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Retail Squeeze Felt Far Beyond Malls

Stores' Poor January Sales Cast Broader Economic Pall On Property Owners, Ports

By **AMY MERRICK** and **KEVIN KINGSBURY**
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A dismal January at the mall offered the latest sign that the U.S. economy is in or near a recession -- and is already sending ripples that reach well beyond the retailers to commercial-property landlords, construction companies and container ports.

Retailers turned in their worst monthly sales results in nearly five years, and big chains appeared to be girding themselves for a prolonged slowdown in consumer spending by announcing plans to close hundreds of stores and cut thousands of jobs.

Even gift-card redemptions, which were expected to give January sales figures a bigger lift, instead offered a glimpse at just how strapped consumers are. **Wal-Mart Stores Inc.** yesterday noted that redemptions were below its expectations, and said consumers were holding onto the cards longer -- or using them to buy groceries rather than treats like electronics.

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Wal-Mart's same-store sales rose 0.5% in January compared with a year earlier, far below its expectation of a 2% gain. For the fiscal year ended Feb. 1, Wal-Mart's U.S. same-store sales rose just 1.4% -- the lowest increase since the company began releasing such data nearly 30 years ago.

In the retail sector's overall results, sales at stores open at least a year, a key measure of performance, rose just 0.3% in January, below widespread expectations of a 1% gain, according to an index released yesterday by Thomson Financial. Half of all retailers tracked by the index turned in sales that lagged analysts' expectations.

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Nevertheless, shares of many retailers rose significantly yesterday as investors put money in a sector that historically has been among the first to rise when the economy recovers.

To prepare for a continued slow period, retailers have announced plans to cut thousands of jobs in stores and headquarters, and close hundreds of locations.

On Wednesday, **Macy's Inc.** announced a sweeping overhaul that will result in a net elimination of 2,300 jobs. **Home Depot Inc.** is cutting 500 positions at its Atlanta headquarters.

Since December, major chains have announced plans to shutter at least 900 locations. In a report last month, the International Council of Shopping Centers predicted that 5,770 retail locations will close this year -- a 25% increase over 2007, and the highest figure since 2004. Women's specialty retailers, which have been slumping for more than a year, have unveiled plans to cut more than 1,000 jobs as a group.

AnnTaylor Stores Corp. plans to close 117 stores, cut 180 jobs, open fewer new locations and delay the launch of a new chain geared toward baby-boomer women. Wednesday **Talbots Inc.** said it will close 100 stores in the coming fiscal year, including the previously announced shutting of its 78 men's and kids' stores, and reduce planned openings. It is cutting national television and print advertising and redirecting about half of what it would have spent to marketing areas such as catalog mailings and emails to customers. "The goal is to reduce the company's cost structure by a minimum of \$100 million by the end of fiscal 2009," Chief Executive Trudy Sullivan said in a conference call with analysts.

The closures, and the corresponding slowdown in new store openings, will increase the pressure on the commercial construction industry, which had been holding up relatively well as the number of residential building projects plummeted. "Vacancy rates for retail space have increased over the last year, which should lead to less construction going forward," Jeffrey M. Lacker, president of the Federal Reserve Bank in Richmond, Va., said Tuesday.

In a conference call with analysts last week, **Simon Property Group Inc.** Chief Executive David Simon said his company will negotiate with retailers who want to close locations. "We may have down time" before a new tenant is found, Mr. Simon said. "But obviously we're going to be very focused on getting the appropriate value for letting them out of the lease."

However, he added that several retailers, such as J.Crew Group Inc., have called to ask about potential vacancies. Mr. Simon also predicted that retail bankruptcies will be relatively modest.

Many chains have spent the last few years holding down costs and cutting back on inventory, moves that have bolstered their balance sheets heading into the latest downturn.

Major retail-container ports will see weak growth or even declines in traffic for the next several months, according to a report issued yesterday by the National Retail Federation and consulting firm Global Insight. Container traffic reflects retailers' expectations for future sales.

Retailers, especially department stores, are crucial advertisers for newspapers, which are seeing their advertising revenue slump. **McClatchy Co.**, which owns daily newspapers around the U.S., said Wednesday that retail advertising declined 2.7% during the fourth quarter. Overall, "the advertising environment in 2008 does not appear to be improving," Chief Executive Gary Pruitt said. "In fact, in January we've seen headwinds from a worsening national economy."

And of course retail sales are affecting the fortunes of manufacturers. After a four-month fight, **Kellwood Co.**, a struggling maker of moderately priced clothing, agreed last week to let shareholders consider a \$21-a-share offer to be acquired by an affiliate of Sun Capital Partners. In a conference call with investors this week, executives at **Whirlpool Corp.**, said they expected the number of home appliances sold industry-wide in the U.S. to drop 3% to 5% in 2008 from 2007.

Retailers now face a major challenge in getting hesitant customers into their stores. Most aren't counting on consumers spending all of the proposed tax rebates in a economic-stimulus bill in Congress, though a portion of the rebates would certainly end up in stores' coffers if the plan is signed into law.

Kohl's Corp., which reported a 8.3% drop in same-store sales, is continuing to hold down inventory while its shoppers remain cautious. "Customers continue to be selective in their purchases, driven by value and need," Chief Executive Larry Montgomery said.

While many stores are doing a better job than in the past at holding down their inventories -- meaning they can afford to be more selective with markdowns -- some are weighing unpalatable options, such as offering steeper discounts at the expense of profit margins.

"The broader environment is one where there seemingly is some downscaling," says Michael Niemira, chief economist at the International Council of Shopping Centers. Retailers "need to think about promoting more heavily to try to drive traffic," he says.

Even high-end shoppers are focusing on bargains. **Saks Inc.**, which reported a 4.1% increase in January same-store sales, said customers are shifting more of their spending to sales events.

In January, shoppers leaned toward practical purchases. In relative terms, discounters and warehouse clubs were among the strongest performers, while many department stores and specialty-apparel chains were weak. Same-store sales rose 7.0% at **Costco Wholesale Corp.**, buoyed by high gasoline prices. Women's retailer **Chico's FAS Inc.** had one of the worst results, with same-store sales dropping 22%.

In recent months, men's clothing sales have been stronger than women's -- a phenomenon that is partly tied to the lack of a strong new direction in fashion, says Brian Tunick, a J.P. Morgan retail analyst.

One strategy that has emerged, Mr. Tunick says, is that chains are pushing into new product categories, such as fragrances, beauty products and intimate apparel. If retailers "have the customer in the door, but they're not necessarily thrilled or finding new fashion, they still want to be part of the brand," he says.

-- *Ilan Brat contributed to this article.*

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