

## **Defense Sector Surge Impacts Retail Economy**

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In 2020 during the height of CoVid, small and medium-sized enterprises made up nearly 95% of U.S. defense sector firms, and created 64% of net new private sector jobs. Traditionally, in a historical sense, defense sector impact on the US economy as a whole has invariably been highly significant, particularly in those states where the defense industry has a predominant role, such as Virginia, California, Texas and New York, among other leading states participating in the defense economy.

Ranking	State	\$ B
1	Virginia	\$62.7
2	California	\$57.4
3	Texas	\$47.3
4	New York	\$30.9
5	Florida	\$30.1
6	Maryland	\$26.3
7	Massachusetts	\$21.3
8	Connecticut	\$19.3
9	Washington	\$19.1
10	Pennsylvania	\$16.5

Defense-related personnel spending represents the largest contribution of US defense spending to the domestic economy, and continues to drive retail consumption by members of the defense and military community, their dependents, as well as through direct impact of defense spending at the level of state economies that benefit from the presence and expansion of defense firm outlays, activity, development and expenditures in their local communities.

Similar stories abound in other smaller states with grass-roots retail economies that are not positioned in the top ten defense industry states. For instance, In a recent survey conducted by the State of Utah and the Ken C. Gardner Policy Institute, in the past five years the defense sector has injected 102,000 jobs and over \$9B into the state's economy. According to the University of Alabama, defense expansion driven by overseas conflict is contributing an annual economic impact of \$50.3 billion, providing 264,780 jobs across Alabama with a growing annual payroll of \$19.3 billion.

Economic trends are similar at a local level. According to a recent report from the State of South Carolina, in Albermarle County, the defense industry directly accounts for 3,972 jobs, \$421 million in labor income, \$501 million in value-added, and \$642 million in output. When indirect and induced

impacts stemming from this activity are accounted for, the total regional economic impact is 7,347 jobs, \$618 million in labor income, \$831 million in value-added and \$1.2 billion in output. This represents 5.9 percent of Charlottesville region employment, 7.5 percent of labor income, 6.2 percent of value-added, and 5.7 percent of output. Similar trends may be found at a civic level: a recent military economic impact report for the City of San Diego reports \$36 billion in direct and indirect defense spending resulted in 356,000 jobs and had a \$56.2 billion impact on the region's economy. That's almost one-quarter of all jobs in the county and a quarter of the economy for San Diego County.

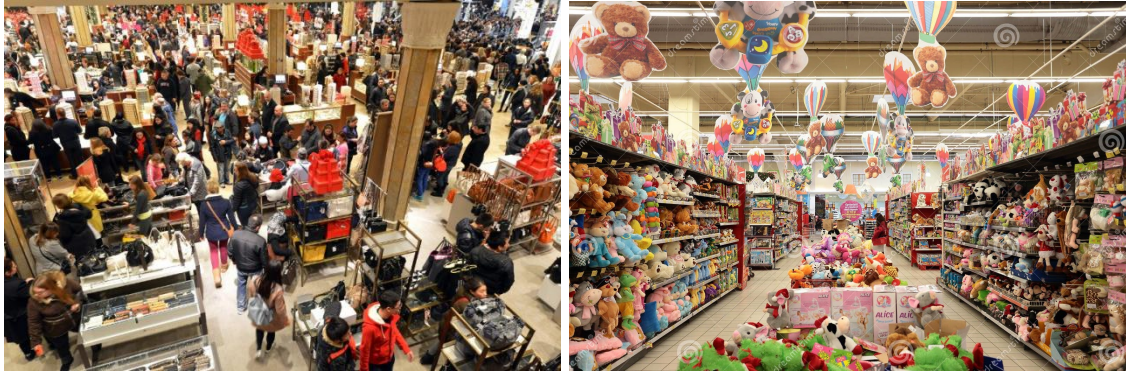
At a local level, the primary impact of fiscal injection to regional economies has traditionally driven retail consumption by defense sector and military wage recipients and their dependents -- and has contributed an out-of-share component of indirectly-driving the infusion of bystander capital toward local development and expansion of infrastructure and other economic sectors, in particular the local retail consumption economy. In short, and in many settings, defense impacts consumption and retail spending in a manner that outperforms the impact of all other economic forces.

Not surprisingly, a large portion of the funds designated for conflicts in the Ukraine and Middle East, are primarily invested in terms of increased US domestic defense industry manufacturing orders, industry infrastructure expansion, inclusive increasing the wage-earning defense sector workforce. Thus, funds earmarked for intervention in offshore geopolitical conflict and aimed at supporting the US National Interest abroad are actually invested primarily on a domestic basis -- in local economies at home in the US, thereby bolstering the defense industry and sustaining American manufacturing jobs. This translates to more business for US companies and sustained employment for local communities in which defense sector enterprises operate.



### ***Conflict Abroad Drives US Domestic Defense and Retail Sector Economic Growth***

Expansion of defense sector infrastructure and capabilities at a local level leads to an infusion of indirect bystander capital and growth in local economies, in turn promoting local real estate and business development in the affected communities. Of course, a primary additional effect of defense sector expansion fueled by foreign conflict is the infusion of expanded wages for wage-earning defense sector and military personnel, as well as their immediate dependents and more peripheral beneficiaries (sales and commerce). In turn, expansion of the wage-basis for local and regional economies drives consumption, primarily at a retail level, and this represents a massive but largely hidden impact of increased domestic defense sector outlays, which paradoxically are driven by the expansion of geopolitical conflict -- a concept that drives the adage: bad news can invariably be good news. It stands to reason that the domestic defense industrial base is a potent driver of the US retail economy, particularly during times of expansion, this despite that US defense expenditures expected to exceed \$890B for 2024 are dwarfed by a \$7.1T annual domestic retail sector sales market -- yet, it is an under-recognized economic reality that a defense economy only 12.5% that of the retail economy exerts an outsized driving impact on domestic retail market consumption and development.



