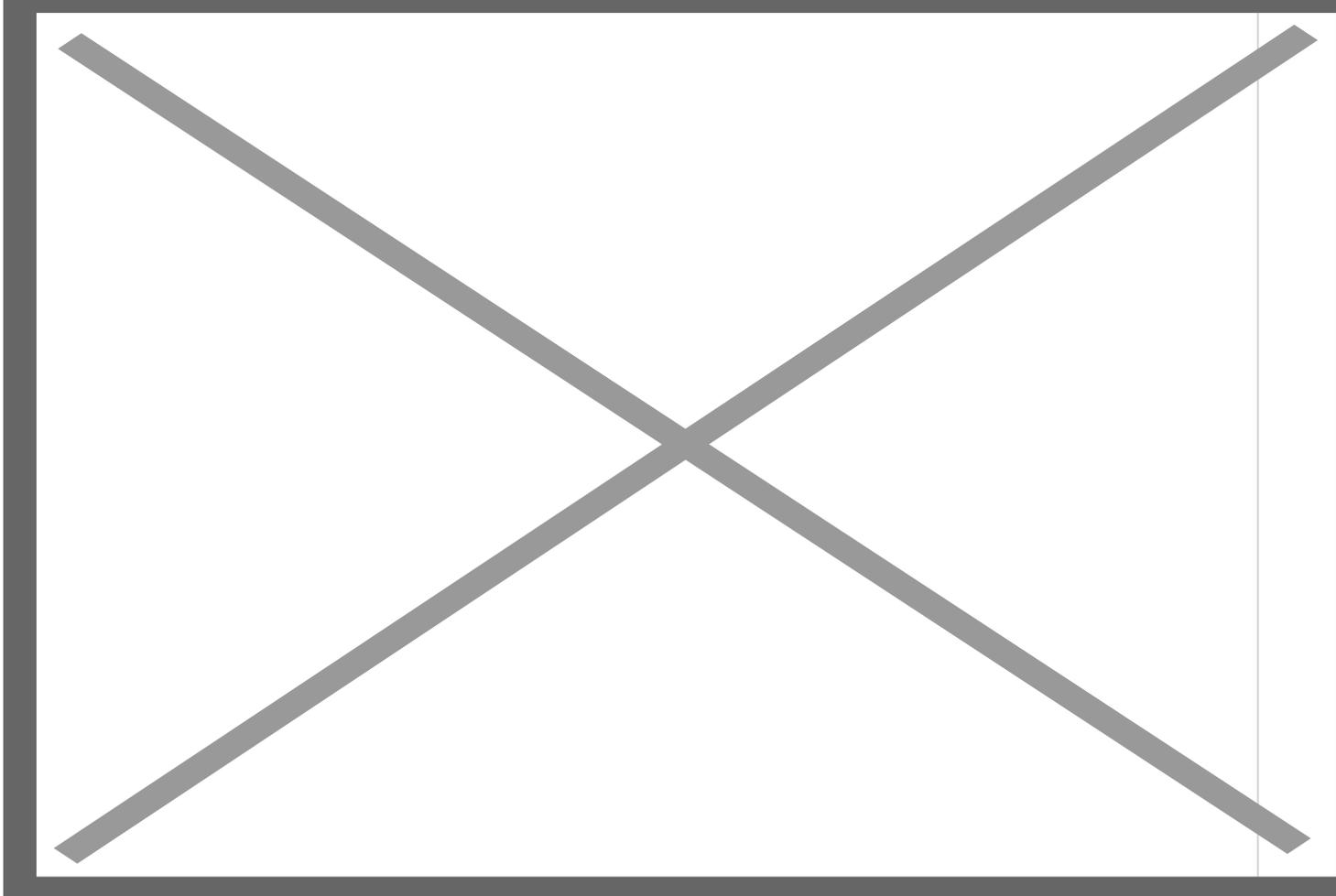


Walmart earnings boosted as discounts draw inflation-hit shoppers

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The mega-retailer's inventory grew by 25 percent at the end of the second quarter from a year earlier to \$59.9 billion.

Bentonville, August 17 (RHC)-- Walmart has slightly raised its annual profit forecast, partially reversing a significant decrease from less than a month earlier, as discounts to remove excess inventory and reduced

petrol prices helped the mega-retailer surpass quarterly sales projections.

The stock increased 5.2 percent when the New York Stock Exchange opened Tuesday morning. Shares of competing retailers Target, Costco, and Best Buy rose, as well. Last month, Walmart shares dropped nearly 9 percent after the company cut its profit outlook for the second quarter and the full year, underscoring that rising prices for food and petrol are forcing shoppers to cut back on items such as clothing that carry higher profit margins.

Walmart had recently made steep price cuts on items such as apparel to try to reduce more than \$61 billion worth of inventory it had at the end of the first quarter. Other major U.S. retailers such as Target and Best Buy have also reported finding challenges in moving excess merchandise.

Walmart reported inventories of \$59.92 billion at the end of the second quarter on July 31st. That was 25 percent above last year's levels. "I think it's going to take another quarter, maybe get into the fourth quarter a little bit, to get back to where we want to be from an overall inventory perspective," Walmart's chief financial officer John David Rainey said.

The Bentonville, Arkansas-based retailer's consumers are continuing their purchasing patterns of buying less expensive food over general merchandise, despite an easing in gas prices, Rainey added.

"Instead of buying maybe deli meats or beef, they're trading down to things like canned tuna, chicken and, even, beans. We're seeing the same thing in the quantity, where they're trading down for smaller pack sizes that are more affordable. So instead of buying 12 items to buy six items in a pack," he said.

Walmart has fallen more than a consumer-staples index this year. Home, electronics and apparel are still "problematic" categories, Rainey said.

Back-to-school shopping gave Walmart's sales a boost at the end of last month. But many parents chose to buy school supplies rather than clothing, Rainey said, adding that he believed that back-to-school apparel sales should get a boost in the next few weeks.

Prices consumers pay for goods and services have also shown signs of easing in recent weeks. The consumer price index rose 8.5 percent in July, less than the 9.1 percent reading in June, due largely to a steep drop in petrol prices.

The drop in prices has helped to drive a 6.5 percent rise in sales at Walmart's stores in the United States that have been open for at least a year, beating its prior forecast for a 6 percent gain.

Total revenue rose 8.4 percent to \$152.86 billion in the second quarter. But discounts on discretionary products, slowing demand for items such as appliances, electronics and clothes, and the rising cost of labour led to a 6.8 percent drop in the company's quarterly operating income to \$6.85 billion. Same-store sales for Walmart U.S. are expected to rise 3 percent, the company said.

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