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# Dick’s Sporting Goods, Macy’s Flash Warning Signs on U.S. Consumer Spending

Rising levels of theft, student-loan repayments and credit-card delinquencies cloud earnings picture for retailers

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Dick’s Sporting Goods posted a 3.6% gain in sales to $3.22 billion for the second quarter, just under analysts’ forecasts.
PHOTO: ASSOCIATED PRESS

Dick’s Sporting Goods DKS **-0.34%** ▼ and Macy’s M **-0.55%** ▼ shares traded sharply lower Tuesday after the retailers posted weaker quarterly earnings and provided tepid forecasts for the remainder of the year, signals that the recent strength in consumer spending has its limits.

The sporting-goods chain slashed its profit targets for the year after missing Wall Street forecasts for the second quarter. Sales slowed after a pandemic-fueled surge for outdoor gear, leaving it with excess inventory. Executives said thefts of merchandise were also higher than they expected.

Macy’s reported declining sales in the June quarter and warned that more shoppers are late on their credit-card payments. Delinquencies are viewed as a proxy for consumer health, and missed payments endanger a key source of revenue for the department-store chain.

"We expect the pressures consumers are under to continue through the balance of the year," said Macy's Chief Executive Jeff Gennette, adding that additional challenges will come once students and graduates resume repaying their federal student loans. He added that international tourism has yet to return to prepandemic levels.

"Consumers still have good savings, but they are being more judicious in how they spend," Gennette said. "More of their money is going to services and experiences."

Sales at Macy's were down 8% to $5 billion from a year earlier and the company swung to a net loss in the recently completed period. Apparel categories including activewear, casual and sleepwear had challenges, while others such as fragrances and prestige cosmetics as well as women's career sportswear performed well, according to Macy's.


Macy's, reporting falling sales in the June quarter, warned that more shoppers are late on credit-card payments.
PHOTO: ERIC THAYER/BLOOMBERG NEWS

Shares of Dick's plunged more than 24% in Tuesday trading, its largest single-day percentage decline as a public company, according to Dow Jones Market Data Group. Macy's fell 14% and a number of other retail stocks closed lower as investors gauged the health of consumer spending.

Some retailers avoided the selloff. Home-improvement chain Lowe's rose nearly 4% after the company reported quarterly results that matched analysts' expectations. Despite Citi Trends posting a steeper loss in the most recent period, shares in the discount retailer gained more than 5% as it said that sales trends and store traffic were improving.

The readouts from Dick's and Macy's illustrate the economic challenges that persist among sellers of consumer goods. Spending on items such as apparel, electronics and sporting goods surged early in the pandemic but slowed significantly starting last year, causing whiplash among retailers that bet on buying patterns continuing at higher levels.

Consumers are still spending, but being choosy as inflation weighs on their budget. They are buying food and other necessities but for months have also been cutting back on some discretionary items. They have also directed more money toward services.

That environment favors retailers touting deals, necessities or speedy delivery. Earlier this month Walmart, the country's largest grocery seller, and e-commerce retailer Amazon reported strong earnings and sales. TJX, which owns chains such as T.J. Maxx and HomeGoods and is known for discounts, also posted strong sales and profit.

Gennette said Macy's Backstage—its answer to T.J. Maxx and other off-price chains—is performing well but isn't large enough to make up for shortfalls elsewhere in the business.

Rising theft from organized crime is also weighing on Macy's. Gennette said that the retailer is moving high-theft items away from store entrances and taking other measures but that the loss of goods from theft, misplacement or other mistakes will be at record levels for the second year in a row.

Some other retailers, from Target to Home Depot, have cited increased theft as a problem for their businesses. Some retail executives have recently cited both shoplifting and organized crime rings as reasons for diminished profits. At Nike, thefts in stores and throughout its distribution network have hurt its business.

For Dick's, sales of team sports products and footwear rose from the prior year, while demand for apparel softened, said Chief Executive Lauren Hobart on a call with analysts. Executives said they remain cautious about the health of consumers this year, but right now shoppers at all income levels are spending.

Overall sales were up 3.6% at $3.22 billion, just below analyst forecasts for $3.24 billion. Comparable-store sales were up 1.8% on a higher number of transactions, but fell short of analyst projections.

"Our consumer is doing very well," and consider spending on sports, and outdoor exercise as more of a necessity than in the past, said Hobart.

Shrink, the industry term for inventory lost through theft or other reasons, ate into profit margins, said executives, as did discounting to unload some excess inventory, primarily outdoor gear such as kayaks and bikes.

In the latest period, earnings at Dick's fell 23% to $244 million. On a per-share basis, earnings missed analyst forecasts by nearly a dollar.

Dick's now expects earnings of $11.33 to $12.13 a share this year, down from a prior outlook for $12.90 to $13.80 a share.

Earlier this week Dick's cut hundreds of corporate jobs. The company will reinvest those savings elsewhere, executives said Tuesday. It plans to record $20 million of severance costs in the current quarter, and could have up to $50 million in additional expenses from business restructuring efforts this fiscal year.

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**Corrections & Amplifications**

Dick's Sporting Goods hadn't recently cited theft as a problem for its stores. An earlier version of this article incorrectly said the company had recently cited theft as a problem. (Corrected on Aug. 22.)

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