Shoppers deliver economic optimism

Businesses also boost inventory

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WASHINGTON — Just in time for Christmas, the fragile economic recovery is showing signs of strengthening: Consumers are spending, companies are rebuilding stockpiles and Chinese exports are mounting a comeback.

Data released Friday eased some worries about Americans' willingness to spend this holiday season. But stores remain worried that they may have to offer deeper discounts than planned, perhaps as early as this weekend, because of mediocre sales so far.

Most stores have reported lackluster results for the start of the holiday season, so the Commerce Department's retail-sales report for November was encouraging. Sales rose 1.3 percent — the healthiest advance since August and more than double the increase economists had expected.

Most economists have been concerned that high unemployment could depress spending and drag down an economy struggling to emerge from the worst recession since the 1930s.

"The labor market is

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showing signs of stabilization, and this is giving consumers greater confidence to spend a little more than they were earlier this year," said Chris Rupkey, chief financial economist at Bank of Tokyo-Mitsubishi in New York.

But other analysts cautioned that the economy still faces so many obstacles that consumer spending and the recovery are likely to be sluggish in the months ahead.

"High unemployment, poor income growth, tight credit and the need to pay down debt mean that consumption growth is likely to slow," said Paul Dales, an economist at Capital Economics.

Shoppers crowded malls for deep discounts over Thanksgiving weekend, but many consumers have been slow to return. Some analysts say the industry could suffer its second straight year of holiday-season sales declines.

The two weeks since Thanksgiving have been especially tepid. According to ShopperTrak, a research firm that tracks sales and traffic, sales slipped 0.3 percent for the week that ended Dec. 5 compared with the year-ago period. And they plummeted 18 percent compared with the previous week.

Officials at ShopperTrak estimated Friday that business did not improve much this week.

The disappointing business comes as stores, from Toys R Us to J.C. Penney, have been expanding hours and offering discounts to attract shoppers during the traditional lull after Thanksgiving. But most stores have stopped short of drastic price slashing.

Many are counting on a strong sales rebound this weekend. If that does not happen, they may have to cut prices further.

"It's been slow for sure," said Bryan Eshelman, managing director of the retail practice of AlixPartners. During the Thanksgiving weekend "people took advantage of promotions and now are waiting for similar levels of discounting."

With tight credit and high unemployment, "there is just a reset in the mindset of what people are willing to spend," he said.

C. Britt Beemer, chairman of America's Research Group, a market research firm, said shoppers are now looking for 60 to 70 percent off across all merchandise. "Giving customers 50 percent off is nothing," he said.

One shopper, Jared Wadley, 42, from Ypsilanti Township, Mich., said he's delaying some holiday buying until the final days before Christmas.

"I don't want to buy everything now and find out a week or two later that I could have gotten a better deal," he said.

Economists consider the Commerce Department figures a more inclusive figure than the stores' data. The government figures cover a broader category of spending, from home furnishings to electronics to gasoline station sales.

They also include online sales and results from electronics chains, two bright spots for the holiday season. And they take in Wal-world's largest retailer, which no longer reports monthly sales.

Also sparking optimism was a report Friday that U.S. businesses unexpectedly increased their inventories in October, halting a slide of 13 consecutive declines. The small gain raised hopes that businesses will restock their depleted shelves, boost factory production and help bolster the recovery.

Businesses boosted inventories 0.2 percent in October, better than the 0.3 percent drop economists had expected. Total business sales rose 1.1 percent, the fifth straight gain.

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