

Retailers Post Only Modest Gains For July

Manufacturing.net

NEW YORK (AP) -- Deep discounts on summer leftovers and hot weather drove U.S. shoppers into malls in July, but they remained choosy, resulting in only modest gains.

The sluggish spending raises worries about the health of the back-to-school season as Americans step up saving amid a stalling economic recovery. Already, retailers like teen specialists Abercrombie & Fitch Co. and American Eagle Outfitters Inc. are offering generous discounts on new jeans.

As stores reported their results Thursday, there were some clear winners. Costco Wholesale Corp. and Limited Brands Inc. had robust gains. Macy's Inc. posted a strong increase, and the CEO said that the back-to-school business was off to a "great" start, helped by its newly launched Material Girl fashion collection created by pop star Madonna and her 13-year-old daughter, Lourdes.

But those figures are being compared with dismal spending in July 2009.

Teen merchants were among the hardest hit, with The Buckle Inc. and The Wet Seal Inc. suffering declines.

The figures are based on revenue at stores opened at least a year and are considered a key indicator of a retailers' health.

"People were out there, but retailers were much more promotional," said Ken Perkins, president of research firm RetailMetrics. "This doesn't bode well for back-to-school. It's going to be late, and stores are going to have to be very promotional all the way through."

He added that consumers, particularly in the low- to middle-income brackets, are in a "buy now, wear now" mode because they don't have a lot of discretionary income.

July marks the fourth straight month of weak spending after retailers got a surprise bounce earlier in the year amid a rising stock market and government incentives. But confidence is falling as worries grow that the economic recovery is stalling. An unemployment rate that's still stuck at almost 10 percent and tight credit are making shoppers focus on saving more and being picky about what they buy.

July marks the end of most retailers' fiscal second quarter. But it's the least important month in the quarter because stores use it to clear out summer leftovers and bring in fresh fall merchandise. This year, stores had to discount more than they had planned in June and July on summer items to pull in recession-scarred shoppers. But the big discounts on new fall merchandise shows the battle to woo consumers will continue.

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Aeropostale Inc. just started marking down all new jeans by 50 percent. They're 40 percent off at Abercrombie & Fitch Co. American Eagle Outfitters Inc. is discounting all of its jeans. Jeans priced at \$39.50 are now \$29.50, for example.

Target Corp. reported that an increase in customers and higher food sales helped July revenue in stores open at least one year rise 2 percent in July. But the discount retailer's results fell just short of a 2.3 percent increase that analysts surveyed by Thomson Reuters expected.

Strong food, household and beauty product sales were offset by weak electronics, video games, music and movie sales.

Wal-Mart Stores Inc., the world's largest retailer, no longer reports monthly figures.

Costco's 6 percent gain was driven by fuel sales and international revenue. Analysts expected that measurement to rise 5.5 percent.

Among department stores, Macy's posted a better-than-expected 7.3 percent increase. Penney had a 0.6 percent decline, below the 3.4 percent gain projected by Wall Street. J.C. Penney said that men's clothing and women's accessories were top performers, as were sales of summer apparel and accessories across most categories.

July's strength, however, was offset by Penney's selling through its clearance inventory at a faster rate, and often at sharper discounts than in the year-ago period, the retailer said. This resulted in lower total clearance sales when compared to last year, but enabled the chain to enter the back-to-school season with fresh inventory.

Limited, operator of Victoria's Secret and Bath and Body Works, reported a 12 percent gain, more than double what analysts expected. The company raised second-quarter net income guidance.

But teen clothing chains, hit hard by high unemployment among 16- to 19 year-olds, were among the weakest performers.

American Eagle reported flat results, slightly better than the 0.2 percent decline analysts had predicted. Abercrombie & Fitch had a 7 percent increase, beating the 4.1 percent estimate, but still far from making up for a 28 percent drop a year ago.

Aeropostale Inc., which had been one of the bright spots in teen fashion, posted a modest 1 percent increase for July, far below the 7.1 percent increase expected by Wall Street. As a result, it trimmed the top part of its earnings guidance for the second quarter.

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