

Predicting the Retail Bounce-Back

by WWD Staff | Apr 7 2009

Top retail execs offer their best guesses on the all-important question: When will things get better?



A woman shops at a street side vendor along 5th Avenue in New York City.

Photograph by: Spencer Platt/Getty Images

Have we hit bottom yet?

That question is being debated even following the agreement by global leaders at the G-20 Summit in London last week to pump another \$1.1 trillion into the International Monetary Fund and take other steps to jump-start the U.S. and world economies. The moves, and recent upward momentum on Wall Street, generated optimism—even if only momentary—that, as one observer said, "little green shoots" might be springing up at last.

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Others aren't so sure, and believe there might not be any firm recovery until 2011 or later. The difficulty in answering the question is that it depends on whom you ask. Ever since a recession dating back to late 2007 was certified last year, experts from Wall Street to Seventh Avenue have wondered just how much worse things could get and when the bottom of a murky—and very possibly long-term—downturn would be found. Would stocks signal with an upturn? Would the end of declines in profits and same-store sales mean the economic engine was beginning to roar again, or only that things had reached a

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sustainable nadir?

WWD asked retailers, manufacturers, analysts, economists, and industry consultants for their thoughts on two questions: When will the

U.S. economy turn around? And what will it take to get a genuine recovery started? Here's what they had to say:

Terry Lundgren, *chairman, president, and chief executive officer, Macy's Inc.*

When: "Uncertainty in the economy continues to make predictions very difficult. None of us has a crystal ball. We are expecting a very challenging environment through the remainder of 2009. Our current assumption is that same-store sales at [Macy's Inc.](#) will be down between 6 and 8 percent in fiscal 2009. We will be looking for signs of early recovery as the economic stimulus bill passed by Congress takes effect, but we have not yet seen any indications of a turnaround."

What: "The key is employment. For retailing to recover, we need to start creating jobs again in America. When individuals and families have steady, dependable incomes, they are more comfortable in shopping for items that are beyond the necessities for survival. We will also need a return of confidence in the credit markets so consumers can have ready access to revolving credit. Consumer spending represents two-thirds of the U.S. economy, and until the consumer begins to spend again, our economy will not see any meaningful recovery."

Eric Wiseman, *chairman, president and ceo, VF Corp.*

When: "Our plans for VF do not assume any improvement in the economy in 2009."

What: "Consumer confidence needs to move in a positive direction, and I believe the biggest driver of that will be stabilization, and then improvement, in the employment numbers."

Peter J. Solomon, *founder and chairman, Peter J. Solomon Co., independent investment banking advisory firm*

When: "We don't know when the economy will turn around. We think this period of turmoil will last at least until two years from now. We are worried about inflation at that time. But the issues of deflation and credit unavailability are now our dominant concerns."

What: "For the consumer part of the economy to turn around, the housing market must stabilize. Concurrently, the credit system—both in banks and nonbanks—must be stabilized. Finally, confidence in the president's leadership is an essential element in making consumers relax and feel better about their futures."

Rosalind Wells, *chief economist, National Retail Federation*

When: "The answer depends on so many things, but if all the economic policies go well, we expect to see a stabilization in the third quarter and an uptick in the fourth. But it depends on the stimulus package, the economic policy, the Treasury, mortgage foreclosures and a lot of other things. But with all these things in the pot, we need some time to see if they're going to work."

What: "The one most important word to me is confidence. If the economic recovery package seems to be

working, it will instill confidence in consumers and businesses, and we will begin to see something happen, and we'll get back to some sense of normalcy."

Gilbert Harrison, chairman of [Financo Inc.](#)

When: "It is happening right now."

What: "What the president [of the U.S.] has done in Europe this week [at the G-20 Summit] has done more to make the world feel better about this country, and the consumer feel better about the economy [going forward], than they have in months."

Michael Kramer, president and CEO, Kellwood Co.

When: "I believe we're beginning to see the signs of some improvement toward the end of this year, which will accelerate in 2010. A consensus is building that we've hit bottom already, but a few more months will give us a better picture as to whether we're gaining traction, particularly among consumers."

What: "We need some positive momentum to get the ball rolling, particularly through improving trends in sales and profit growth to help restore confidence on Wall Street. I also believe strongly that banks have overreacted and tightened too much. This correction may have been needed, but we need to restore a sense of balance to the credit markets to get commerce flowing again."

