After Weak Holiday Sales, Retailers Prepare for Even Worse

Hiroko Masuike for The New York Times
On Thursday, Saks in Manhattan slashed prices to attract shoppers. The retail chain had a slide of nearly 20 percent in
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judgment day is at hand for American retailers.

On Thursday, many chains reported the worst holiday shopping season in decades, and the stores are entering the new year so weakened that some might not survive. A wave of corporate failures that has already taken out stores like Sharper Image and Linens 'n Things is expected to grow substantially worse in coming months, sending some of the well-known names of American retailing into bankruptcy.

Thursday's numbers were, in themselves, no surprise. The weak economy, rising unemployment, winter storms and a dearth of compelling fashions hurt all kinds of retailers in December. On Thursday, many reported double-digit sales declines at stores open at least a year, a measure known as same-store sales and a barometer of retail health.

Industry sales fell 2.2 percent for the holiday shopping season, the biggest decline since at least 1970, according to the International Council of Shopping Centers. December sales dropped 1.7 percent on top of even-weaker November sales, when chains posted a 2.7 percent decline, the council said.

Those numbers would be worse except for some huge categories, like food and beverages, on which consumers were less likely to cut back.

While November and December were tough, people at least had a reason to shop in those months. Retailing analysts say the next couple of months may prove to be even more difficult.

"Even the best of breed are closing stores," said Bill Dreher, senior retailing analyst at Deutsche Bank Securities. "That inventory will need to be liquidated into a market where consumers have no desire to spend."

The number of retailers filing for bankruptcy protection surged last year, but the chains that filed — including Circuit City, KB Toys, Mervyns, Boscov's, Steve & Barry's and Sharper Image — were already weak.

The next wave of filings is likely to include stores that are doing many things right, but that are reeling from a high debt load in addition to a slowdown in sales brought on by the recession.

"What we're now entering into is going to be the hardest quarter," said Marshal Cohen, chief industry analyst for the NPD Group. "During the holidays, consumers must buy something for someone. We've now entered into the postholiday period, where consumers buy based on desire rather than need. The numbers are going to get worse before they get better," he said.

January is typically a slow month for retailers, and the significance of a December sales decline is far greater than a drop-off in January because sales in November and December account for 25 to 40 percent of many retailers' annual sales, according to the National Retail Federation, an industry group.

Still, some stores cannot afford for consumers to go into hibernation this month. Many sold their Christmas merchandise at staggeringly low prices — an act that helped them trim their inventories and increase their same-store sales, but probably eroded their profit margins.

Indeed, retailers like Saks, Nordstrom, Macy's, Target, Gap, J. Crew, Pacific Sunwear and Chico's said Thursday that their margins had been hurt by their aggressive holiday promotions.

Even Wal-Mart Stores, the world's largest retailer and a rare winner in this economy as consumers trade down, missed analysts' expectations and lowered its projection of future results, indicating more rocky months ahead.

In December, Wal-Mart had a 1.7 percent same-store sales increase, not including fuel, but it said Thursday that it expected little improvement this month, with January same-store sales likely to be flat or 2 percent higher.

Thomas M. Schoewe, the company's chief financial officer, estimated Wal-Mart's fourth-quarter earnings at 91 to 94 cents a share, down from the company's previous expectation of $1.03 to $1.07. (The retailer is taking an after-tax charge of about 6 cents a share for the settlement of 63 class-action wage and hour lawsuits.)

Given the economy, Wal-Mart and other retailers are not taking any after-Christmas break from trying to attract customers.

"We're already starting to see markdowns on spring-related goods coming even earlier this year, despite lower inventory stocks," said John D. Morris, a retailing analyst at Wachovia Securities who studies promotions at the nation's malls. "That's a telling sign."

To keep consumers coming in the usually slow months after the holidays, Wal-Mart said Wednesday that it was lowering the prices of items that might help people keep their health and fitness resolutions — like a Gold's Gym elliptical machine for $297 (down from $327) and an eight-pack of Yoplait Light yogurt for $3.50 (down from $4.28).

Stores are also thinking about their orders for next Christmas, which must be placed early in the year. One thing is certain: they will buy less.

This past Christmas, retailers drastically cut prices to drive shoppers through their doors, said Michael P. Niemira, chief economist and director of research at the International Council of Shopping Centers. "But even that strategy was not enough," he said, "as the elevated worry about job insecurity and increased job layoff announcements continued to restrain consumers' willingness and ability to spend."

Department stores of all types, as well as many specialty apparel retailers, struggled. Same-store sales in the specialty retail stores segment of Neiman Marcus, which includes Neiman Marcus and Bergdorf Goodman stores, tumbled 31.2 percent. Sales at Saks sank 19.8 percent. Both high-end chains had improved their same-store sales in November but did not manage to continue the trend in December.

At Nordstrom, sales were down 10.6 percent, though that was better than its 15.9 percent decline in November.

Sales at mall retailers also fell by double digits, including Abercrombie & Fitch (down 24 percent), American Eagle Outfitters (down 17 percent), Gap (down 14 percent), Wet Seal (down 12.5 percent), Chico's (down 12.4), Zumiez (down 12.3 percent), and Limited Brands and Pacific Sunwear of California (both down 10 percent).

December sales fell 8.1 percent at J. C. Penney, 7.3 percent at the Sears Holdings Corporation, 5.8 percent at Bon-Ton, 5 percent at Dillard's and 1.4 percent at Kohl's.

Macy's said Thursday that it would close 11 stores, though its chief executive, Terry J. Lundgren, said in a statement that the closings were "part of our normal-course process to prune underperforming locations each year." The retailer's same-store sales fell 4 percent in December.

Sales at TJX Companies, Ross Stores and Children's Place Retail Stores were flat.

Still, some niche retailers rose above the gloom.

Sales increased by double digits at teenage apparel retailers Buckle (up 13.5 percent) and Aeropostale (up 12 percent). Hot Topic — which struck gold by selling merchandise inspired by the hit teenage vampire film "Twilight" — had a 4.3 percent sales increase.

A Wal-Mart rival, BJ's Wholesale Club, also fared well in December, with sales rising 5.9 percent, excluding fuel.

Other discounters, like Target and Costco Wholesale, were softer, with sales down 4.1 and 4 percent, respectively.

In what passes for good news these days, the erosion in retail sales seemed to slow a bit at the end of December. Michael McNamara, vice president for research and analysis for SpendingPulse, said this week that lower prices of gasoline, extreme discounts, drier weather, pent-up consumer demand for discretionary items, and a calendar shift helped the declines in sales stabilize.

But analysts do not expect that to last. Dean Hillier, a partner and a retail specialist with A. T. Kearney, a management consultancy, said consumers no longer have much appetite for whipping out their wallets.

“That blanket of gloom will get heavier in the next little while,” he said.