

Retailers: A Halting, Uneven Recovery

Shoppers are spending more, but consumers, especially those with lower incomes, remain cautious

By [Ben Steverman](#)

A year ago it was plain to see that the U.S. retail sector was in turmoil: Almost all consumers were panicking and slashing their spending. These days the landscape is much harder to decipher.

Consumers are adding to their spending, but they're doing so quite slowly and with extreme caution, retail experts say. "We continue to operate in an uncertain environment," Family Dollar Stores ([FDO](#)) Chairman and Chief Executive Howard R. Levine told analysts on Apr. 7. "While economic conditions appear to be stabilizing, it is unclear when we will see sustainable improvement."

Adding to the confusion, different types of consumers are spending differently, with high-income shoppers feeling far more confident, says Sapna Shah, principal at industry researcher Retail Eye Partners.

Consumers who earn \$75,000 per year or more have noticed the rebound in the stock market and are feeling better about their own economic prospects, Shah says, basing her conclusions on Retail Eye's monthly survey of 400 to 500 women. Lower-income consumers, by contrast, "are really constraining their shopping behavior still—as they have since 2008."

Mixed Signals

As a result, customers are still heading to low-end stores looking for bargains. Family Dollar Stores said Apr. 7 that earnings per share surged 35% last quarter, reflecting, among other things, a 3.6% rise in same-store sales.

Yet shoppers are also boosting spending at other retailers. Data and executive commentary at retailers from Best Buy ([BBY](#)) to Saks ([SKS](#)) have sounded increasingly confident about recovery.

On Mar. 30, the Conference Board said its U.S. consumer sentiment index for March rose to 52.5, but only after the reading dropped 10.1 points in February, to 46.4. Even as the economy apparently improved, the reading remains below December's level.

The U.S. economy added 162,000 jobs in March, according to the U.S. Labor Dept. But stressed American consumers are still shedding debt, making less credit available for shopping sprees. On Apr. 7, a February measure of consumer credit showed [debt declining more than economists predicted](#).

Sustainable Rebound?

Consumers appear unsure whether to believe the economy's recent recovery will continue. With data so contradictory, "people don't know what is going on," says Ronald Goodstein, marketing professor at Georgetown University's McDonough School of Business. "The signals are so mixed."

In the first year of the recession, consumers "traded down" to cheaper retailers, a trend that made Family Dollar Stores the top-performing stock in the broad Standard & Poor's 500 index in 2008. Family Dollar shares rose 35.6% in 2008, while the S&P 500 fell 38.5%.

In the early stages of a possible economic recovery, there is little evidence shoppers are shifting back into higher retail channels, says Eric Levine, a director of retail research at Hedgeye Risk Management. Stores aren't attracting new traffic, he says. They're just getting existing customers to spend more.

Retailers have gotten better at managing inventories and giving their target customers deals that open their wallets, Shah says. Rather than discount heavily, many retailers are acquiring lower-priced merchandise and selling it for lower, but still profitable, prices. She cites as examples \$5 polo shirts at Old Navy, owned by the Gap ([GPS](#)), or \$39 cardigan sweaters at higher-end Nordstrom ([JWN](#)).

Much-Welcome Luck

The weather has provided a boost for apparel retailers, Hedgeye's Levine says. Cold weather in many parts of the U.S. sent customers to buy winter gear. Then early warm weather sent them to buy summer gear. Careful control of inventory has made this spending more profitable, Levine says. "The timing was right," he says. Retailers' recent "momentum [is] driven by a little bit of luck."

The question is whether retailers' momentum can continue. That depends partly on whether jobs continue returning to the U.S. economy, but it also hinges on whether consumer tastes have been permanently altered by the recession.

Will customers shop at dollar stores even if their economic prospects improve? Family Dollar is renovating stores in an effort to hold on to middle-income consumers. "While we have made progress in broadening our customer base, I believe we have an opportunity to expand our market share further," Family Dollar's Levine said.

After several years of tough economic times, "consumers have fundamentally changed their thinking," Goodstein says. "People are buying less but thinking more about what they buy."

[Steverman](#) is a reporter for Bloomberg BusinessWeek's Finance channel.