

# Back to school means back to uncertainty for parents and higher IT spending



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Parents are currently preparing for a new school year in the face of a resurgence of the Covid-19 cases in many parts of the country. Consumers are expecting to spend at least as much as last year on back-to-school purchases, but what they are buying and where they are buying it are among the long list of things that have changed this year. Since 55% of students expect to be taking classes at home at least part of the time<sup>1</sup>, parents are anticipating spending significantly more to purchase technology and home furnishings to ensure their kids are productive. The amount they plan to spend on clothing and traditional school

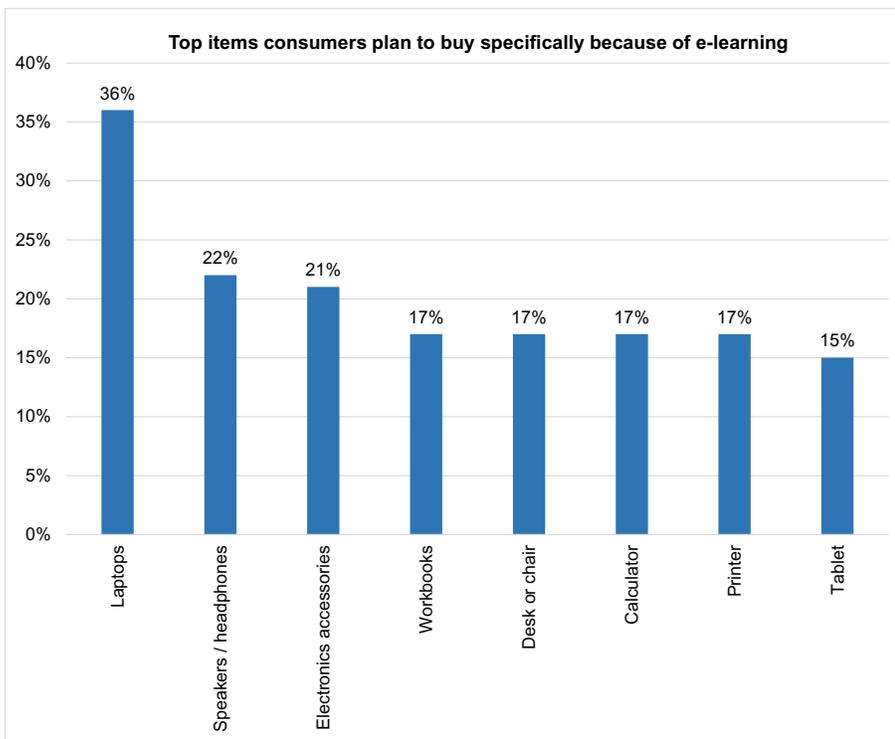
supplies is more mixed. What is clear is the acceleration of online spending during the pandemic and that back-to-school shopping will follow this pattern. With broad dissatisfaction with the educational experience (or lack thereof) in the spring after schools shut down, parents are striving to outfit their homes with the proper IT equipment and the latest virtual learning tools.

The back-to-school surveys from Deloitte and the NRF (National Retail Federation) show spending increasing between 2% and 13%, respectively, for families with children in K-12. The

NRF expects total spending for all families to increase by an even greater amount, which would be a huge increase compared to typical retail spending growth in the low-to-mid single digits. The likely driver of the surge in spending, should it occur, is the approximately 40% of consumers who intend to buy bigger ticket items for their homes including computers, home furnishings and other supplies (*Exhibit 1*). The mix of increasing needs, short-term stimulus, a fragile job market, and an ongoing pandemic allow for a wide range of potential outcomes.

With more than half of students expecting to attend school from home at least some of the time, both surveys show big jumps

**Exhibit 1: Consumers are buying technology and home furnishings to support study at home**

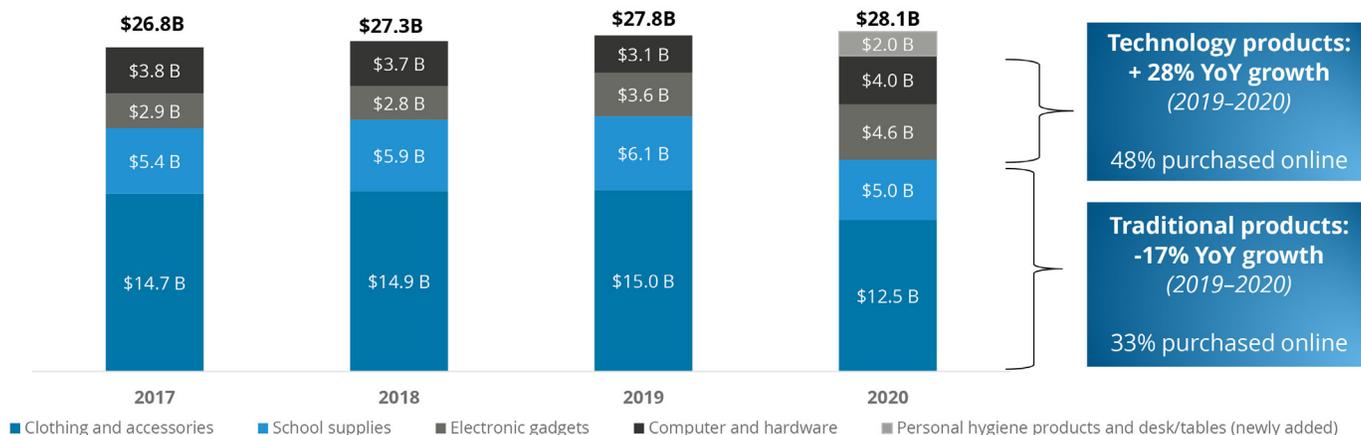


Source: National Retail Federation (NRF)

