Financial Armageddon

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180 Degrees Apart

The key holiday selling season is fast approaching and reports are beginning to surface about what we should expect. In "Retailers Expect Flat Christmas Sales This Year," the *New York Times* suggests the mood in the industry is brightening up:

In the retail business, it is never too early to think about Christmas. So a lot of people are thinking about it, and taking surveys to test the mood of the American consumer, and deciding that this Christmas will be as bad as last — which is to say, one of the worst on record.

Retailers are relieved to hear that prediction. Flat sales this holiday season would at least mean that things had stopped getting worse.

“It’s reflective of this ‘new normal’ we’re in,” said James Russo, vice president for global consumer insights at the Nielsen Company. “Flat is good.”

Over all, the retailing industry posted a sales decline of about 2 percent last Christmas season, the weakest performance since the late 1960s, when the Commerce Department began tracking holiday sales figures. Results for stores that sell clothing and luxury goods were far worse, typically declining by double digits. By contrast, several reports published in the last few days, including surveys by Nielsen and Deloitte, forecast no change in holiday sales from last year to this year.

While recent economic reports have been mixed, several indicators suggest the economy is beginning to improve. But the turnaround, if it is real, has yet to filter through to retail sales, which are closely tied to the unemployment rate. That rate worsened more than expected in a government report on Friday, rising to 9.8 percent.

Analysts say that many consumers are still worried about their jobs, their stock portfolios and the value of their homes. They remain hamstrung by a tight credit market. Few experts foresee a robust recovery in consumer spending until the unemployment rate starts heading down, perhaps sometime next year.

If a mood of thrift and penury continues into the holiday season, retailing analysts said the beneficiaries, not surprisingly, would be discount and dollar stores, warehouse clubs and Internet retailers, as shoppers across all income levels spend less and make fewer trips to stores.

A holiday study published by Nielsen this week found that 85 percent of households expected to spend the same or less this year than last year.

People are also continuing to nest in their homes. This Christmas, sales of necessities and items associated with at-home entertainment are expected to fare best: cookware and other kitchen sundries, consumer electronics, DVDs, alcohol, tobacco and bed and bath accessories. The Nielsen report said upscale retailers should consider stocking practical items because affluent households may forgo jewelry and designer bags for the likes of generators, fireplace accessories, kitchen gadgets and family games.

As has been the case throughout the recession, higher-priced categories like jewelry, sports equipment and vacations are expected to be hurt most. Industry experts said that would probably lead merchants of those items to offer compelling discounts, some of which will pop up before Thanksgiving.

Indeed, Moody’s Investors Service said in a recent research note that while clothing retailers had brought their inventory in line with weaker demand, the holiday season “may be more promotional than anticipated, as consumers have learned to delay shopping in anticipation of higher markdowns.”

Already, major big-box chains are jockeying for the discretionary dollars of consumers.

Wal-Mart said this week it would bring a $10 toy section back to all of its stores, repeating a successful strategy from last Christmas. It will offer many more toys, for a wider variety of age groups, at that price. The offers will include classic board games like Monopoly, childhood favorites like Barbie dolls and Tonka trucks, a Hot Wheels Trick Track and a Lego Bionicle Legends set. Additionally, Wal-Mart said it would match any local competitor's advertised offer on the same toy if the price fell below $10.

On Tuesday, Kmart published a "Fab 15" toy list, highlighting a layaway program that lets consumers reserve popular items early, pay over time, then pick up their purchases before the holidays arrive.

The stores may have good reason to begin competing for consumers' Christmas dollars before Halloween even rolls around. According to Wal-Mart's customer research, 70 percent of consumers are planning to start their holiday toy shopping before Halloween.

Analysts closely watch discount chains because when consumers begin spending discretionary dollars after an economic downturn, they typically do so at discount and value-priced retailers first. As time goes on and the economy recovers, consumers move up to specialty retailers. Many analysts have said that if consumers spend more this holiday season at the likes of Wal-Mart and Costco, that bodes well for specialty stores come 2010 and 2011.

Mr. Russo said studies by Nielsen had found that consumers were indeed "expressing a desire to move back into the discretionary categories although — and this is really key — at moderate levels."

In another positive sign, Ted Vaughan, a partner in the retail and consumer products practice at BDO Seidman, said, "Retailers are starting to ramp up their inventory purchasing" for next year, referring to a BDO Seidman survey of chief financial officers at major chains.

The International Council of Shopping Centers, an industry trade group, published one of the most optimistic of the holiday reports so far, forecasting a 1 percent year-over-year sales increase in November and December for stores open at least a year.

"Does the retail industry need a miracle to have positive year-over-year sales growth during the 2009 holiday season?," the report said. "No, but should you see Kris Kringle at the Macy's Thanksgiving Day Parade, put in a request for one anyway!"

Halfway around the world, however, the outlook is much more pessimistic. In"Xmas Season Orders Don't Bode Well for Chinese Exporters," ChinaStakes.com reveals that one of our biggest trading partners -- the U.S. accounted for nearly a quarter of the nation's exports in 2008-- is not seeing order flow that would seem to jibe with the newfound hopefulness among American retailers:

The season for Christmas orders has passed, and Chinese exporters do not yet see the slightest trace of any rebound. The export market for Chinese goods next year shows no promise and is hovering near its lows.

On the Pearl River Delta, China's major export base, orders at many shoemakers were already low as the situation has gone from bad to worse. According to China Business News, a European customer's sudden cancellation of an order for original high-end shoes at an unnamed company might cause that company's bankruptcy as it has already bought materials and entered production.

The textile and garment industry has as little cause for optimism. Zhong Haoshen, assistant general manager of the Textile Import & Export Corporation of Guangdong Province, says that in the current export situation, customer risks have increased. Previously, his company bought export credit insurance only for orders from emerging markets such as in the Middle East and Africa to reduce losses when customers cancelled orders or refused to pay. Now it is insuring against losses from European and American markets. Many small businesses, however, can not afford the premiums.

The upcoming Canton Trade Fair over the second half of October will be, as always, an important platform for export enterprises, but analysts see no reason to believe the situation will improve. Most customers will likely take a "look and see" attitude instead of rushing to order and will make final decisions depending on this year's Christmas sales. But mall sales in the US and the EU and other major markets continue to show a downward trend, and export risk increases as both suppliers and demanders become more cautious. Whole-year big orders have turned into two-to-three-month short orders, leaving an unstable field for everybody.

Customs data show that the August value of textile and garment export totaled $15.7 billion, down 15.6%, year-on-year, and 4.1% compared to July. In this year's first seven months, the total value of textile and garment export amounted to $89.17 billion, down 11.15%, year-on-year.

The instability of textile and apparel orders appeared in the first several months, and then recurred in August, when year-on-year decline of growth continued, and month-on-month growth greatly declined after two consecutive months of rise. The outlook remains low, as export decline is greatly related to sluggish demand.

July retail market figures in the US continued to decline. Sales of Abercrombie & Fitch, the largest US casual wear brand, fell 28%. Leisure and fashion giant GAP's numbers fell 8%. Declines at department store chains such as JC Penney and Saks have totaled more than 10%, and even discounter Costco's sales have dropped 7.0%.

Chinese enterprises have been actively adjusting business strategies to supply the National Day golden week, October 1-8. Despite reduced prices, the domestic market must play a more important role in alleviating export pressure.

It's always possible, of course, that those U.S. retailers who see a consumer revival in the period ahead are sourcing their goods from makers based anywhere but China.

Then again, maybe not.

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