BUSINESS

Celebrities, Companies Support Ukraine Victims

● There are 7.5 million children in Ukraine being impacted by the crisis, according to UNICEF.

BY **DAVID MOIN, ROSEMARY FEITELBERG** AND **LISA LOCKWOOD**

As Russia's invasion of Ukraine advances and reports of deaths pile up, the U.S. retail industry is weighing the ripple effects of the war, short- and long-term.

Worries center around inflation continuing to spike; the stock market plummeting; further supply chain disruptions on top of those already caused by COVID-19; cyber attacks; new limitations on what can be exported to Russia, and shifts in consumer spending patterns. Fears also center on the potential for Russia's war on Ukraine to spill out to neighboring countries.

Investors in an already volatile stock market are spooked by the war, and there's the potential of alarming consumers, too, and dampening their will to shop, at least in the immediate future. Yet stocks rose on Thursday, with the Dow Jones Industrial Average ending the day's trading up 92 points to 33,223.83, eradicating an 859-point plummet in the morning. The S&P 500 also dropped significantly in the morning but ultimately rose 1.5 percent to 4,288.70.

The degree of business fallout depends on how long the conflict lasts, and the impact of the sanctions being imposed on Russia by the U.S. and its allies, including freezing the assets of Russian oligarchs and five major Russian banks with a total of over $1 trillion in assets, and cutting off exports of computers and technology.

What's to be expected: some shift to non-discretionary spending from discretionary spending as a consequence of inflation and spiking gas prices. In the near term, apparel retailers could get hurt while the Costcos and Walmarts of the world benefit.

President Biden, in a press conference Thursday, expressed a commitment to keep fuel prices from spiking further than they already have in the past year and said that fuel reserves would be released to help contain the situation. How prices on gas vary greatly affect consumer spending.

Ukraine, which has a population of 44 million, is considered "the bread basket" of Europe, providing agricultural products such as wheat and corn to Europe, Africa and the Middle East. The country is not a major trade partner of the U.S., though many U.S. corporations outsource IT in the Ukraine.

U.S. retailers have very limited exposure in the Ukraine. European retailers, such as Ikea, Zara, Mango and LVMH, have more.

An Adidas spokesman said the company is monitoring the situation very closely. "In doing so, the protection and safety of our employees is naturally our top priority," he said.

Asked if the company has closed or plans to close stores in Ukraine and neighboring countries as a result of the attacks, the Adidas spokesman said, "We won't share any further details at this time."

H&M has temporarily shuttered its nine stores in Ukraine. A company spokesperson said, "We are closely following the developments. The safety and security of our colleagues is our main priority and therefore our stores in Ukraine will be closed until further notice."

On Thursday, President Biden disclosed new and harsher sanctions that will limit Russia's ability to do business in dollars, euros, pounds and yen — in effect, to be part of the global economy. The sanctions also stop the financing of the Russian military, and impairs Russia's ability to compete in high-tech and upgrade its technology infrastructure through imports, as well as modernize its military and aerospace industry.

The sanctions, aside from hitting Russian banks and freezing assets, stopped the Russian government and state-owned enterprises from raising money from U.S. and European investors.

Russian President Vladimir Putin "is the aggressor," Biden stated angrily in a press conference Thursday. "Putin chose the war and he and his country will bear the consequences. Today I am authorizing additional strong sanctions and new limitations on what can be exported to Russia. This is going to impose severe costs on the Russian economy, immediately and over time.

"The United States is not doing this alone," Biden added. "For months, we have been building a coalition of partners representing more than half the global economy — 27 members of the European Union including France, Germany and Italy, as well as the United Kingdom, Canada, Japan, New Zealand and many others, to amplify the joint impact of our response."

A Ukrainian police officer carrying an assault rifle walks on a platform backdropped by people waiting for a Kiev bound train in Kostiantynivka, Donetsk region, eastern Ukraine, Thursday, Feb. 24, 2022.

Photograph by Vadim Ghirda/AP

"For many U.S. businesses, Russia and the Ukraine are not significant markets," said one retail expert who requested not to be named.

"But the Ukraine is a significant outsourcing location for IT personnel. This is one potential impact on some corporate IT services...With Russia, for a country its size, once you strip away energy, its economy is fairly insignificant. But there are going to be impacts on energy, especially into Western Europe. Russia is a large supplier of oil and Ukraine is a large supplier of coal and natural gas."

Disruptions caused by the war "will stress global energy markets, which will affect pricing. We don't import a lot of oil or natural gas from Russia. But the countries that do import from Russia are going to be searching for other sources, that will drive up prices in many countries including the U.S.," the expert said.

Biden attempted to alleviate concerns among Americans that the war will lead to higher gas prices, which are up $1 on average across the country from a year ago.

