

Despite surge, retail worsens

By JAMES COVERT

Retailers posted better-than-expected February sales, but business will soon get bumpier, according to some industry experts.

Building on its recent streak, Wal-Mart led the pack with a surprisingly strong 5.1 percent surge in same-store sales, or sales at stores open at least a year, and surprised Wall Street as it hiked its dividend 15 percent.

The world's biggest retailer said falling gasoline prices emboldened its lower-income shoppers, who flocked to its giant stores in search of some "discretionary" goods in addition to groceries.

But Wal-Mart's strength masked weakness overall. Its discount rival Target suffered a 4.1 percent drop as its "cheap-chic" fashions fell flat with wallet-conscious consumers.

Results were even worse at department stores like Saks and Macy's, which reported steep drops of 26 percent and 8.5 percent, respectively. Nordstrom, whose upscale stores are

Down elevator

Feb. same-store sales

■ Wal-Mart	+5.1%
■ Target	-4.1%
■ Limited	-7.0%
■ American Eagle	-7.0%
■ Macy's	-8.5%
■ Nordstrom	-15%
■ Neiman Marcus	-24%
■ Saks	-26%

slightly less pricey than Saks, posted a 15 percent decline as appetites for designer clothing vanished.

While those numbers looked grim, they could get still worse as the year wears on, says Jack Hendler, president of Net Worth Solutions, a New York investment bank that's focused on the retail sector.

"A lot of manufacturers are seeing sales drops of 30 percent right now" — a signal that retailers have cut back sharply on this year's

orders as consumer spending sputters, Hendler said.

"People are only shopping for the necessities," Hendler added. "They're too worried about their rent, mortgage, car and school tuition for the kids."

The gloomy outlook is especially worrisome for retailers that lost money as they took heavy holiday markdowns, said Claire Gruppo of Gruppo, Levey & Co., another boutique investment bank. Chains that have been left with weak balance sheets will likely face supplier demands for up-front payments for deliveries of fall and holiday merchandise.

Those who can't write the checks could face bankruptcy, she added.

"I think we're a couple of months away from seeing the levees break," Gruppo said.

Big losers in February included Abercrombie & Fitch, which had a worse-than-expected same-store sales drop of 30 percent. Gap posted a 12 percent decline.

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