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Commerce

Retailers' May Misery

Tom Van Riper, 06.04.09, 4:55 PM ET

Another month, another round of lumps for U.S. retailers.

Sales at major chains were down across the board in May, from department stores to luxury chains and even discounters, according to the numbers gathered by the International Council of Shopping Centers. Same-store sales dropped 4.6% on average from May 2008, more than the 3% analysts expected. And with unemployment still rising and consumers still hoarding cash, don't expect things to improve any time soon, say experts.

"We're losing half a million jobs a month--what's that going to do for sales?" asks Howard Davidowitz, who runs New York-based Davidowitz & Associates, a retail consultancy and investment bank. He projects personal savings rates, which reached 5.7% in April, according to Commerce Department figures, to reach to 9% or higher in the coming months.

Big department store chains, which rely largely on apparel, continue to lag. Comparable sales from last year were off 8.2% at J.C. Penney, 9.1% at Macy's and a whopping 28% at Abercrombie & Fitch. Also down were Limited Brands (off 7%), and Gap, which saw comp sales drop 6%, despite a solid performance from its Old Navy unit.

Things were even worse at luxury retailers, which customers have largely avoided like the plague during the credit crisis. Same-store sales dropped 26.6% at Saks and 13.1% at Nordstrom from May 2008.

Even the discount sector--a relative safe haven that's grabbed up shoppers looking to economize in recent months--had a lackluster May. Sales were off 7% at both Costco and BJ's Wholesale Club, thanks in part to lower gas prices. Target, the priciest of the discounters, reported a 6.1% drop. Shoppers, Davidowitz notes, are still gravitating to basic necessities at low prices. Ruling that space is Wal-Mart, which no longer announces monthly sales results. Target, more dependent on discretionary spending, is getting hit.

"It's just a bad time to be in discretionary goods," says Davidowitz.

It's been a rough first half for Target. May was the fourth month out of five that comparable sales declined, each time by 3.3% or more.

Meanwhile, Father's Day spending is expected to drop 5% this year from 2008, according to a recent survey from market research firm Brand Keys. Four in 10 people say they will be buying their Father's Day gifts at discount stores, a 4% jump from last year.

Some industry followers see rays of hope on the horizon. Consumers aren't actively seeking deals before buying as often as they were last summer, according to the latest survey from Retail Forward, a consultancy and market research firm specializing in retail strategies. When asked in May how much the economic environment has changed their shopping patterns, only 27% said it's changed their behavior "significantly," down from 34% who said so last August.

"Fewer people are seeking deals, trading down or limiting [their purchases], which is a good sign," says Frank Badillo, a Retail Forward economist. The May sales numbers suggest many shoppers are in fact still doing those things. But the evidence of a change in mindset could be a sign that things are ready to thaw. Badillo still sees negative sales growth continuing through the summer before turning positive in the fourth quarter.

Retailers, meanwhile, have done a decent job adjusting to the new reality, Davidowitz acknowledges, by slashing overhead and

downsizing payrolls and store counts. But it will be a while before they'll be looking for the next consumer spending binge to kick in.

"They're closing stores and renegotiating leases; they're just caught in a tsunami of a consumer pullback," says Davidowitz.