Gap slashed its annual results forecast on Thursday, sending shares 13% lower after hours as the clothing retailer blamed poor fashion choices at its Old Navy line and weak demand in the face of decades-high inflation.

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The Banana Republic parent also posted a much wider-than-expected quarterly loss, slammed by surging costs of air freight and deeper discounts. The dismal outlook echoes peers American Eagle Outfitters and Abercrombie & Fitch Co as rising prices of essentials like food force consumers to limit discretionary spending.

Gap is also reeling from execution issues at Old Navy, its biggest brand.

With shoppers now ditching casuals and athleisure for formals and partywear, product assortment at Old Navy "continues to be out of sync" with the shift in preference, Gap executives said on an earnings call.

"We were defining customer trends too early in the process, and were unable to chase into the right fashion choices closer in," said Chief Executive Officer Sonia Syngal.

Lower-priced brands such as Old Navy typically stand to benefit when consumers tighten their belts, but deep discounts to balance inventory at the label dented margins during the first quarter.

Gap now expects fiscal 2022 per-share profit between 30 cents and 60 cents on an adjusted basis, compared with $1.85 to $2.05 earlier and far lower than Refinitiv estimates of $1.34.

"At the end of the day, the company needs to re-elevate its brand perception, willing to sell less and charge more, which is much easier said than done," said BMO Capital Markets analyst Simeon Siegel.
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American Eagle also trimmed its annual operating profit forecast on Thursday after missing quarterly expectations, sending its shares down nearly 12%.

"In hindsight, our plans entering the year were too optimistic,” said Chief Executive Jay Schottenstein.