If the stock market were the real world, retailers would be pretty happy.

The S&P Retail Index hit a new all-time high Friday and ended the day up 0.6 percent to 669.26, marking a 27.9 percent rise for the year for the broad measure of the U.S. industry.

But nobody’s ready to celebrate. While retail stocks have rallied this year, and outperformed the market, the economy has continued to suffer. Even at companies that seem to be hitting their stride, such as Macy’s Inc., or Wal-Mart Stores Inc., the overall mood of retail executives seems to be: “Things are OK — and we hope they don’t get any worse.”

Bill Simon, president and chief executive officer of Wal-Mart U.S., put it this way recently, “We’re optimistic about the fourth quarter. We do expect it to be challenging. The retail environment is getting very aggressive.”

Many chains expect the second half will mirror blah first-half results — putting a huge amount of pressure on them for holiday. ShopperTrak last week projected U.S. sales growth for the November-to-December period would slow to 3.3 percent from 3.7 percent a year earlier. A large chunk of that growth, no doubt, will be online, rather than in retailers’ brick-and-mortar stores.

“You’re seeing the disconnect between the economy and the financial markets,” said Paul Nolte, managing director at Dearborn Partners in Chicago. “Financial markets are responding to Bernanke…. The economy is reacting to very high debt levels [for both consumers and governments]. Investors are looking for places to put money because they’re not getting paid anywhere and are forced into the stocks.”
Retailers have in recent years tightened up their operations, cutting inventories and cost, shortening supply chains and ramping up spending on fast-growing e-commerce sites. The competition has been particularly fierce, with rampant price promotions and the winners largely taking share from weaker competitors instead of expanding the market.

Setting aside the upbeat stock market, unemployment remains high at 8.1 percent, 12.5 million Americans are out of work and looking for a job, more have given up looking, Europe faces continued fiscal crisis and Asia’s dramatic growth has slowed.

The best thing that most economists have to say about the economy is that it could be worse.

“We’re getting very mixed signals,” said Ken Goldstein, economist at The Conference Board. “In some sense, that’s the good news, in that it’s not all uniformly bad.”

That’s little comfort, though.

August retail sales rose a seasonally adjusted 0.9 percent versus July, but the big gains were seen in gasoline sales and automobiles. Specialty apparel and accessories stores saw a 0.1 percent sales dip, while department stores nudged up just 0.1 percent.

“It is just really difficult, facing the American consumer right now and trying to get a price increase,” Goldstein said.

August apparel prices fell 0.5 percent from July, posting the first decline since February just as stores theoretically gained leverage during the back-to-school season.

Rajeev Dhawan, director of the Economic Forecasting Center at Georgia State University, said the Fed’s efforts to jump-start the recovery were “the only thing positive at this point.

“The hope is that there will be a rally in the stock market, which will make people feel a little bit wealthier and make them open their wallets,” he said.
But instead of the 200-point jump the Dow Jones Industrial Average saw after Bernanke opened up the monetary floodgates, Dhawan said the market needs to jump 2,000 points for consumers to really budge.

That’s in part because the stock market is still kind of underwhelming.

Scott Hoyt, senior director of consumer economics at Moody’s Analytics, said the stock market is still crawling out of the hole it fell into during the recession.

“You would think [the market] would have gone up at least with the pace of inflation and maybe population growth,” Hoyt said. “The stock market’s up right now, but so are gasoline prices, and food prices are about to follow….So for every plus there’s a minus.” The Dow Jones Industrial Average is ahead 11.3 percent this year, but has notched only a 1.1 percent gain over the past five years.

And even the luxe chains, which until recent jitters sparked by a warning from Burberry Group were seen as strong, have lost ground. Hoyt looks at jewelry stores as a proxy for the industry.

“Year-over-year growth is strong….But if you look at jewelry store sales relative to where they were pre-recession and compare that with overall retail sales, jewelry store sales look very poor,” he said.

Tiffany & Co. has prepped investors for weakness in luxe this year, cutting its profit guidance twice.

Even the wealthiest of consumers are touched by the weakness.

“It’s clear that when there is tension and a little bit of bad results from an economic point of view, the purchasing power of clients is less than before,” said Michele Sofisti, chief executive officer of The Sowind Group, the watchmaking arm of PPR.

Sofisti, speaking at the TimeCrafters watch fair in New York, said the recession has changed many luxe brands. “It brought people to reality,” he said. “Until that point, it was like an air balloon. There were brands with authenticity, craftsmanship and value — and there were other brands, where you pay the price just because of the name. And I’m not speaking just about the watch industry.”
As companies and industries find their way forward, there is, however, a dim light at the end of the tunnel.

“The recovery should get stronger, probably around about next summer,” predicted Moody’s Analytics' Hoyt.

That would amount to another year for retailers to wait until they have any real economic wind at their backs.