US retail sales drop points to worsening economic conditions for workers

Andre Damon
17 August 2013

Major US retailers posted reduced quarterly sales this week, pointing to the effect of falling wages and hours on working class households.

Walmart, the world's largest retailer, posted a 0.3 percent fall at its US stores in the quarter ending July 26 and reduced its outlook for global sales this year.

"Our core customer is more in the low income area and...there's not a lot of confidence right now in their incomes," Charles Holley, Walmart's chief financial officer, said in a conference call with analysts.

He added that there is "a general reluctance of customers to spend on discretionary items right now," with consumers focusing on essentials like food, clothes, and home goods. "The consumer doesn't quite have the discretionary income, or they're hesitant to spend what they do have," explaining low sales figures for items such as electronics and toys.

"When we do see good things in the economy, sometimes they don't immediately flow through to a paycheck. Remember how the average American lives," said C. Douglas McMillon, chief executive of Walmart International.

The announcement of Walmart's sales figures followed similarly depressed figures from other retailers. Kohl's, the discount clothing store, said Thursday its profits for the spring quarter fell 3.5 percent. The company also downgraded its earnings forecast for the rest of the year, after sales grew less than expected.

The previous day, Macy's, the US department store, said its sales fell 0.8 percent in the most recent quarter, its first drop in same-store sales since 2009, leading the company to slash its annual profit forecast.

"We believe that much of our weakness is due to the health of the consumer," said Karen Hoguet, the retailer's chief financial officer, in a conference call with analysts. Macy's CEO Terry Lundgren added that the low sales figures expressed "consumers' continuing uncertainty about spending on discretionary items in the current economic environment."

Commentators echoed the retailers' claims that poor economic conditions for working people contributed to the reduced sales at low-end retailers. "This has been a tough recovery for folks who are their prime customer base," Jared Bernstein, of Center on Budget and Policy Priorities, told the *New York Times*.

"If you look at statistics on whose paychecks are going up, you'll see that it's clearly an uneven recovery. In that sense, lower-end retailers are going to have a tougher time," he added.

Retail executives said that a 2 percent increase in Social Security taxes at the beginning of the year contributed to sagging sales at stores such as Walmart and Kohl's. Since Walmart customers are primarily low-income, the tax increase affects them disproportionately, while rising home values, a key component of official proclamations of economic "recovery," affect them less than other sections of the population.

"Even though the percent is the same, losing money means more to you when you're in the $25,000 range than when you're in the $150,000 range," Bernstein said. "For families who are scraping by, the loss is simply more painful."

Social inequality also finds expression in the sales figures. Although the growth of sales at mid-to-high-end retailer Nordstrom did not meet analysts' expectations, it still did far better than Walmart or Kohl's, growing 4.4 percent from a year ago, according to figures announced this week.

"There is a certain segment of the population that is faring well in this economy and have seen their net worth rise sharply with stock and housing market gains," Ken Perkins, president of Retail Metrics, told the *New York Times*. He added, "Then there is the much larger segment of Americans that are working in low-wage jobs, part-time jobs, that are struggling to make ends meet and are living paycheck to paycheck. They are not spending beyond necessities."

The Labor Department said Wednesday that real average weekly earnings fell by 0.5 percent over the course of the past month, as a result of falling hourly earnings and a reduction in the average work week.

Of the lackluster total of 162,000 jobs added in July, two thirds were part-time, and most were in low-wage sectors, according to the latest US jobs report, published earlier this month by the Labor Department.

Over the past six months, the growth of part-time jobs has been even more dramatic, with 97 percent of new jobs created being part-time, according to Keith Hall, a senior researcher at George Mason University's Mercatus Center.

Citing the Bureau of Labor Statistics' Household Survey, Hall said that over the past six months, 963,000 more people reported that they were employed while 936,000 of them reported they were in part-time jobs.

The dismal retail sales came as employers announced new mass layoffs. Cisco Systems, the networking equipment maker, announced plans Wednesday to lay off 4,000 employees, amounting to 5 percent of its global workforce. The layoff announcement came at a conference call with analysts where CEO John Chambers said the company's profits rose 18 percent in the most recent quarter

On Friday, AOL Inc. began to implement mass cuts at its Patch news unit, laying off 500 out of more than 1,000 employees. This followed the announcement of 1,500 global layoffs by Boise, Idaho-based Micron Technology, 600 layoffs by Heinz, and 500 by Hewett-Packard.