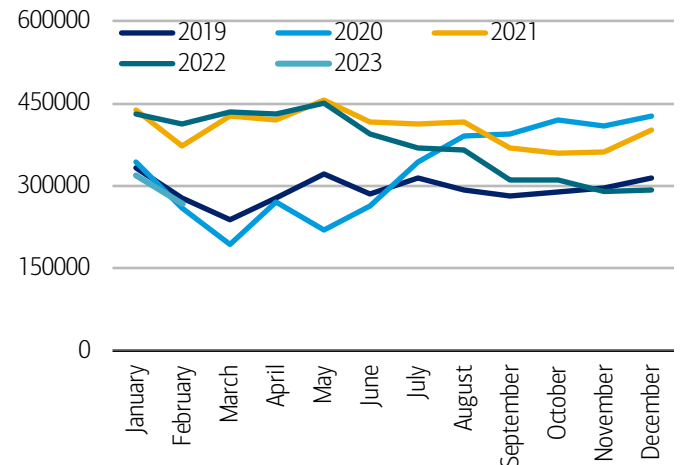
Source: Panjiva

TEU: Twenty Equipment Unit' or in other terms a '20-foot container

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Exhibit 14: US imports for home back to pre-covid levels

US seaborne imports for home furnishing (Y-axis: TEUs)



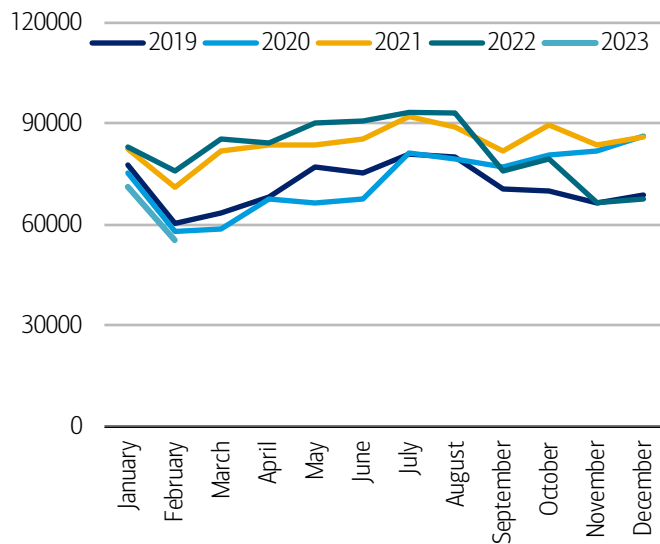
Source: Panjiva

TEU: Twenty Equipment Unit' or in other terms a '20-foot container

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Exhibit 15: US imports for building materials hit lowest levels since 2019

US seaborne imports for machinery (Y-axis: TEUs)



Source: Panjiva

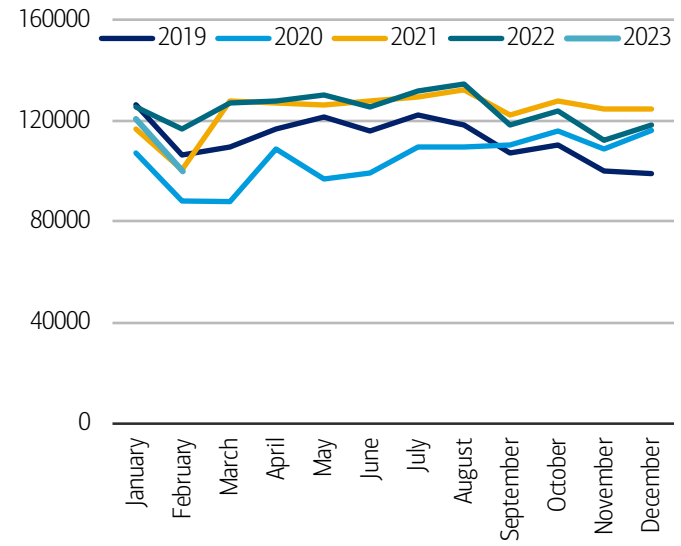
TEU: Twenty Equipment Unit' or in other terms a '20-foot container

Includes Industrial, Construction, Agricultural & Farm machinery and heavy trucks

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Exhibit 16: US imports for machinery declined significantly from its highs in 2022

US seaborne imports for machinery (Y-axis: TEUs)



