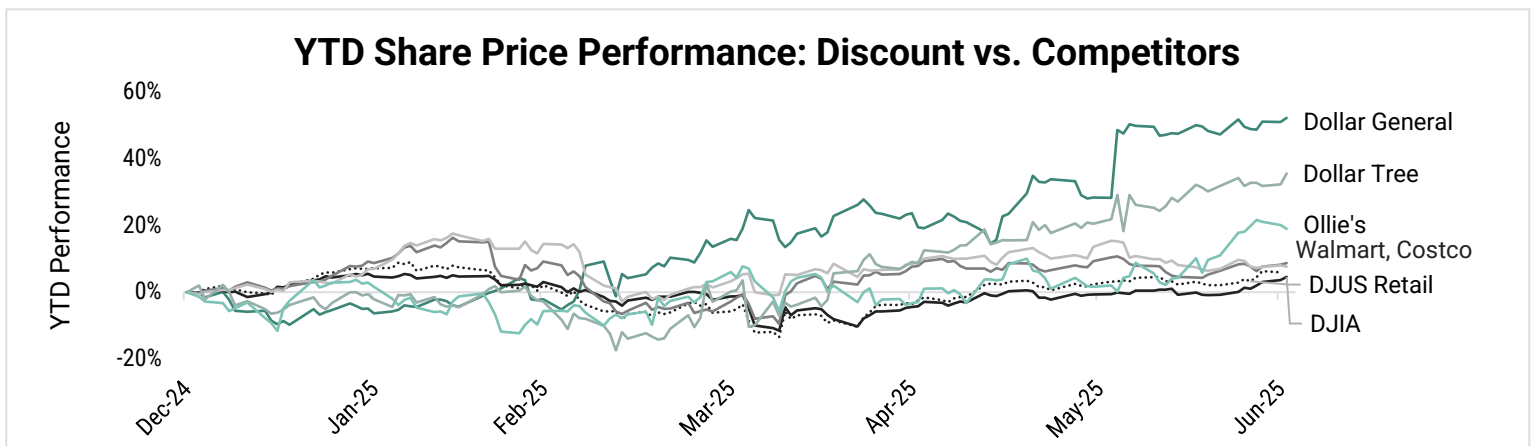


Discount Sector Spotlight

JULY 2025

CONSUMER GLOOM? DISCOUNT STORES BOOM

2025 is seeing a reversal of fortunes in the discount sector, with share prices outperforming the broader retail sector and major stock market indices YTD

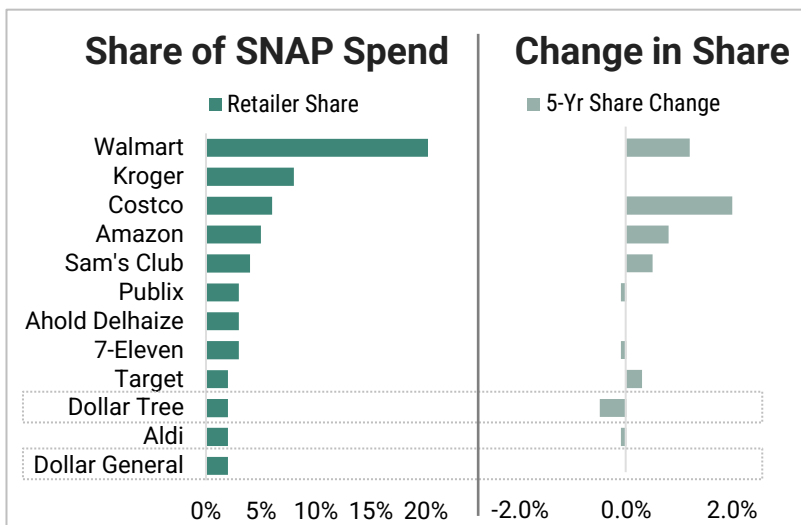


Source: S&P CapIQ

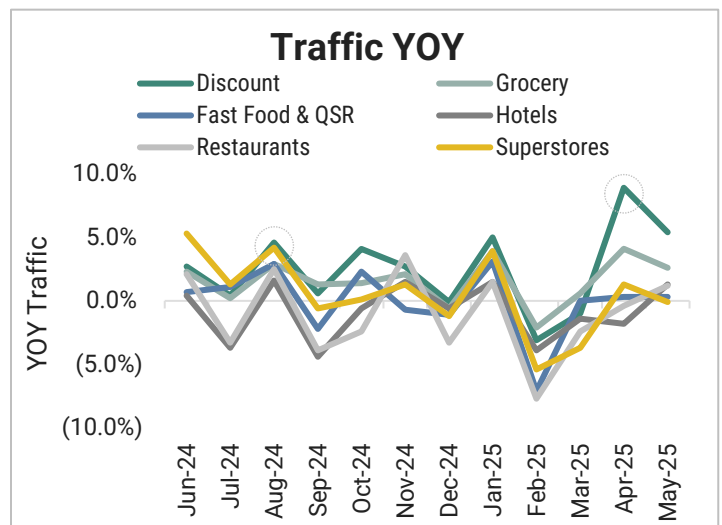
Long term trends are shifting in favor of discount stores; while promising, it is too soon to determine whether this shift is here to stay

Discount stores have long been losing share to big retail, including among core lower income shoppers...