***Retail Outlets Nationwide Presented Stacked Shelves on Black Friday -- November 2023***

Regrettably then, conflict and war abroad contributes to economic domestic stability, particularly as reflected in the current health of the US consumer retail economy, which according to the NRF is experiencing 4-6% growth rates and an expansion of retail sales from \$5.13T to \$5.23T between 2022 and 2023, just on the cusp of emerging from the impact of the CoVid pandemic.

As an offside indicator of the impact of foreign conflict on domestic retail sales, global toy sales -- with a large military and aviation theme component -- are expected to grow by a CAGR of 4.9% between 2024 and 2028, reaching an eventual \$422B market valuation in a recreation retail economic sector where toys with military and aviation themes abound. Not surprisingly, analysts expect multiregional conflicts highly publicized in the media to have a particular impact on buying trends in the US industry.



***Aviation Toy Display in San Francisco***

Emerging from a transient CoVid era-induced sector depressive slump, the global defense industry sector market inched back up to a value of \$2.24T in late 2022, and is projected to expand at a 5% CAGR. Of this amount, western defense industry sector markets represented revenues of \$741 billion in 2022, and a \$67 billion in operating profit according to PcW. Domestically, the US Defense Market size is estimated at USD 617.29 billion for 2024, and is expected to reach USD 651.16 billion by 2032, growing at a CAGR of 0.67%. Moreover, the Defense industry commands a total of 71 stocks, with a combined market cap of \$802.65 billion, total revenue of \$403.26 billion and a weighted average PE ratio of 43.40.

In contrast to the defense sector, the 2022 global space technology market reached \$419B and is projected to reach \$843B in 2032, subtending a 7.4% CAGR and thereby bringing the combined value for global Space and Defense markets to well over \$2.6T. Given the overlap of Space and Defense Technology as well as the massive impact of the space sector on the terrestrial communications economy, trends here are expected to dovetail with the impact of defense sector dynamics, both as relates to the overall impact on both the domestic and international retail economies.

With regard to defense expenditures alone (excluding the space sector), US outlays increased the most, now exceeding \$800B annually, and at present rates subtending a yearly increase of \$70B, this according to KPMG. Supply-chain constraints remain one major downside in the defense sector, as the push to transition component sourcing to domestic and allied product and manufacturing origin becomes a paramount concern for the industry. Another traditional constraint in the industry are low operating margins, hovering just above 7.18%. However, largely driven by multiple conflicts abroad, between 2023 and projected into 2024, gross defense sector quarterly margins rose dramatically



from an average of 23% during Q1-3 2023, to a vigorous close at 34% for Q4, 2023, not discounting a 412% increase in EBITDA margins.

Major US and European Defense Sector Players include Lockheed Martin, RTX, Boeing, Northrop Grumman, General Dynamics, BAE, L3, Thales, Leidos, Dassault, BAH and Honeywell, among others. Small businesses make up 99.7% of U.S. defense firms and create 64% of net new private sector jobs.

In contrast, and viewed in an overall context the retail sector is one of only two economic segments which outclass the defense industry in size, reach, scope and monetary value. Within the overall retail market spread, the seven subsectors that the financial industry generally accepts for analyzing the retail industry span multiple global markets, including food, clothing & textiles, consumer durables, footwear, jewelry, entertainment and gifts, as well as energy and fuel. However, as is widely-accepted even on Wall Street, the retail market now encompasses a far wider range of sub-industries including retail investment services, retail tourism, as well as non-commercial real estate. No reliable comprehensive monetary value assessment is thus readily accepted by Top Ten Banking economists for adequately-characterizing retail commerce, but most major banking analysts agree on a value of \$7.1T for the overall global retail economy, including sales, acquisitions, asset growth and other factors which play into such assessments for an overall sub-economy. In contrast, and joined by the energy and food sector, the retail economy is one of the only two market sectors that outpace defense and space on a global scale.

Finally, in the face of expanding conflict in the Ukraine and the Middle East, alongside the potential threat over a military conflict in the West Pacific related to Taiwan, as US Defense spending skyrocketed into late 2023, holiday sales in the US demonstrated 4.9% growth for online retail commerce alone, as compared with 2022.



***Holiday Window Displays at Saks Fifth Avenue in New York***

Ultimately, the interplay dynamics between the domestic defense sector and retail economies represent eloquent complexity, but two trends are undeniable: the US defense economy remains a major driver for the retail market sector, and that impact is particularly germane with respect to retail sales consumption and growth of local and regional retail sector economies across the nation.

Most importantly, many economic analysts agree that as foreign conflicts multiply and expand, this bystander effect of the defense sector on the domestic US retail sector is expected to continue in augmented fashion.

To quote a memorable line from a recent James Bond Motion Picture, the regrettable latter trend underscores the fact that invariably -- where profit is concerned -- *"there's no news like bad news"* !