

Market Outlook [May 2008]

When the Going Gets Tough, Where Pet Owners Go Shopping

Whether an actual recession is on the way or already here, U.S. consumers are being squeezed by economic pressures, including high energy bills, the housing crisis, high debt levels and rising food costs. During 2007, U.S. retail food prices rose 4.0 percent—the highest gain in 17 years—and the forecast for 2008 is for another 3.5 percent-4.0 percent increase. Driving the trend is rising global demand for crops used to feed livestock and to manufacture ethanol, which has been driving up pricing for many basic ingredients. Wheat prices, for instance, soared to record levels in 2007, fueled in part by the pet food recalls, which ramped up demand for higher quality plant proteins from places other than China.

While no industry is recession-proof, the pet market has a record of being recession resistant. On the other hand, the United States has never before seen gasoline at \$4 a gallon, which is taking a toll on how people shop. According to BIGresearch's January 2008 *BIG Executive Briefing*, three out of four consumers are being negatively affected by the soaring gas prices, with more than two out of five of this group consolidating their shopping trips (42 percent) or shopping closer to home (41 percent). Nielsen Homescan data released in January 2008 similarly show that almost half (49 percent) of consumers are reducing their spending to compensate for rising gas prices, while 70 percent are combining shopping trips and errands and 39 percent are simply staying home more.

The effect of these trends in the pet market will be two-fold, this column expects, and perhaps not so bad as one might think. Yes, consumers consolidating their shopping trips will buy their pet products more often in one-stop value channels like Wal-Mart, likely boosting sales of lower-priced fare. In the Nielsen survey, 27 percent of respondents were already shopping more at supercenters because of the high gas prices, a budgetary shift PetSmart and Petco are likely to feel the most. At the same time, independent pet shops—especially those in walking distance or on the way somewhere else—could well be the beneficiaries of pet owners yearning for a little splurge. Indeed, in a market now controlled by households earning over \$70,000 a year, the old adage “when the going gets tough, the tough go shopping” may be truer than ever, especially among the pet-pampering set.