

Retailers Ring Alarm Bells for the Holiday Season

By Lisa Beilfuss November 25, 2015

Retailers are ringing bells as they head into the holiday shopping season—alarm bells, in many cases.

“Corporate earnings from big apparel retailers have been shockingly bad,” say economists at BNP Paribas. Some have reported inventory backups that suggest demand is slowing, a threat to fourth-quarter economic output after a third quarter that turned out to be better than initially estimated. The government on Tuesday revised up its third-quarter GDP reading, thanks to rising stockpiles at retailers and elsewhere.

That inventory build may wind up hurting fourth-quarter output, however, when those stocks are drawn down. “The anticipated inventory drag has only been postponed,” said Nariman Behravesh, chief economist at IHS Global Insight. “Inventories will still need to come into line with sales.”

Retailers’ warnings have coincided with weak retail sales in the government’s official figures, confirming a broader slowdown in the sector despite cheap gasoline, strong job growth and early signs of

faster wage growth. Retail sales have largely stalled in recent months, extending the lackluster streak this year. Americans have curbed discretionary spending lately on items like electronics and appliances, and in its most recent report the Commerce Department said shoppers more than halved their spending at retailers in November from a year earlier.

That pullback is showing up in corporate earnings reports and it's prompting downbeat forecasts for the holiday quarter. Department stores including Nordstrom Inc. and Macy's Inc. warned this month of an unexpected slowdown in spending at their stores, while specialty shops including Dick's Sporting Goods Inc. and Lululemon Inc. reported worrisome inventory levels as shoppers take less from the shelves. Retailers across the spectrum have been stung by lower spending, from luxury jeweler Tiffany & Co. to Wal-Mart Stores Inc.

The results underscore the challenges of the economic expansion, which has been plagued by weak demand and slow wage growth for most Americans.

Retailers have trained shoppers to wait for steep discounts, luring them in for bargains during the holiday period. That has kept retailers in a promotional mode to drive traffic and clear shelves, at the expense of their own profit margins.

"The big story will be volume," said **Bernard Baumohl, chief economist at the Economic Outlook Group**. "Price is going to be discounted heavily," he said, but sellers will make up in volume what they cut in price.

If retailers do pull off brisk sales, they'll need to replenish stocks in the first quarter. That could provide a bump to GDP early in the year.

Mr. **Baumohl** isn't as worried as some others about signs of higher inventories heading into the shopping season.

"Make no mistake," he said, "in preparation for the holidays, retailers have already made their inventory adjustments."

Now they just need to sell them.

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