...but showed early signs of accelerating growth in 2024 before increasing dramatically in 2025



Source: Numerator, last 52 weeks ending Mar 2025

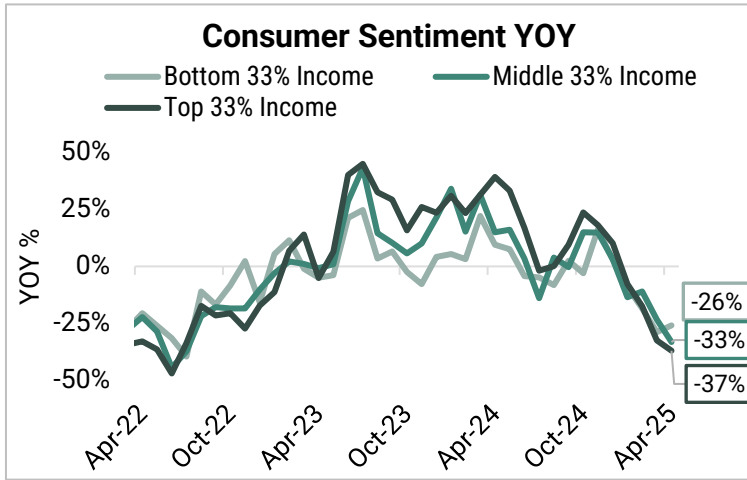


Source: Placer.ai

KEY INDUSTRY DYNAMICS

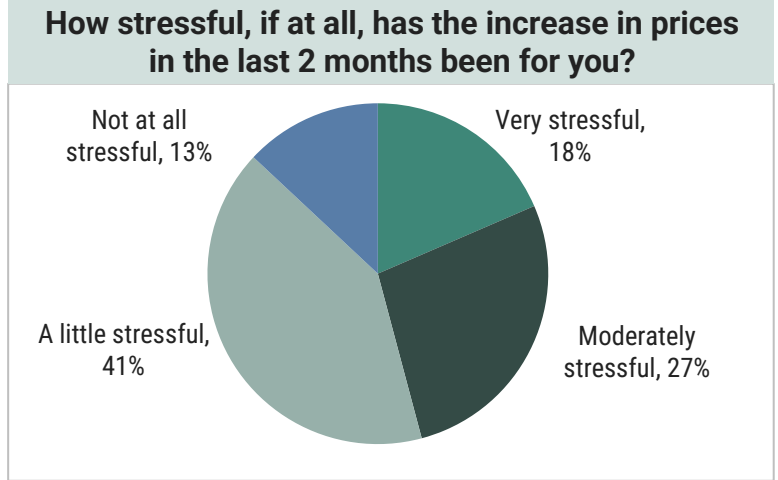
Discount retailers are benefitting from trade down behaviors by higher income households – typically the most resilient of consumers – suggesting a turning point in consumer anxiety

Higher income earners are unexpectedly driving the sharpest YTD decline in consumer sentiment



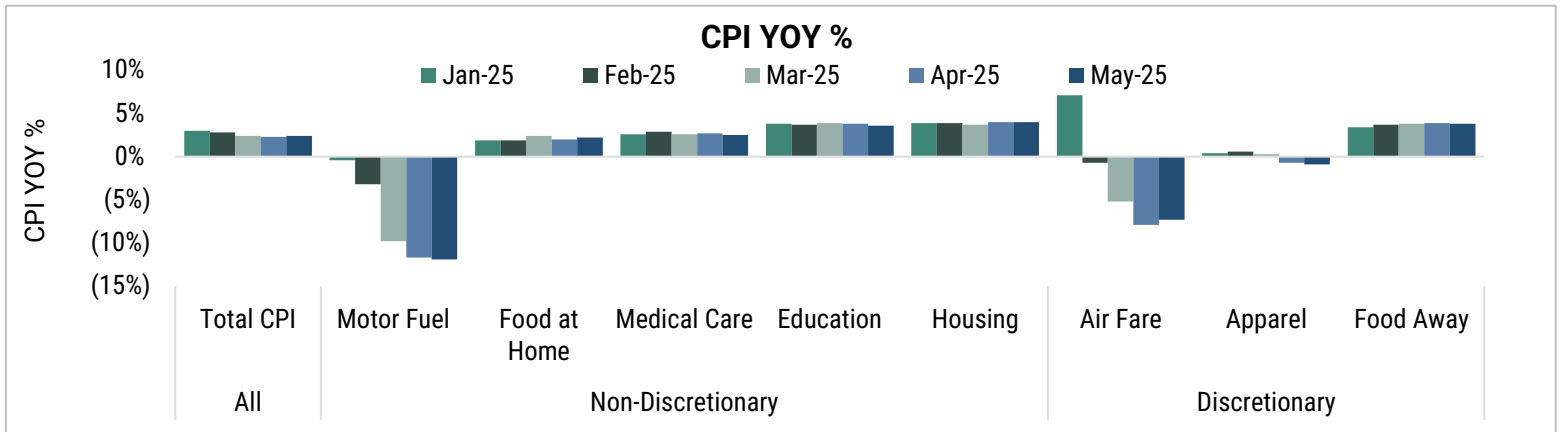
Source: University of Michigan Surveys of Consumers

