

# Stores use heavy markdowns to draw wary consumers

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THE ASSOCIATED PRESS

NEW YORK — The holiday shopping outlook was hazy Thursday after the nation's retailers reported a mixed start to the season that showed consumers were willing to spend only when they found a bargain.

Retailers are likely to resort to heavy markdowns in hopes of meeting their sales targets. Many of last month's winners were stores that heavily discounted over the Thanksgiving weekend, including Wal-Mart Stores Inc. and J.C. Penney Co. Inc.

November had some surprises — upscale retailers were among the disappointments, including Nordstrom Inc., usually a top performer. On the upside, Limited Brands Inc. had solid gains after struggling for months with its fashions. Limited's sales were fed by a combination of aggressive price cutting and a makeover at its Express division.

"You had some very good performances by only a handful of stores, but you also had a fair amount of weakness. Most of the business was driven by promotions," said Michael P. Niemira, chief economist at the International Council of Shopping Centers.

"More of the season's sales now ride on December, which is dicey because of the weather and promotional activity," which could hurt stores' profits, he said.

The UBS-International Council of Shopping Centers' November sales tally of 65 retailers rose 3.5 percent last month; the results matched Niemira's forecast, but beat a meager 1.8 percent increase a year ago. The sales tally is based on sales at stores open at least a year, known as same-store sales.

Niemira added, "The economic numbers look better, but on the other hand you worry about consumers'

ability to spend."

The Commerce Department reported separately Thursday that personal spending edged up in October, while incomes rose 0.4 percent. In another report, the Labor Department said the number of hurricane-related job losses totaled just 9,600 last week, a substantial improvement from 21,000 the previous week.

Retail analysts were optimistic going into the holiday season because gasoline prices have fallen from their September highs. The latest batch of upbeat economic data and a rebound in consumer confidence in November were encouraging signs that shoppers might be more generous.

But big challenges remain. While gas prices have fallen, they're still above last year's levels and home heating costs are also expected to be high.

Another factor is that there doesn't seem to be any particular must-have item this season besides the latest new game console from Microsoft, Xbox 360. And some analysts believe consumers' focus on electronics — particularly flat-screen TVs and digital cameras — could hurt apparel sales.

Even in toys, electronic items are doing the best, particularly Hasbro Inc.'s iDog and Fisher-Price's Dora's Talking Kitchen, according to retailers.

Madison Riley, a strategist at Kurt Salmon Associates, noted that a late Hanukkah, which begins Dec. 25, could further "accentuate the last-minute shopping," putting stores more on edge.

Wal-Mart, which stumbled last holiday season by not discounting enough, benefited by offering more markdowns this year. The world's largest retailer posted a same-store sales increase of 4.3 percent, matching estimates from analysts polled by Thomson Financial.

It expects same-store sales growth

for December of 2 percent to 4 percent.

Discount rival Target Corp., whose business may have been hurt by Wal-Mart's aggressiveness, had a 2.6 percent increase in same-store sales. The results came slightly less than the 2.7 percent Wall Street forecast. Costco Wholesale Corp. reported a 6 percent gain in same-store sales, short of the 7.9 percent estimate.

High-end stores such as Nordstrom and Neiman Marcus Group Inc. reported only modest gains.

Nordstrom's same-store sales rose 2.8 percent, well off the 4.6 percent analysts expected.

Neiman Marcus had a 4 percent same-store sales increase. Thomson Financial does not offer sales estimates because the luxury retailer is now privately held.

J.C. Penney had a 3.6 percent same-store sales gain in its department store group, above the 1.9 percent estimate.

Gap Inc. posted a 4 percent decrease in same-store sales, though better than the 5.1 percent analysts forecast.

Limited had a 5 percent gain in same-store sales, better than the 2 percent forecast. The solid increase was helped by a dramatic improvement in business at its Express stores, which is attracting more customers with a less expensive casual clothing strategy. Its previous emphasis on pricier wear-to-work clothes failed.

Abercrombie & Fitch Co. was a big winner, with a 23 percent gain in same-store sales that beat the 21.4 percent estimate. The teen retailer, which has refrained from discounting, proved that if the merchandise is compelling, teens will buy.

American Eagle Outfitters Inc., which reported its results late Wednesday, had a disappointing 1.7 percent increase, well below the 10.2 percent Street estimate.

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