HOLIDAY RETAIL FORECAST

Signs building that holiday retailing will be brighter

By Cotten Timberlake, Rich Miller
BLOOMBERG NEWS
Tuesday, October 20, 2009

WASHINGTON — >From Intel Corp. to TJX Cos., the outlook for the U.S. retail holiday season is becoming more optimistic.

Intel, the world's biggest chipmaker, cited stronger consumer demand in projecting that its sales in the fourth quarter would be higher than analysts had predicted. TJX, which owns the T.J. Maxx and Marshalls discount chains, raised its fourth-quarter comparable-sales estimate to a gain of 3 percent to 5 percent from an increase of 2 percent to 4 percent.

"Consumers' bunker mentality is gradually giving way to more familiar spending patterns," says Michael Feroli, a former Federal Reserve official who is now an economist at JPMorgan Chase & Co.

Rising sales would be good news for the economy as well as retailers. Consumption accounts for about 70 percent of gross domestic product, and more spending would help the recovery. "Retail sales offer the most encouraging sign of a more lasting turn in activity," Robert DiClemente, chief U.S. economist at Citigroup Global Markets, said in a note to clients last week.

DiClemente said he foresees the economy growing about 2.75 percent in the second half of this year and about 3.25 percent in 2010.

Helping to drive the improvement in consumer spending is a rebound in household wealth, which increased $2 trillion in the second quarter and about that much again in the third, according to Steven Wieting, managing director of economics and market analysis at Citigroup Global Markets.

Retail sales, excluding automobiles and restaurants, might advance as much as 1.5 percent in the holiday season as "frugal fatigue" sets in and shoppers open up their wallets, says Marshal Cohen, chief industry analyst for the NPD Group, a market research firm.

In 2008, sales dropped 4.2 percent during what the International Council of Shopping Centers said was the worst holiday season in four decades. The fastest growth since 2000 was 5.9 percent in 2005.

"Slowly but surely, the underlying sales performance is inching higher," says Mike Niemira, chief economist for the trade group. "The retail sector recovery is starting to unfold."

Sales at U.S. retailers, excluding automobiles, climbed 0.5 percent in September. The increase followed a 1 percent gain in August, the biggest in six months.

Intel's sales during the back-to-school season in the U.S. exceeded expectations, CEO Paul Otellini said in an Oct. 13 conference call with analysts and reporters.  "The strength in our business remains primarily consumer driven," Otellini added. Pier 1 Imports Inc., based in Fort Worth, said earlier this month that sales at stores open at least a year increased by a healthy 9.9 percent last month.

Retail sales at stores open at least a year have outpaced analysts' estimates in the past two months and are likely to do so again in October, said Ken Perkins, president of Retail Metrics Inc. Analysts are predicting a 1.4 percent gain this month after a 1.1 percent increase in September and a decline of 2.3 percent in August. "There is definitely pent-up demand out there," Perkins says. "The chance of an upside surprise in holiday sales are very good."

The steepest rally in the stock market since the Great Depression may have convinced people that they don't need to save as much as they thought, says John Ryding, chief economist at RDQ Economics, leaving more money for spending. Some forces may restrain consumer purchases. Household wealth, though higher now than in the past six months, is down from the record $6.4 trillion in the third quarter of 2007. Some economists say unemployment, already at 9.8 percent, will reach or top 10 percent early next year.

Roseanne Morrison, fashion director at the Doneger Group trend-forecasting firm, says she is optimistic. "By the time Christmas comes around, people are going to be ready to celebrate and throw off their worries and buy something special," Morrison said. "You can only be low for so long."