87% of households are experiencing at least some stress around rising costs



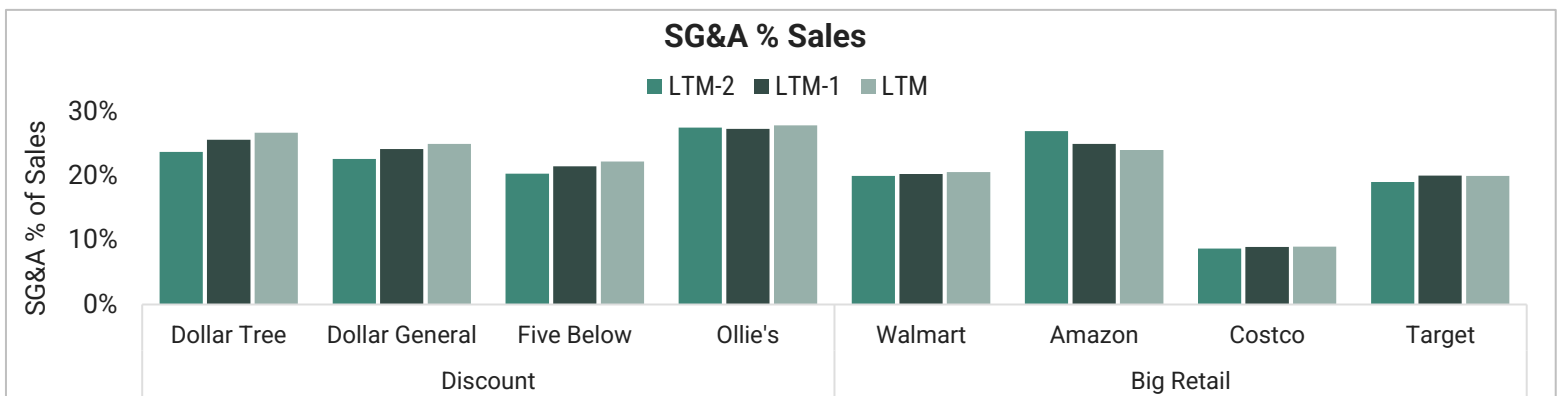
Source: U.S. Census Bureau Household Pulse Survey, Feb 21 – Mar 7, 2025; respondents 18+ yrs seeing increased prices for goods & services, prior 2 mos

...all while CPI growth has been cooler than expected and the impact of tariffs has yet to be seen, pointing to weariness from sustained high prices and broader non-inflationary concerns



Source: BLS

Despite topline momentum, discount retailers nonetheless face rising operating costs and struggle to manage them as effectively as their larger retail competitors



Source: S&P CapIQ, June 2025

RETAILER ACTIONS

As discount retailers benefit from a broadening customer base, they must carefully navigate this shift alongside persistent bottom-line challenges. Key imperatives include:

- **Strategic Pricing & Assortment.** Dollar Tree is accelerating its successful multi-price point strategy, while Dollar General is resisting broad price hikes to retain its core lower-income customers. Such distinct approaches underscore the need for thoughtful pricing and assortment execution to maintain customer loyalty and manage future economic shifts.
- **Effective Inventory & Supply Chain Management.** This is critical as supply chains are particularly sensitive to tariff disruptions. There are a variety of levers to drive lower landed costs, including supplier diversification and negotiations, product re-specification, and AI inventory solutions.
- **Labor Optimization.** As minimum wages rise in 2025, disciplined labor spend is crucial. This involves optimizing labor allocations, boosting workflow productivity, reducing turnover, and leveraging AI for scheduling – thereby enabling strategic investments in store labor to drive customer experience.
- **Cost Management.** Rising input and overhead costs warrant a comprehensive cost management approach. Key elements include strategic sourcing and procurement, coupled with operational and productivity measures to reduce costs.

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