September 22, 2009

US holiday 2009 sales may fall from low 2008 level

By Nicole Maestri

SAN FRANCISCO, Sept 22 (Reuters) - U.S. retailers have had a year to reposition their businesses to prepare for a recession Christmas, but early forecasts are that 2009 holiday sales will likely be flat to down versus last year's depressed level, with the possibility of a 1 percent rise at most.

U.S. consumers are struggling amid rising unemployment and a lack of access to credit, while retailers have slashed inventory and lowered prices; all those factors could cut sales dollars.

Britt Beemer, chief executive officer of America's Research Group, was one of the first to predict that 2008 holiday sales would fall. He is now issuing the most dire forecast for the 2009 holidays, warning of a "train-wreck" Christmas in which sales could fall 3.5 percent or more.

"Nobody likes to say it, but I'm the one who will," he said. "Consumers are still shell-shocked."

Investors, meanwhile, have been in a festive mood, betting that the worst is behind and retailers will be benefit from a recovery in consumer demand. The Standard & Poor's Retail Index .RLX> is up 69 percent since March 9, outpacing a 57 percent rise in the S&P 500 index .SPX>.

Walter Todd, co-chief investment officer at Greenwood Capital, said retailers need to start showing some improved fundamentals to support the retail rally through the holidays.

"If the holiday season is disappointing relative to expectations, you could see a pretty decent pullback," he said.

CAUTION PERVADES CHRISTMAS SALES FORECASTS

In 2008, total U.S. holiday retail sales fell 2.8 percent, according to the National Retail Federation, marking the first decline since the trade group began tracking such figures in 1995. It was a far more dismal result than the trade group's original forecast that sales would rise 2.2 percent.

The results were even gloomier according to the International Council of Shopping Centers, which said sales in November and December declined for the first time since it began tracking figures in 1969.

This year's early holiday forecast provides little cheer.

Deloitte expects total holiday sales to be flat with a year ago for the November-through-January period, while Richard Hastings, consumer strategist at Global Hunter Securities, has forecast sales to be down 1 percent to up 1 percent in the period of Oct. 31 through Jan. 31, 2010.

Sung Won Sohn, an economics professor at California State University and a vice chairman at teen retailer Forever 21. said that stripping out inflation, sales could fall 1 percent.

"The jobs situation is much worse than a year ago and the jobless rate will continue to rise for a while," he said. "In this environment, it's hard to imagine consumers going on a shopping spree."

The jobless rate climbed to 9.7 percent in August, while a gauge of the officially unemployed and discouraged job seekers rose to a record 16.8 percent in August.

Shopping sprees are also being constrained by credit card companies, which are curbing consumers' access to credit. In the past year, issuers have cut the number of cards by 19 percent and slashed credit limits by $721 billion, according to credit bureau Equifax Inc. ID:nN21304750

Amid the uncertain situation, the NRF has not yet said when it will release its holiday forecast. Last year, it was released on Sept. 22, but spokesman Scott Krugman said the NRF is awaiting more economic data.

"The economy is improving, but the consumer is not out of the woods yet," he said.

AT LEAST BETTER THAN THE THIRD QUARTER?

Telsey Advisory Group analyst Joseph Feldman said investors are realizing 2009 holiday sales may not show any improvement from 2008. But they do expect fourth-quarter same-store sales trends to show some improvement from the current third quarter.

"If the fourth quarter took a downturn from the third quarter, that would be viewed as very negative," he said.

Sarah Henry, retail analyst at MFC Global Investment Management, said investors may overlook holiday sales woes to focus on profits. In the past year, retailers have cut expenses and inventory to offset slumping sales and protect profits.

"Investors need to feel confident that the cost-cutting has been appropriate," she said.

But that does not mean Wall Street will completely write off holiday sales results, especially if they come in much below current muted expectations.

"People are pretty much sticking to that midpoint -- we're just going with flat (holiday sales) for now," she said. But the rally could come to an end should sales show "another leg down or the idea that we have not reached the floor." (Reporting by Nicole Maestri, editing by Gerald E. McCormick)