Source: Panjiva

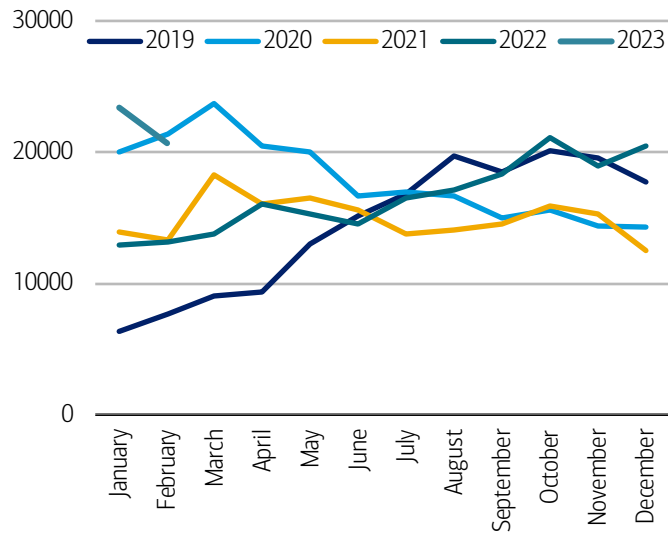
TEU: Twenty Equipment Unit' or in other terms a '20-foot container

Includes Industrial, Construction, Agricultural & Farm machinery and heavy trucks

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Exhibit 17: US imports for semiconductors are back to 2020 pre-covid levels

US seaborne imports for semi-conductors (Y-axis: TEUs)



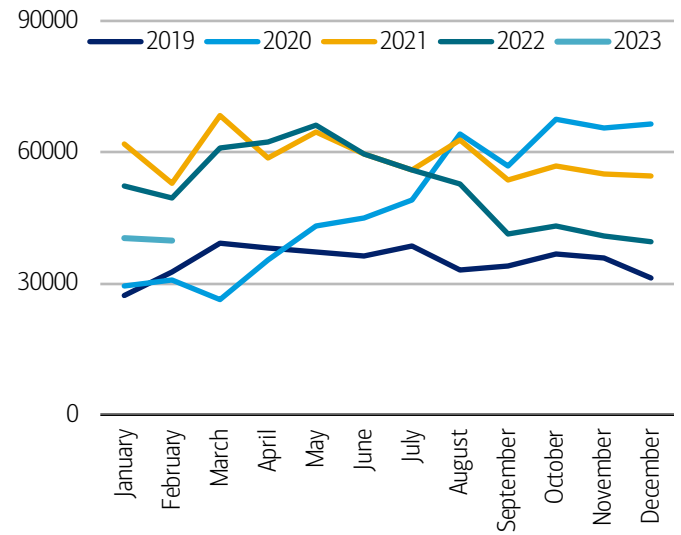
Source: Panjiva

TEU: Twenty Equipment Unit' or in other terms a '20-foot container

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Exhibit 18: US imports for home appliances* have cooled off in 2023 but still above pre-covid levels

US seaborne imports for home appliances* (Y-axis: TEUs)



Source: Panjiva

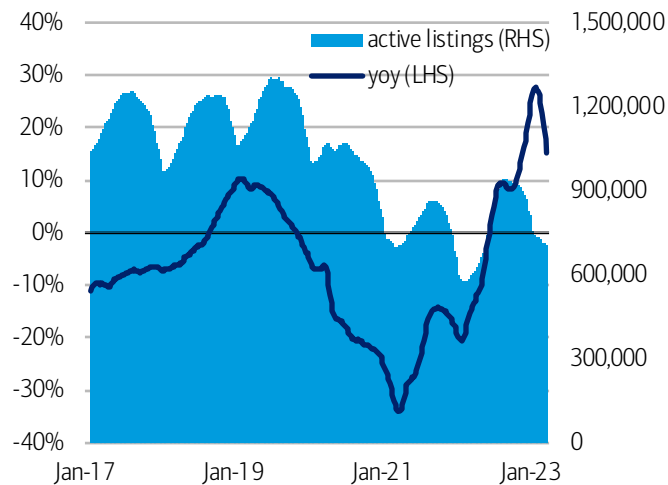
TEU: Twenty Equipment Unit' or in other terms a '20-foot container

*Includes Refrigerators, dish washers and washing machines

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Exhibit 19: Numbers of active listings of existing and new homes* for sales remains tight but off its Feb-22 lows

Weekly active listings for all US metros from Redfin's housing market data (4-week rolling avg)



Source: Redfin (<https://www.redfin.com/>)

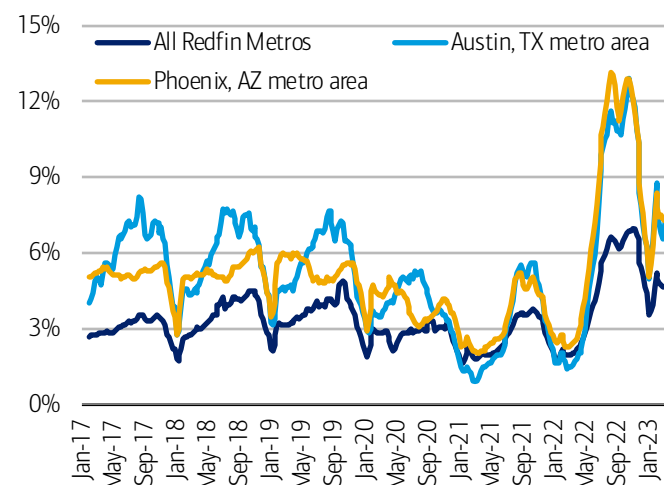
*Includes new homes that are listed on Redfin platform only