<sup>1</sup> <https://nrf.com/media-center/press-releases/coronavirus-could-push-back-school-spending-record-level-uncertain>



Exhibit 2: Estimated market spend by category (2017-2020)



Notes: N=1,200. All figures are given in US dollar.  
Source: Deloitte calculations on BTS market spend based on annual consumer survey projections and revised US current population surveys.

in technology purchases for families with students in K-12 with smaller increases for college age students (*Exhibit 2*). Parents of younger students historically relied more on school-provided technology for their kid’s needs whereas college students buy more of their own. Therefore, K-12 spending growth is expected to be in the high 20% to mid 30% range. Anticipated spending growth for college students is in the range of flat to low double digits. Potential beneficiaries of this increased spending that we own the Harriscreen Core and U.S. Tactical Equity portfolios include Adobe (ADBE) which sells the Acrobat PDF program, Apple’s (AAPL) Mac computers, iPad tablets and AirPod headsets and Microsoft’s (MSFT) productivity and collaboration apps.

A key difference between the Deloitte and NRF surveys is how much families expect to spend on clothing as well as traditional school supplies. For K-12 students, families told Deloitte that they expect to reduce spending on clothing by 10% per family and spend 13% less on traditional school supplies versus 2019.

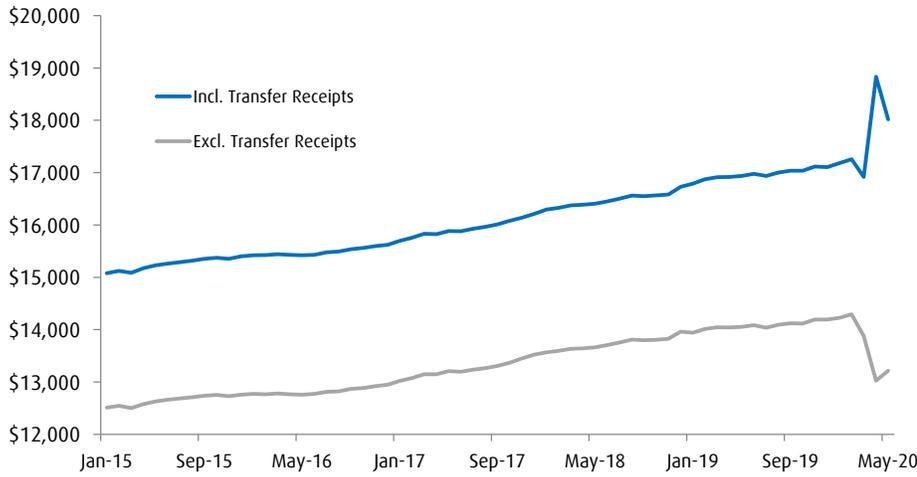
In the NRF survey, clothing purchases are expected to drop about 2% per family while school supplies increase 11.8%. The different expectations in clothing and school supply purchases are a major reason why the headline results are so different.

Buying online has become increasingly popular and this year it was accelerated by Covid, with consumers avoiding going to the store. The back-to-school season is no different, with consumers planning to spend around 12% more of their budget online than last year. In our portfolios, Amazon (AMZN) is a key beneficiary of this trend; their sales growth reaccelerated after Covid popped up. Other companies that are executing well with buy online, pick up in store could also benefit on the margin, like Walmart (WMT) and Target (TGT).

Back-to-school spending gets a lot of press because historically it has comprised 17% of the year’s retail sales. It closely trails holiday sales which represents ~20% of sales in a typical year. Back-to-school sales also provide an early indication of the



Exhibit 3: U.S. Real Personal Income - Billions of Chained 2012 Dollars



Source: Federal Reserve Bank of St. Louis, BMO Wealth Management

strength of the coming holiday sales, but this year anything could happen. Parents want the best for their kids and are concerned that school could be primarily virtual for a big portion of the year. Shared or slow computers may no longer suffice, and comfortable chairs and printers and headphones may become “needs” rather than “wants.” Due to stimulus checks and increased unemployment benefits, personal income has actually risen since the pandemic months (*see Exhibit 3*) so a similarly sharp rise in spending would normally be expected. However, this is anything but a normal back-to-school season. Soft results would be concerning, but strong results don’t necessarily have the same staying power of a typical year.

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