

Luxury Retailers Regain Cachet

Posted by: Ben Steverman on March 24, 2010

Ignore for a moment the depressed real estate market, \$3-per-gallon gas prices and long lines at the unemployment office. Despite all the gloom, this could be a good year for luxury retailers. Seriously.

The poster child for this trend is Saks ([SKS](#)).

The jobless will probably not be shopping here: The featured offering on the Saks [web site](#) is Yves Saint Laurent's new \$1,400 purse. Yet same-store sales at Saks are up an average of 6.3% over the past three months.

And investors are getting excited about Saks' prospects. So far this year, Saks shares are up 40%. That's 35 percentage points more than the broad S&P 500 and 30 points more than other consumer discretionary stocks within the index. In fact, this year Saks has outpaced every one of the 70 consumer discretionary retailers in the S&P 500.

It's not that all American consumers have decided they can splurge on designer goods. Rather, only particular American consumers are opening their wallets again.

Lisa Walters of research and consulting firm [Retail Eye Partners](#) explains why in a Mar. 23 research note that explores a split between high-end and low-end consumers.

Lower income brackets are less likely to say their financial situation has improved and are more pessimistic about the economy. Meanwhile, shoppers who make more than \$100,000-per-year are:

...the most confident that the economy will improve next year. [They are] back to spending more freely due to their increased optimism. [High-end shoppers] are less hesitant about spending at or close to full price.

Against this backdrop, on Mar. 23 JPMorgan ([JPM](#)) analyst Charles Grom upgraded his rating on Saks shares from "neutral" to "overweight." He offers several reasons, including the belief that Saks is emerging from the recession "a stronger company," with lower costs, a stronger balance sheet and "significant long-term opportunities ahead." His estimates for Saks' 2011 earnings are twice the consensus expectations of other analysts surveyed by Bloomberg, he notes.

After meeting with Saks executives, Grom writes:

[Saks] credits a more stable stock market and improved consumer confidence for bringing (a) more frequent visits from its core shoppers, [and] (b) a return to shopping from customers have been on a [one-to-two year] hiatus from the luxury channel.

And, he says, customers are spending more on items that were heavily discounted a year ago.

After two years or more of cutting back on spending, wealthy shoppers are tired of doing without their luxury goods. But don't mistake a return of some luxury shoppers to a return to 2007-style shopping sprees.

Saks' revenue last year was down \$592.55 million, or 18.4%, from record sales in the fiscal year that ended February 2008. Even under Grom's estimates — more optimistic than most — 2011 sales would remain \$315 million below peak levels.

Luxury may be back, but it's not yet back to normal.