



Christmas sales likely to be weak Lower prices, planned sales part of strategy to lure super-wary shoppers

By Andrea K. Walker | andrea.walker@baltsun.com
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Consumers are expected to continue to spend cautiously this holiday season, with the National Retail Federation to announce today that it predicts a 1 percent decline in sales as people continue to worry about their jobs and the economy.

This year will be the second-weakest holiday season since the federation began tracking sales more than 40 years ago, with sales coming in at \$437.6 billion. Last year was the only other time the retail trade group has reported a decline in spending, with sales dropping 3.4 percent in November and December.

The holiday period is always an important time for retailers because it's when a large part of the year's profits are made. This year, some economists and analysts are watching holiday spending to get an indication of whether the economy is beginning to rebound and consumers are becoming more comfortable with spending. Others think that consumers have been saving for holiday gifts all year and might go back to their penny-pinching ways once the season is over.

"The retail industry believes that consumer spending will start taking a turn next year," said Kathy Grannis, a spokeswoman with the National Retail Federation. "The worst of it, we believe, is over."

Matt Kaden, associate director at Net Worth Solutions, a New York merger and acquisition firm specializing in retail and fashion, said that consumers have been preparing for the holidays because they want to be able to give gifts despite the economy, but they'll cut back again.

"You won't have that momentum to keep it going through the first quarter," Kaden said.

Consumers are expected to shop with a budget in mind and buy more practical gifts this year, the retail federation found. Family members may pool together to buy one big gift or do away with adult gift-giving to focus on the kids, Grannis said.

"I think people are going to get real creative with gift-giving this year," Grannis said. "Nobody is going to cancel Christmas because of a bad economy."

A recent survey by the Nielsen Company found that 86 percent of consumers plan to spend less or the same as last year. The number of people planning to spend less increased by about 7 percent, Nielsen found. Nielsen's projections are a little more optimistic than the retail federation's, with spending expected to be flat this year. Nielsen also found that cutbacks were being done across all income groups.

Retailers expected the season to be weak as consumers have been pulling back on discretionary spending all year. They've adjusted by ordering less inventory, which means consumers will have less to choose from this year.

"You're dealing with a post- Lehman [Brothers] environment where retailers are more prepared going in and planning leaner inventories," Kaden said. "Retailers are concerned with healthier, more profitable sales."

But lean inventories don't mean fewer discounts and bargains. Retailers know that bargains draw shoppers in, and they will still have them, though they will be better planned - not markdowns because the retailer couldn't sell merchandise. Discounters such as Walmart, Forever 21 and Kohl's are expected to do better than other stores, analysts have found.

Kaden predicts at least one major retailer will begin holiday sales before Black Friday, the day after Thanksgiving that traditionally is the kickoff of the holiday retail season and a day where shoppers can find many bargains. He also said luxury brands will have lower-priced items.

Many retailers have already started to unveil plans for the holiday season. Toys 'R' Us will open pop-up stores in malls across the country, including several in the Baltimore area. Walmart has already begun selling about 100 toys at \$10.

Walmart CEO Mike Duke has said on several occasions, including during earnings calls and at investor meetings, that consumers are still under a lot of pressure and that he expects a lot of last-minute shopping, much like last year.

"I think there will be deferred spending," Duke said during the Goldman Sachs Retailing Conference last month. "It will be a late Christmas. It will be one where value is important."

Nouveau Contemporary Goods, a furniture and home goods stores in Belvedere Square in Northeast Baltimore, said that it is bringing in gift items that cost \$25 to \$30 to draw in shoppers. It was a strategy that worked last year, and the owners hope it will do well again. Co-owner Steve Appel said that price will be key to consumers.

Appel thinks things are starting to pick up and is even going to High Point, N.C., for furniture and home shows, after skipping the trip the past few years because of the "rotten economy."

"I don't think it's going to be deathly slow this year," he said. "People have to understand that the face of retail has changed."