# Retail sales drop unexpectedly in April

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WASHINGTON – Retail sales fell for a second straight month in April, a disappointing performance that raised doubts about whether consumers were regaining their desire to shop. A rebound in consumer demand is a necessary ingredient for ending the recession.

The Commerce Department said Wednesday that retail sales fell 0.4 percent last month. Many economists had expected a flat reading, and the April weakness followed a 1.3 percent drop in March that was worse than first estimated.

Retail sales had posted gains in January and February after falling for six straight months, raising hopes that the all-important consumer sector of the economy might be stabilizing. But the setbacks in March and April could darken some forecasts because consumer spending accounts for about 70 percent of economic activity.

The hope had been that consumers were starting to feel better about spending, helped by the start of tax breaks included in the $787 billion stimulus bill. Households had spent the fall hunkered down in the face of thousands of job layoffs and the worst financial crisis since the 1930s.

The latest retail data "are yet another illustration that, although the worst is now over, there is still no evidence of an actual recovery," Paul Dales, U.S. economist with Capital Economics in Toronto, wrote in a research note.

While anecdotal evidence suggests some improvement in sales in recent weeks, "to offset the plunge in wealth, the household saving rate still needs to double from the current rate of 4 percent," Dales wrote. "With falling employment hitting incomes, this can only be achieved by a further retrenchment in spending."

The jobless rate rose to 8.9 percent in April when a net total of 539,000 jobs were lost and 13.7 million people were unemployed, the Labor Department said last week.

Wall Street tumbled after the weaker-than-expected retail sales report. The Dow Jones industrial average lost about 130 points in morning trading, and broader indices also fell.

In a separate report, the Commerce Department said business inventories fell 1 percent in March, a decline that matched economists' expectations. It marked the seventh straight decrease, the longest stretch since businesses cut inventories for 15 straight months in 2001 and 2002, a period that covered the last recession.

Businesses are continuing to cut their stockpiles in the face of declining sales, a development that has intensified the current economic downturn. Still, the reductions in stockpiles held on shelves and in backlots eventually should help businesses get their inventories more in line with reduced sales. If that is the case, any strengthening in consumer demand should lead to increased production.

The April retail sales dip came despite a 0.2 percent increase in auto sales, which fell 2 percent in March. Excluding autos, the drop in retail sales would have been 0.5 percent, much worse than the 0.2 percent gain economists expected.

Sales outside of autos showed widespread weakness last month. Demand at department stores and general merchandise stores fell 0.1 percent and sales at specialty clothing stores dropped 0.5 percent.

Department store operator Macy's Inc. on Wednesday reported a wider loss for the first quarter due partly to restructuring charges. Still, the company expects to see an improvement in sales from its localization efforts beginning in the fourth quarter of 2009, and in the spring of 2010.

Liz Claiborne Inc. reported a first-quarter loss that was worse than Wall Street expected. The apparel maker said its quarterly loss swelled on restructuring charges and a drop in same-store sales stemming from lower consumer spending and an extra week of sales in the year-ago period.

Sales also fell in April at furniture stores, electronic and appliance stores, food and beverage stores and gasoline stations, according to the Commerce Department.

The performance at department stores and specialty clothing stores came as a surprise since the nation's big chain stores had reported better-than-expected results for April. Same-store sales, rose 0.7 percent last month compared with April 2008. It was the first overall increase in six months, according to the tally by Goldman Sachs and the International Council of Shopping Centers.

For April, some mall-based clothing stores saw their declines level off and Wal-Mart Stores Inc., the world's largest retailer, had reported its same-store sales rose 5 percent, excluding fuel, which beat expectations. Same-store sales, or sales in stores open at least one year, is considered a key metric of a retailer's financial health.

The chain store sales report last week showed that Gap, American Eagle and Wet Seal posted smaller sales declines at their established locations than analysts had forecast.

The Children's Place, T.J. Maxx owner TJX Cos. Inc. and teen retailer The Buckle saw bigger gains than expected. But luxury stores again were hard hit as their higher-end wares find fewer takers.

Consumer spending grew 2.2 percent in the first quarter of the year, after posting back-to-back quarterly declines in the last half of 2008.

Economists believe the overall economy, as measured by the gross domestic product, will show a decline of around 2 percent in the current quarter. That would represent an improvement from the steep declines of 6.3 percent in the fourth quarter of last year and 6.1 percent in the first three months of this year, the worst six-month performance in a half-century.

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