<p align="justify">�</p><p align="justify">By Janet Morrissey Thursday, Jan. 28, 2010 </p><p align="justify">Coming off a better-than-expected holiday shopping season, retail experts are growing a bit more optimistic about the outlook for 2010, while consumers are expected to be, um, cheap. "We see a highly frugal consumer being thoughtful and cautious in the way they spend and the way they incur debt" for at least the first half of 2010, says Richard Jaffe, a managing director at Stifel Nicolaus & Co. </p> A chilling frugality may remain in the air, but buds of optimism for retailers are sprouting nonetheless. The National Retail Federation (NRF), in its 2010 outlook released Tuesday, Jan. 26, expects retail sales to rise 2.5% on average in 2010, reversing the 2.5% decline seen in 2009. "As we continue to see signs of improvement throughout the U.S. economy in 2010, overall sentiment will begin to lift, making way for slight increases in consumer spending," said Rosalind Wells, NRF's chief economist. Although shoppers will continue to be "frugal," � yes, even she expects it � retailers will benefit from leaner, smarter inventories and a year and a half of pent-up consumer demand, Wells says. Retailers should also reap the benefits of low inflation and a slowly improving housing market, she says.
(See how Americans are spending now.)
� <p align="justify">John Canally, an economist with LPL Financial, a broker-dealer firm in Boston, is even more bullish: he predicts retail sales could rise as much as 3.5%. If automobiles, gas stations, restaurants and services (such as dry cleaning and hair salons) � which are not included in the NRF numbers � are thrown into the mix, sales could rise as much as 6%, he says. Total retail sales rose 5.4% on a seasonally adjusted basis in December from the same month a year earlier but were off 6.2% in full year 2009 from 2008, according to the Department of Commerce. Canally expects December's trend to continue in 2010.
(Comment on this story.)</p><p align="justify">How can he be so bullish? Historical data indicate that consumers step up spending in the year following a recession's trough, says Canally. However, he concedes this year's snapback won't be as big as those following the last two recessions, since consumers currently face headwinds from high unemployment, the battered housing sector and frozen credit markets. "We're well into a jobless recovery, credit lines have been cut, and consumers can no longer use their houses as ATMs," he says. Nevertheless, Canally says, consumers are benefiting from last year's rebound in the stock market and higher consumer savings rate, which makes them stronger financially. "Consumers are feeling a lot better today than they did 12 months ago," he says.
(See pictures of retailers that have gone out of business.)</p><p align="justify">Unemployment is the wild card in all of this, and that's where the outlook gets murky and experts' crystal balls differ. Karen Ghaffari, a managing director at Fitch Ratings, expects unemployment to peak in the second quarter at 10.4% before slowly starting to decline. "It will average 10.2% for the year," which will impact consumer spending and confidence, she says. Howard Davidowitz, chairman of Davidowitz & Associates, a retail-consulting and investment-banking firm, is even more bearish, predicting unemployment will hit 11% before it peaks. "I think we're in for a very rough year." </p><p align="justify">The so-called underemployment rate, which includes the country's jobless as well as workers who have taken part-time jobs and those who have given up looking for work, is even higher, at about 18%, notes Davidowitz. "We're not adding jobs, we're losing jobs," he says. Davidowitz is predicting a double-dip recession, and if that happens, he sees little improvement in job growth, the credit markets or consumer confidence in 2010. "I don't see any increase [in retail sales] this year. However, he expects value retailers, such as Walmart, Kohl's, Target, TJX, Ross and Costco, as well as certain specialty stores, such as Bed, Bath &

Beyond and Urban Outfitters, to see higher-than-average sales growth. </p><p align="justify">The bottom line for retailers: The environment may improve slightly, but don't hold your breath waiting for the return of happy, indulgent shoppers.</p><p align="justify">Source: http://www.time.com/time/business/article/0,8599,1957235,00.html?artId=1957235?contType=article?chn=bizTech</p>