Bud Konheim, CEO, Nicole Miller

When: "Spring is the time when everyone wants to go out to buy something new. The coats come off and all of a sudden there is an appetite for fashion. We will see a bounce in business but that may be a bounce in the recession."

What: "There will be a rearrangement of what is value in style and fashion. Consumers have already changed their minds about status buying. But they haven't changed their minds about what makes a good style versus a bad style. There will be a customer resurgence in the spring just because it's spring. The question is how that will match up with the supply that is out there. A lot has to do with confidence. That will fuel a lot of excitement and enthusiasm. The most powerful emotion is fear—it's not love or anything else."

Marvin Traub, co-founder, TSM Capital

When: "I wish I had an answer to that. Certainly, fall will be difficult."

What: "The most important thing is to try to restore some level of confidence in the consumer."

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Bud Bergren, president and CEO, The Bon-Ton Stores Inc.

When: "It's hard to predict what 2009 will bring and when we can expect the recovery of the economy to begin. Accordingly, Bon-Ton announced in its January 29, 2009, press release that we were taking the necessary actions to reduce expenses to ensure our organization is appropriately structured for this environment and emerges as a stronger company."

What: "There is not just one thing that is important to initiate the

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turnaround or recovery of the economy. There are a number of events that must occur to ultimately return confidence back to the consumer to reasonable levels—financial institutions stabilized, housing market stabilized, job loss abated. To quote Warren Buffett, 'Fear and confusion have been driving consumer and investor behavior in recent

months.' This has to be reversed in order for people to feel confident about spending once again."

Herbert Hainer, chairman and CEO, Adidas AG

When: "If I knew that, I could earn billions. Unfortunately, I definitely think it will go through at least the rest of 2009, but I don't know how much longer."

What: "All these so-called 'toxic products still in banks have to go. In this moment, banks are not lending to each other, and we need this circle of money. And then from there, we need to bring trust and confidence back."

Bob Carbonell, executive vice president and chief credit officer, Bernard Sands Credit Consultants.

When: "The second quarter of 2010."

What: "The government has been throwing money to AIG and banks, and they have to do the same to automakers to ensure that we don't lose one of the Big Three to bankruptcy, which would push unemployment to over 10 percent. That 10 percent is a real number because of the domino effect down the line. No one would buy the cars, and it doesn't matter if the government honors the [service] warranties. You'll see parts suppliers possibly filing, and many dealers as well, some of which have already filed. Then you'll see a whole new group of consumers not spending."

Josie Natori, president and CEO, Natori Co.

When: "I think the question of when the economy will turn around is a toughie— 009 is a done deal. Warren Buffett says we're going through an 'economic Pearl Harbor.' But we have a resilient economy, and I think there will be some relief, some light at the end of the tunnel by next fall."

What: "When I see the stock market go up again, I think we'll get some confidence. People have to start spending again. Everything is frozen right now. There are so many factors involved, such as company earnings and the stimulus package. President Obama is doing what he can. We haven't fallen off a cliff. But things clearly will not be the way things were. There's been a total transformation in people's mind-sets."

Jeffrey Edelman, director of retail and consumer advisory services, RSM McGladrey Inc.

When: "What we have is a massive deinventorying taking place. Since we are no longer a manufacturing nation, that massive deinventorying is in people. I think the inflection point in the economy will be in the second half. The consumer will react when he feels more secure in his job."

What: "The turnaround will probably manifest itself without any stimulus package. The key thing to look at is employment. As soon as employment bottoms and you add to the workforce, then you'll see a turning point for consumer confidence and spending."

Bob Mitchell, co-president, *Mitchells/Richards/Marshs*

When: "The change in our business occurred after Lehman Brothers failed [in September]. We hope that there will be some stability when we anniversary that. Anything before that would be a welcome surprise, but we don't expect any real change in the spring or summer. Either way, we all have to slow down our promotional activity or we will have a long cycle ahead of us."

What: "Two big things have to happen: The stock market has to stabilize or go up again, and there has to be some clarity that the banks are going to do well. Both of these things are causing paralysis. We also need some good news in the media. People still have money, but the news is so negative every day that they don't want to spend it. Our customers' closets are full, so it's easy for them to stop shopping. But once people feel good again, they'll feel comfortable spending money."

