January 8, 2010

Retailers See Holiday Sales Rebound From 2008

By STEPHANIE ROSENBLOOM

In the game of chicken between American retailers and consumers this holiday season, the retailers won.

For most of November and December, traffic in the nation's stores was light, with many people seemingly holding out for the eye-popping bargains of the year before. But figures released Thursday showed that retailers, by keeping tight control over their inventories, were able to avoid deep discounting. And many consumers finally surrendered, buying what they needed in a last-minute sales surge right before Christmas.

"The consumer blinked first," said Bill Dreher, a senior research analyst with Deutsche Bank Securities.

On Thursday, retailers reported robust December sales gains, suggesting that stores might be in the early stages of a comeback. The industry collectively turned in a 2.9 percent year-over-year sales increase at stores open at least a year, according to Thomson Reuters. Some 75 percent of retailers beat analysts' estimates — the most companies to do so since March 2007, said Jharonne Martis, director of consumer research for Thomson Reuters.

Several retailers — including Macy's, Nordstrom, Aéropostale, TJX Companies, Ross Stores, American Eagle Outfitters and Limited — expressed their growing confidence by raising their earnings estimates.

"The window shoppers are turning into spenders," Mr. Dreher said.

The Christmas results were the latest sign that the economy, while still a long way from boom times, has turned a corner. On Friday, the government is to release employment figures for December that many economists say they believe will show further progress.

A truly robust recovery for retailers requires that the nation's unemployment rate begin to fall.

"Until the unemployment number heals, we're not going to see consumers come back," Ms. Martis said. "That is the one economic indicator that all consumers understand."

The International Council of Shopping Centers, a trade group, said that for the crucial holiday shopping season, November and December combined, the industry posted a 1.8 percent sales increase for stores open at least a year, a figure known as same-store sales. That is a marked contrast from the 5.6 percent decline in 2008. By the council's calculations, it is the best seasonal pace since 2006, when sales increased 4.4 percent.

"You're starting to feel stability, and hopefully we'll start to see growth from here," said Stephen I. Sadove, chairman and chief executive of Saks, the luxury retailer.

December's best sellers were electronics, shoes and toys. In fact, Toys "R" Us said its same-store sales rose 4.6 percent at United States stores and 1.1 percent at international stores.

A cold spell and snowstorms helped drive sales of clothing and gift cards. The weather also prompted more consumers to shop on the Web rather than don their boots. Macy's, for one, said its online sales soared 29.4 percent in December.

Analysts were pleased that the results were at the high end of estimates and that retailers managed their inventory well — ordering far less merchandise but selling it at full or almost full price.

Yet the industry's 1.8 percent increase is not an all-clear signal. Retailing professionals are careful to characterize any signs of life as fragile. Consumers are still not spending at the levels they were before the recession. And in December, the stores were measuring their performance against the bleak numbers of 2008. Chains also benefited this winter from an extra selling day before Christmas, as well as pent-up demand from consumers who had been pinching pennies all year.

Nonetheless, December was a reversal of the recent gloomy trend, with sales growth the norm across retail chains rather than the exception.

Luxury chains, among the stores hit hardest by the downturn in 2008, are seeing especially robust growth. Sales in December were up 9.9 percent at Saks, 7.4 percent at Nordstrom and 4.9 percent in the specialty retail segment of Neiman Marcus, which includes Neiman Marcus and Bergdorf Goodman stores.

Saks's results were helped by a year-over-year shift in the timing of the chain's designer clearance sale. Nordstrom introduced new lower-priced merchandise, which it sold at full price, a tactic that served the company well.

"Is the high-end consumer fully back?" Ms. Martis said. "No. They're still being frugal. They're only buying if it's a promotion or a good value."

It should come as no surprise, then, that discount retailers were among the month's best performers. Same-store sales climbed 9 percent at Costco, 4.8 percent at BJ's Wholesale Club and 1.8 percent at Target. (Wal-Mart, the nation's largest retailer, stopped reporting monthly sales figures last year.)

Clothing chains that sell designer names at low prices also continued to shine. TJX Companies, which owns T.J. Maxx and Marshalls stores, had a 14 percent same-store sales increase. Ross Stores, a TJX competitor, posted a 12 percent increase. Same-store sales at value-priced retailer Kohl's rose 4.7 percent.

Midprice department stores, which have been struggling for a while, posted some of the month's weakest numbers. Sales declined 7 percent at Dillard's, 3.8 percent at J. C. Penney, 2.6 percent at Bon-Ton Stores and 2 percent at Stein Mart.

At Macy's, sales ticked up 1 percent. Terry J. Lundgren, the president and chief executive, said in a statement that sales at both Macy's and Bloomingdale's were better than in 2008, and that Bloomingdale's had a particularly good December, with strong sales in gifts and designer brands.

Analysts at Thomson Reuters have noted that consumers were still holding fast to their discretionary dollars, and they cited as an example the weak numbers posted by stores that cater to teenagers. That sector fared the worst in December, posting a 2.5 percent same-store sales decline, according to Thomson Reuters.

Same-store sales fell at Abercrombie & Fitch (down 19 percent), Hot Topic (down 10.9 percent), American Apparel (down 5 percent), Wet Seal (down 4.6 percent) and Limited Brands, which owns chains like Victoria's

Secret and Bath & Body Works (down 2 percent).

The declines did not extend across the entire teenage clothing category, though. Sales increased at Aéropostale (up 10 percent), American Eagle Outfitters (up 7 percent), Buckle (up 6.6 percent), Urban Outfitters (up 5 percent), Gap (up 2 percent thanks largely to its value-priced Old Navy division) and Zumiez (up 0.3 percent). Sales at Children's Place increased 4 percent.

Analysts expect retailers to have healthier profit margins this year. What remains to be seen is whether, against a backdrop of high unemployment and tight credit, consumers will go back into hiding again now that Hanukkah and Christmas are over.

With no major holiday to spur shoppers and little inventory in stores, the International Council of Shopping Centers is predicting that in January same-store sales will be at best up 1 percent.

Mr. Dreher of Deutsche Bank Securities said caution might prevail in the coming weeks, as credit card statements for the Christmas spending arrived in mailboxes.