Lululemon, Macy's, and Chico's lower their Q4 outlooks

Article

The news: Economic storm clouds are gathering as **several retailers recently lowered their outlooks for fiscal Q4.**

- **Lululemon**'s reliance on discounts to boost sales and higher-than-expected costs drove the brand to reduce expectations for its fiscal Q4 profit margins to a decline of 0.9 to 1.1 percentage points. It previously said it expected a 0.1 to 0.2 percentage point increase.

- **Macy's** pointed to deeper-than-expected lulls during non-peak holiday weeks as one reason it projects its fiscal Q4 net sales to be at the lower end of its $8.16 billion to $8.40 billion range; analysts had modeled $8.31 billion in sales, per Yahoo Finance.
- **Chico's** said softening demand at **White House Black Market** in December drove it to decrease its forecast for fiscal Q4 net sales to $505 million to $515 million, down from its previously stated range of $535 million to $555 million. It also adjusted its diluted earnings share forecast to be between a two-cent decline and flat, down from a seven- to 10-cent increase.

Each retailer highlighted the challenging economic environment as a driver for its change. Most, including Macy's, expect those changes to continue. "We believe the consumer will continue to be pressured in 2023, particularly in the first half," said Macy's CEO **Jeff Gennette**.

Inflation is changing consumer behavior: Consumer prices rose 7.1% year-over-year (YoY) in November, per the US Labor Department. While that's down two full percentage points from the peak of 9.1% in June, it remains historically high, which is causing consumers to adjust their spending habits.

- Twenty percent of US consumers expect economic difficulty this year, according to Gallup.
- As inflation eats consumers' spending power, many are pulling back on discretionary spending at restaurants and in retail categories such as apparel and footwear.

Categories Where US Adults Are Prioritizing Spending vs. Cutting Back due to Inflation, July 2022

% of respondents in each group

	Spending priority	Cutting back
Groceries	59%	39%
Gas	44%	35%
Rent/mortgage	29%	8%
Healthcare	20%	13%
Household goods	17%	29%
Education	14%	11%
Childcare	12%	10%
Dining out	11%	54%
Entertainment and recreation	10%	36%
Apparel, footwear, and accessories	10%	35%
Vehicles	10%	11%
Gym memberships	9%	17%
Travels/hotels/flights/vacations	8%	27%
Home decor and furniture	8%	23%

Note: ages 18+
Source: First Insight, "The State of Consumer Spending: Inflation Fueling Recession Fears," Aug 10, 2022

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There is some good news: While lululemon reduced its margins, it also expects its net revenues to be between $2.66 billion to $2.70 billion, which would be a 25% to 27% increase YoY. Its previous guidance range was $2.605 billion to $2.655 billion.

- At the same time, both **Abercrombie & Fitch** and **American Eagle Outfitters** modestly raised their outlooks.

There are also glimmers of hope for a so-called "Goldilocks" economy, per Semafor. For example, last week's employment data shows businesses kept up hiring and wage growth slowed, which, combined with other factors such as falling natural gas prices in Europe and China's reopening, could foster growth both domestically and abroad.

The big takeaway: A significant share of US households are feeling pinched to make ends meet; **more than 35% of households used credit cards or loans in December to cover spending needs in the past week**, up from around 32% in November and just 21% in April 2021, when the US Census Bureau began collecting the data.

- That's a clear warning sign for mid-tier retailers given that those consumers are likely to pull back on discretionary spending.

Go further: *Dive deeper into our predictions for mid-tier retailers in our report Retail Trends to Watch for 2023.*

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