Awful Spending Is the New Black

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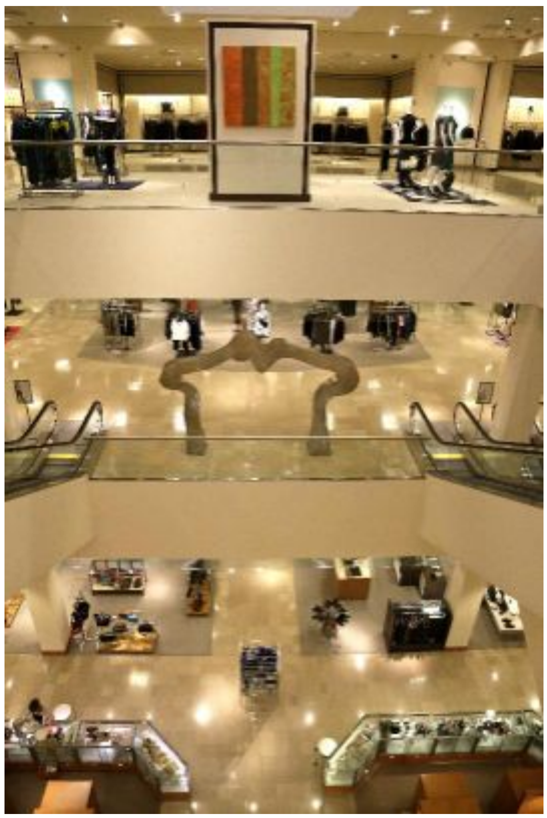
Evidence has been mounting for weeks that the retail industry is flagging badly, and new affirmations came Friday with a sluggish report on sales trends in August and a poor reading on consumer sentiment.

The latter was much lighter than expected, registering its worst number since April, and sales themselves also fell short of economists' estimates, rising 0.2% owing to a boost from car purchases. Removing autos, sales were up only 0.1%.



Garden State Mall in Paramus, N.J.: Credit AP

For the National Retail Federation, slow growth remains the dominant theme half a decade after the Wall Street meltdown led the U.S. into recession. "The economy, employment, wages and retail sales continue to stagger along," Matthew Shay, president and CEO of the trade association, said in a press release. "Retailers and consumers are resilient but not overly optimistic about the broader economy. While positive retail sales growth continues month-after-month, it is just not strong enough to move the needle."

Chris Christopher Jr., director of consumer economics at IHS Global Insight, said simply that it wasn't a good showing, as outlays dropped from July. "Our third-quarter consumer spending outlook is looking slightly lower after this report and our back-to-school retail sales outlook is now considerably lower," he wrote in a statement. "The summer ended on a sour note for many retailers." However, he is calling for "a modest pick-up" once this month has concluded.

People are spending some money at some outfits, but overall, caution is clearly in charge for a key part of the nation's economy. Negative signs are what's been driving the market action for retail throughout the late summer. From the end of 2012 through July, the group was up 31%, measured by the SPDR S&P Retail ETF (XRT). Since then, it's lost 1.6%.

Brian Sozzi, CEO and chief equities strategist of Belus Capital Advisors, issued a few thoughts right after the Commerce Department released the retail report. He follows chains closely, and he's actually expecting even more glum news, plus projecting that gadget buys could get a large share of dollars.

"Not only did volume likely fall short of plan, keep in mind that many retailers promoted more each week of August and into September," he said in an emailed statement. "I also expect the new iPhone, and the need to buy accessories for it, to impact already struggling specialty apparel retailers into year end."

Ugly clothes

Apparel, as Sozzi noted, is one of the retail subgroups that's largely been terrible, with Men's Wearhouse (MW) and Lululemon (LULU) among the latest names to sound alarms. Though for some retailers the troubles primarily may be about the company itself or its demographic, a number of operators are pointing to a much larger economic problem.

Men's Wearhouse, which only months ago forced out its founder and public face George Zimmer, missed estimates considerably in the most recent quarter, saying store traffic fellamid "macro issues affecting the apparel retailing space." Lululemon, the purveyor of yoga wear hit by a recent pants recall, issued its own weak earnings projection, leaving one analyst to tell Bloomberg that company watchers were "trying to figure out how much of this is macro and how much of this is company-specific."

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In recent weeks, the earnings for Abercrombie & Fitch (ANF), Aeropostale (ARO) and American Eagle (AEO), whose clothes are aimed at teens and young adults, were wretched. PVH (PVH), the marketer of brands including Calvin Klein and Van Heusen, said it was "cautious" about the rest of the year because the "global environment continues to be challenging in most key markets." Women's apparel seller Coldwater Creek (CWTR) also warned this week.

It's hard to imagine that larger forces would be blameless, whether for Lululemon or any other retailer, considering the number of companies with cooling financials and commentary.

"We have this bifurcated society [with] retail. We have the 1% that feels really good, and they're flush, and they're buying, and they're investing," says Kristin Bentz, a consumer analyst and executive director of PMG Venture Group. "You can see this played out in retail stocks like Michael Kors (KORS), for instance. True luxury goods are thriving." As another example here, jewelry seller Tiffany (TIF) recently lifted its expected earnings range.

It's in the stores appealing to the middle, Bentz says, where customers are disappearing, as ordinary Americans continue to fret about their finances. This has shown in up in worrisome remarks from the likes of Target (TGT) and Macy's (M), which has said spending wasn't looking good.

The low-cost end of retail has been pulling in strapped shoppers in recent years, yet even they can report signs of consumer stress. Discounter Dollar General (DG) slightly decreased its forecast earlier this year, though in what was a positive at least for its investors, it did only days ago confirm its 10% to 11% sales growth prediction for the year. At Family Dollar (FDO), executives have seen pressure on discretionary items as customers "have been forced to make spending choices between basic needs and wants."

Brighter spots

Dealers exclusively dependent or almost entirely so on clothing and accessories haven't been the only downbeat outfits, as Dick's Sporting Goods (DKS) and office supplierStaples (SPLS) have demonstrated. Then there's Wal-Mart (WMT), the biggest goods seller of them all, saying its full-year numbers would disappoint.

Those looking for a silver lining can take some relief from knowing that a few chains have managed to forge ahead: Gap (GPS) and Urban Outfitters (URBN) were promising with their recent quarters, and Guess (GES) was passable, though it did express concerns about spending in parts of Europe and China. Home-improvement giants Lowe's (LOW) and Home Depot (HD) were stronger, as was electronics seller Best Buy (BBY).

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While it is true there's not been a uniform letdown, "Retail is extremely Darwinian. It's a hard sector to be in right now," Bentz says. "You really have to have a differentiated product. And the problem with apparel is technology is replacing apparel as a fashion statement."

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