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In final lap of U.S. earnings, it's retailers' turn

By Caroline Valetkevitch

NEW YORK, Aug 7 (Reuters) - If the strong earnings trend keeps up next week, black will be back in style on the balance sheets of more of the nation's retailers.

Like other companies struggling in the recession, retailers have been cutting costs and paring down inventories, moves likely to boost their bottom lines, analysts said.

Moreover, restaurant companies, including Chipotle Mexican Grill (CMG.N: [Quote](#), [Profile](#), [Research](#), [Stock Buzz](#)), P.F. Chang's China Bistro Inc (PFCB.O: [Quote](#), [Profile](#), [Research](#), [Stock Buzz](#)) and Domino's Pizza Inc (DPZ.N: [Quote](#), [Profile](#), [Research](#), [Stock Buzz](#)) posted profits this week that topped analysts' expectations, a potentially positive sign for retailers.

"We've seen the retailers track the restaurant companies a little bit, and a lot of them came out a little better than expected," said Joseph Feldman, retail analyst with Telsey Advisory Group in New York.

"I would bet we see some upside from a lot of the retailers."

Among some of the top names reporting next week are Wal-Mart Stores Inc (WMT.N: [Quote](#), [Profile](#), [Research](#), [Stock Buzz](#)), Macy's (M.N: [Quote](#), [Profile](#), [Research](#), [Stock Buzz](#)), Kohl's Corp (KSS.N: [Quote](#), [Profile](#), [Research](#), [Stock Buzz](#)), Nordstrom (JWN.N: [Quote](#), [Profile](#), [Research](#), [Stock Buzz](#)), Abercrombie & Fitch (ANF.N: [Quote](#), [Profile](#), [Research](#), [Stock Buzz](#)), J.C. Penney (JCP.N: [Quote](#), [Profile](#), [Research](#), [Stock Buzz](#)) and cosmetics company Estee Lauder (EL.N: [Quote](#), [Profile](#), [Research](#), [Stock Buzz](#)), which sells its products via its own Web site in addition to its distribution through major retailers.

If results come in ahead of current estimates, that would fall in line with what investors have seen so far from corporate earnings.

Seventy-three percent of the Standard & Poor's 500 .SPX companies' results so far have beaten analysts' estimates -- well above the 61 percent for a typical quarter, according to Thomson Reuters data.

S&P 500 companies' second-quarter earnings are seen declining 28.3 percent from a year ago, but that percentage has improved from a forecast for about a 36 percent drop at the start of the second-quarter reporting period, Thomson Reuters data showed.

With reports from more than 85 percent of S&P 500 companies already in, the percentage is unlikely to change much, said John Butters, director of the research group at Thomson Reuters.

HOPEFUL SIGNS, BUT NO PARTY

Within the S&P 500, the consumer discretionary sector, where retailers fit, is expected to show a 15 percent decline in earnings from a year ago.

On Thursday, retailers reported their 11th straight month of same-store sales declines in July. But some chain stores, including Gap Inc (GPS.N: Quote, Profile, Research, Stock Buzz), gave upbeat profit forecasts.

Worth noting: An S&P index of retailers' shares rose 3.6 percent on Friday following a stronger-than-expected July jobs report from the U.S. government.

"I think you've seen the stocks relatively strong for a couple of months now, and I think that's indicative of retail comps, and that bodes well for the majority of retail earnings," said Michael James, senior trader at regional investment bank Wedbush Morgan in Los Angeles.

But it might be too soon for investors to put on their party shoes.

James said retail stocks could sell off in spite of upbeat earnings news because of their recent gains. In the past month, the S&P Retail Index has jumped 22.5 percent.

And signs still point to sluggish consumer demand. Last week's report on gross domestic product showed consumer spending, which accounts for two-thirds of U.S. economic activity, dropped in the second quarter after rising in the first quarter.

And even though the U.S. government's employment report on Friday showed fewer-than-expected job cuts in July and a slight decline in the unemployment rate, many analysts say the labor market is expected to remain weak for some time.

"The consumer is still very cautious and it's a tough retail environment," said Fred Dickson, market strategist at D.A. Davidson & Co. in Lake Oswego, Oregon.

"What I'm more interested in (in next week's results) is what their assessment is on back to school and holiday order flows," he said.

The holiday period accounts for the bulk of many retailers' profits. For some retailers, especially those that sell toys or gifts, holiday sales are a make-or-break item. (Reporting by Caroline Valetkevitch; Additional reporting by Ryan Vlastelica; Editing by Jan Paschal)