Data as of 03/19/23

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Exhibit 20: Share of active listings with price drops came off its Aug-22 highs. Overall US is now at 3.99% while Austin/Phoenix at 7.77%/7.43%

% of active listings with price drops (4-week rolling avg)



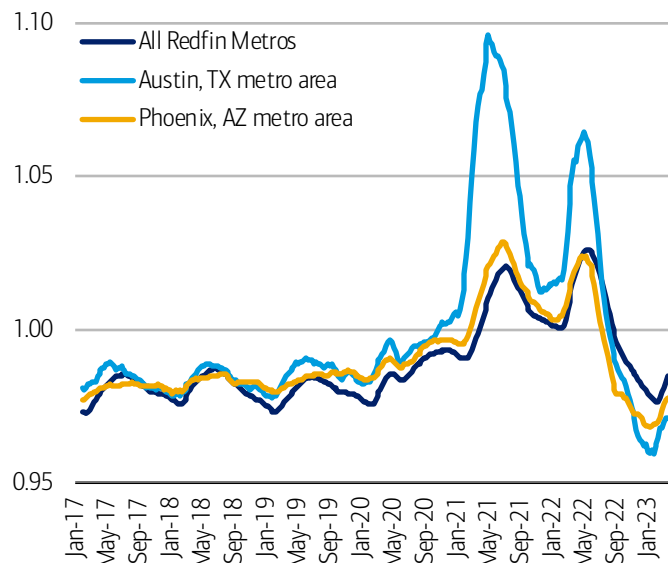
Source: Redfin (<https://www.redfin.com/>)

Data as of 03/19/23

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Exhibit 21: Sale-to-list price ratio goes below 1, houses are selling below list prices

Average sale-to-list price ratio (4-week rolling avg)



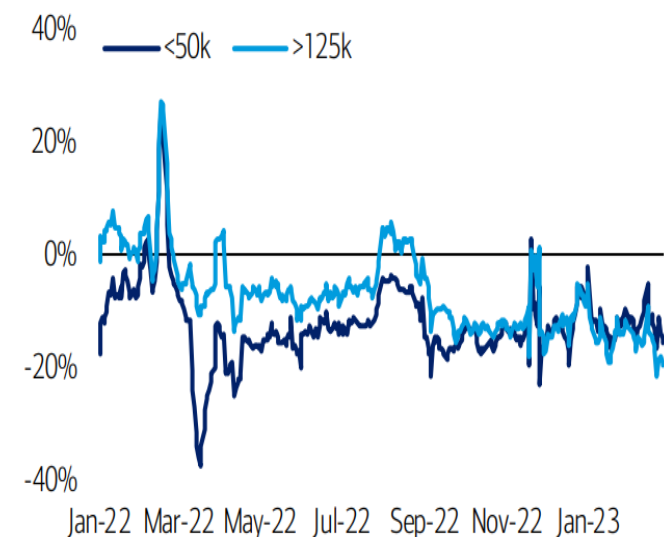
Source: Redfin (<https://www.redfin.com/>)

Data as of 03/19/23

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Exhibit 22: Furniture spending per HH by income group (y/y % change of the 7-day ma of spending levels)

Furniture spending growth has been largely negative on a y/y basis for both income groups since late Aug

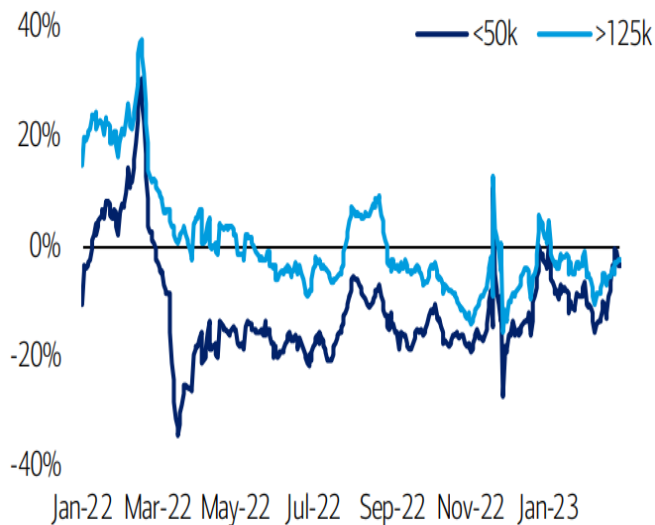


Source: BAC internal data

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Exhibit 23: Y/y clothing spending growth continues to be negative for both lower and upper income HHs

Y/y clothing spending growth continues to be negative for both lower and upper income HHs



Source: BAC internal data

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See [BofA on USA](#) for methodology, disclaimers and limitations of BAC card data as well as commentary on broader retail trends from the BofA Global Research US economics team.

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^{R1} Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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