Scott Hoyt, senior director of consumer economics, *Moody's Economy.com*

When: "We are looking for positive real spending growth in [the first quarter of 2009], probably in [the second quarter] as well, then some declines probably in the second half before we get a more sustained turnaround next year. We need a broader turn in the economy before we can get something that's more sustainable. We're still officially calling for the recession to last through the end of the year."

What: "In the short term, between now and summer, even though we're bleeding large numbers of jobs, there's going to be a fair amount of cash flowing into consumers' pockets, and a lot of that cash is going to go into lower-income households and they're going to spend it. The key is what goes on in the job market. We need to stop bleeding 600,000 to 700,000 jobs a month."

George Feldenkreis, chairman and CEO, *Perry Ellis International*

When: "Toward the end of the year and into next year, as the stimulus money starts to flow into consumer pockets. This will provide more confidence that they will keep their jobs."

What: "Market changes to make the rules more flexible and realistic. When continuous devaluation of assets stops or we get a one-year respite, a lot of confidence to invest is going to be restored. We need the trillions of cash sitting on the sidelines to come back to invest."

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Richard Hastings, consumer strategist, *Global Hunter Securities*

When: "The economy will not revert back to the form it had prior to 2007. We are looking at a 100-year, if not greater, cyclical restructuring of how people interact. Some parts will stabilize in mid-2010, especially nondurable spending on things like apparel. Durables like autos and appliances will remain subnormal for a very long time."

What: Technological innovation and funding for such innovation, and massive intervention to help small-business formation. And this will require a gigantic reform of health care. There is simply no recovery in small business without health care reform. Technology and small business, that's the future. Housing is long-term kaput."

Abe Chehebar, chairman and CEO, *Accessory Network Group*

When: What is unique about this recession is that the downturn happened very quickly. Never before in our history did things go from being so great to so terrible at such a rapid pace. The accessibility of information and the speed at which it travels is a direct result of why it happened so fast, and for that reason, I believe that we will rebound just as fast. One thing that people do not realize is that when we had the last recession, the Internet was not as widely used to spread information. Good business will come back this time as quickly as it left us."

What: "The reports coming from the media as well as major corporations have been horrible and have created much fear across every financial demographic. Many companies have eliminated a lot of unnecessary expense and have learned how to do more with less, and as a result, when things do get good, it will be very good."

Walter Loeb, retail consultant of *Loeb & Associates*

When: "2010 will be better. You'll see some increased demand at the end of the year, and retailers will have better year-over-year comparable-store sales, so maybe improvement could happen by the end of the first quarter."

What: "Unemployment may top out at 10 percent, and just the abatement of announcements of companies laying off staff could in itself be a positive sign. That, plus the combination of Obama initiatives taking hold and improvement in the stock market will give consumers and investors more confidence."

Stevan Buxbaum, executive vice president, *Buxbaum Group*

When: "If someone says they know, you should back away. Event risks control everything, and you can't know what events are going to take place. We could have a better fourth quarter, but the potential for an event to happen and for more turmoil is always lurking on the edge."

What: "The most important thing that needs to happen is for people to begin to have confidence in their greatest asset. When housing values start going up, and if they want to sell and can find a buyer who can get financing, that's when people will start spending again."

Maggie Gilliam, retail consultant, *Gilliam & Co.*

When: "I haven't a clue. This is a global situation that could take years."

What: "It is beyond this country's control to fix the global situation, which needs to be fixed first. Right now we are throwing money down the tube to rescue these companies, some of which should go down. There are enough entrepreneurs to pick up the slack. We should not give money to companies to run obsolete fashion businesses."

Neely Tamminga, retail analyst, *Piper Jaffray*

When: "We believe the women's apparel retail group led us into this recession and will lead us out. We believe that cost structures will catch up to the reality of the significant slowdown that we're seeing in the top line, which will provide a stabilization in earnings late spring to early summer."

What: "Leading indicators will be when traffic levels in malls begin to stabilize in concurrence with greater

conversion."

Recovery Checklist

Possible signs the bottom has been reached and a genuine recovery is under way:

- Higher employment.
- Stabilized financial institutions with new rules.
- Improvements in the flow of credit.
- Pickup in the housing market.
- Sustained stock market comeback.
- Resumption of growth in sales and profits.
- Disposal of toxic assets.
- Higher consumer confidence and spending.