"I will do everything I can in my power to eliminate the pain American people are feeling at the gas pump," said Biden during his press conference. "We are taking active steps to bring down the costs and American oil and gas companies should not exploit this moment to hike their prices to raise profits. Our sanctions package is specifically designed to allow energy payments to continue, we are closely monitoring energy supplies for any disruption. We are coordinating with major oil-producing and consuming countries to secure global energy supplies. We are actively working with countries around the world to elevate a collective release of strategic petroleum reserves of many energy-consuming countries. The United States will release additional barrels of oil as conditions warrant."

Without the war, consumer demand this year is expected to be less than last year, partly due to rising gas prices and partly due to not having the benefit of last year's government stimulus checks. Retailers will be closely watching research on consumer confidence, which will drop due to the war, but experts say a dip in consumer confidence doesn't necessarily spell a dip in demand.

"Russia's invasion of Ukraine is another one among a list of macro factors that the companies have been working through," said Simeon Siegel, managing director and senior analyst at BMO Capital Markets, citing COVID-19, inflation, transportation costs and the supply chain issues impacting the cost of goods and retail pricing. "All macro factors affect other macro factors. Companies that used macro conditions to actually improve their businesses structurally and create pricing power are the ones that will be able to write their futures," said Siegel, who specializes in retail and e-commerce.

Allan Ellinger, cofounder and senior managing partner of MMG Advisors, said, "While I think it's too early to make any major prediction about the long-term impact on the U.S. economy, clearly the projected increase in fuel prices alone could have a debilitating domino effect on the economy that will impact consumer purchasing, supply chain, travel, energy bills and manufacturing of petroleum-based products. I think we have seen how resilient the consumer can be, but we are living in an interwoven global economy that has not seen this kind of action in over 70 years. We need time to see the impact this action will have on the world."

Gary Wassner, chief executive officer and owner of Hilldun Corp., the factoring and finance company, said the war in Ukraine is going to be even more disruptive to supply chains, beyond what COVID-19 caused. "Supply chains impact everybody's receipts of merchandise. It's like a domino effect. It will cause higher prices and will cause imbalances in retailers' inventories. They will receive merchandise later and it's going to get backed up at the end of the quarter. We'll see cancellations, redistributions and reassortments of product like we saw at the beginning of the pandemic."

Wassner doesn't feel it will have a major impact on consumer spending however. "I don't think it will stop consumers from buying luxury and designer goods, but it remains to be seen. It depends how much the war escalates," he said.

"I believe that the increase in natural gas prices will further worsen inflation and retail prices might have to be increased or margins eroded. In addition, the ability of affluent Russian consumers to buy luxury goods might be affected due to financial sanctions," said Israeli-born designer Kobi Halperin, the chief creative officer of the apparel company bearing his name. "I am so disturbed that instead of moving forward to a better world of communication where we appreciate and respect life, we go backwards to a world of ego and ruling with no care to the people. It is very disturbing especially when the world just came out of the pandemic. I don't think we should lose hope and hopefully that will be shorter episode than we anticipate."

"We've done extensive research on disasters, such as hurricanes, 9/11, COVID[-19], and the Great Recession, which all had major impacts on retailing," said Craig Johnson, president of Customer Growth Partners research and consulting firm. "There's a commonality there. There was a major shock to the system in each case, but the bounce back was quicker than experts predicted. After 9/11, Christmas ended up better than expected. During the Great Recession, 2008 was a washout but holiday 2009 was up. And during COVID[-19] there was panic buying around President's Day [in February 2020] and then it was the shortest recession of history, lasting from mid-March to Memorial Day. It was a V-shaped recovery.

"The commonality after all three big events was that the American consumers proved very resilient and bounced back much quicker than experts predicted. First there's an initial shock to business, then they regain their footing. Then they put a solution in, and growth is resumed." During those disastrous events, Johnson said there was a "rotation" of the consumer spending from discretionary to non-discretionary spending and then ultimately back to more discretionary. That same kind of pattern of spending could reoccur soon.

"The energy issue will push up many costs for retailers and consumers," said Johnson. "It's not just about gas. Oil is in an ingredient in many products, a factor in increasing freight costs and packaging. It has a wide affect on a whole range of commodities and that adds into the inflation picture."

In the U.S. and Europe, particularly in cities such as New York, Miami, Los Angeles, Paris and London, Russians have been big spenders in luxury fashion and high-end real estate — that is until COVID-19 hit and international tourism disappeared. In the U.S., international tourism to such stores as Macy's and Bloomingdale's is about half of what it was before the pandemic, and slowly creeping back. Russian tourists were a big base for such brands as Levi's, Nike and Ralph Lauren, as well as Gucci, Dolce & Gabbana and Versace, among others.

During his press conference, President Biden said Russian's invasion was a "premeditated attack" and that Putin moved more than 175,000 troops along the Ukrainian border, moved blood supplies into position and built a field hospital, "which tells you all you need to know about his intentions all along. He rejected every good faith effort the United States and our Allied partners made to address our mutual security concerns...Our forces will not be engaged in the conflict in Ukraine, but will defend our NATO allies." Thousand of additional U.S. forces have been deployed to Germany, Poland, Estonia, Latvia, Lithuania and Romania, Biden said.