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Wal-Mart's distress signal

The world's largest retailer leads a parade of sales misses in January, indicating trouble in the U.S. economy.

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NEW YORK (CNNMoney.com) -- U.S. retailers are on track to report their slowest monthly sales growth in five years, which would further cement fears that American consumers are buckling under the weight of a slowing economy.

Leading the way is No. 1 retailer Wal-Mart Stores Inc., ([WMT](#), [Fortune 500](#)) which on Thursday reported a big [miss](#) in its January same-store sales, or sales at stores open at least a year. Same-store sales is a key measure of performance in the retail industry.

Wal-Mart partly blamed its soft sales on poor gift card redemptions, but one retail analyst wasn't buying that explanation.

"Wal-Mart's not a top destination for gift card redemptions," said Ken Perkins, president of sales tracking firm Retail Metrics. "I think its results show that its core low-income shoppers and now the middle-class

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households who shop there are scaling back."

Thomson Financial, which compares monthly results at 43 of the nation's largest retail chains based on analysts' estimates, expects total January same-store sales to increase just 1%.

That would be the slowest monthly pace of growth in the measure since March 2003. It also spells bad news for the economy, since consumer spending accounts for two-thirds of economic growth.

Most retail analysts have been anticipating widespread sales weakness as more Americans cut back their spending amid the housing slump and tighter credit conditions.

Rising debt levels, along with a jump in gas and food prices and an uptick in unemployment, have also pinched consumers.

"If we aren't already in a recession, there is a very good chance that we are heading there," Perkins said

But one economist cautioned against using last month's sales weakness to claim that a recession is now a fait accompli.

"Consumer spending has been remarkably strong through the fourth quarter," said Michael Englund, chief economist with Action Economics. "So we have to be a little bit cautious about that claim,"

Although Englund conceded that the January sales numbers now "raise a red flag that consumer spending is slowing," but he said the trend is also troubling because it comes at the tail end of a surge in annual bonus and gift card redemptions.

"Over the last three years we've had an explosive surge in year-end bonuses and gift-card redemptions which boosted January sales," Englund said. But as that surge begins to diminish, it's leading to slow spending in January.

However, lower interest rates and the economic stimulus package that's now being debated in the Senate could provide relief to consumers and retailers most likely later in the year.

The stimulus package would give most taxpayers a rebate check for \$600 or more. Lower interest rates would

STORE	% CHANGE	TOTAL SALES
Wal-Mart	+0.5%	\$27.3B
Costco	+7.0%	\$5.1B
Target	-1.1%	\$4.1B
JC Penney	-1.9%	\$1.2B
Gap	-2.0%	\$932.0M
Limited	-8.0%	\$625.8M
Nordstrom	-6.6%	\$486.3M
Pacific Sunwear	-7.4%	\$66.3M
Macy's	-7.1%	\$1.3B
American Eagle	-7.0%	\$163.9M
Abercrombie & Fitch	Flat	\$219.7M
Aeropostale	+4.7%	\$78.0M

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make it easier for consumers to refinance their home mortgage and take out credit, both actions that could help to boost discretionary spending.

The hit to retailers

Perkins said the retail industry faces turbulence in the coming months. But the fallout has already started.

Retail stocks - let's go shopping!

Macy's, Home Depot, Sears ([SHLD](#), [Fortune 500](#)) and Talbots are among the retailers that have already announced store closings and job cuts. Perkins expects even more consolidation ahead.

[Wal-Mart](#), the world's largest retailer, said January sales at its stores open at least a year rose just 0.5% versus its own forecast for a 2% increase for the month.

The retailer blamed weakness in post-holiday gift card redemptions and unfavorable weather for the sales shortfall. Moreover, the retailer said consumers either didn't use their gift cards right away or used them to buy food and other consumer staples instead of higher-priced discretionary products.

For February, Wal-Mart expects same-store sales to be flat to up 2%.

Wal-Mart backed its fourth-quarter profit guidance of between 99 cents to \$1.03 a share. It's scheduled to report its quarterly and year-end results on Feb. 19.

TalkBack: Are you spending less at big retailers like Wal-Mart?

Sales crumbled at clothing and department store chains. Among them, Macy's ([M](#), [Fortune 500](#)) on Wednesday reported a 7.1% drop in its January same-store sales.

Sales at teen chain Pacific Sunwear tumbled 7.4%. American Eagle Outfitters logged a 7% sales decline and Limited Brands ([LTD](#), [Fortune 500](#)), owner of the Victoria's Secret and Bath & Body Works chains, reported an 8% sales drop.

Gap Inc., ([GPS](#), [Fortune 500](#)) the No. 1 clothing seller, said its January sales slipped 2%.

Even the high-end sector, which has so far eluded the spending slump, took a hit, with Nordstrom ([JWN](#), [Fortune 500](#)) reporting a 6.6% decline in January sales.

Overall, of the 30 tracked retailers that have reported their sales results, 58% have missed analysts' expectations, according to Thomson Financial. ■

Buying out the store

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