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PRI MONTHLY RETAIL ANALYTICS

"BRINGING RESEARCH TO RETAIL"

On occasion, we have been labeled economic pessimists. The term pessimist is most easily defined as anyone who disagrees with an optimist. For the record, we like to think of ourselves as economic realists, who call-it-like-we-see-it. And the way we see it, their has been a slight up-tick in economic activity since this summer. For the third quarter, GDP advanced 3.7% versus 3.3% in the second quarter. Looking out into 2005, the Index of Leading Economic Indicators and moderating consumer income growth, among many other factors, signals a return to a more sustainable level of growth than that experienced in 2004.

Retail sales were strong in September, with auto sales accounting for a large portion of the increase. Excluding auto sales, September retail sales registered a solid 0.6% gain. Retail sales, excluding autos, grew at an annual rate of 4.7% in the third quarter, versus 6.0% in the second quarter. On an annualized rate, retail sales, excluding autos, grew 5.1% for the trailing 3-months and are up 7.8% for the trailing 12 months. Building materials, general merchandise and department stores performed well, with furniture sales slumping.

Longer-term, downside risks to the economy include weak job growth, the waning effects of prior fiscal and monetary stimulus, a slowdown in cash-out mortgage refinancing, rising interest rates, and a low household savings rate, among other things (but we are not pessimists). Personal income, which leads to retail spending, rose a respectable 0.4% in August, yet decelerated to a 1.75% pace in the July-August period versus a 3.8% average gain for the first six months of the year. And consumers face additional pressure from controllable, yet rising prices. Year-to-date, the consumer price index has risen at an annual rate of 3.5% versus a 1.9% increase for all of 2003. Reduced personal income will negatively impact consumer spending and retail sales into 2005.

In this issue, our research note highlights a recent White Paper that details the implications for retail adoption of digital signage systems.

STEVEN KEITH PLATT
DIRECTOR

I. ECONOMIC OVERVIEW

MACRO ECONOMIC INDICATORS-BUSINESS:

(% change)	2000	2001	2002	2003	2004- 1st Qtr.	2004- 2nd Qtr.	2004- 3rd Qtr.	2004- 4th Qtr.
Real GDP	3.7%	0.5%	2.2%	3.1%	4.5%	3.3%	3.7%	%
Capital Spending (business equipment)	7.8%	-4.9%	-5.5%	6.4%	8.1%	8.0%	14.9%	%
Capital Spending (non-residential structures)	----	-2.3%	-17.8%	-5.6%	7.9%	-7.6%	5.6%	%
Personal Consumption Expenditures					4.1%	1.6%	4.6%	
Corporate Profits	----	-6.2%	14.0%	16.8%	3.2%	-1.3%	%	%
Business Productivity	3.6%	1.8%	5.1%	5.7%	3.7%	2.5%	%	%

MACRO ECONOMIC INDICATORS-BUSINESS:

(% change)	JN-04	FB-04	MR-04	AP-04	MY-04	JN-04	JL-04	AG-04	SP-04	OT-04	NV-04	DC-04
Durable Goods Orders	-2.6	3.9	5.9	-2.7	-0.9	1.3	1.9	-0.6	0.2			
Durable Goods Shipments	-1.0	1.4	4.4	-0.8	-0.6	1.2	0.5	1.9	-1.2			
Leading Index	0.4	0.0	0.8	0.1	0.5	-0.1	-0.3	-0.3	-0.1			
ISM Manuf. Survey (absolute)	63.6	61.4	62.5	62.4	62.8	61.1	62.0	59.0	58.5			
ISM Services Survey (absolute)	-	-	-	-	65.2	59.9	64.8	58.2	56.7			
Industrial Capacity Utilization	76.2	76.7	76.6	77.0	77.4	77.0	77.4	77.2	77.2			
Industrial Production	0.7	0.8	0.0	0.7	0.9	-0.4	0.6	-0.1	0.1			
Producer Price Index	-	-	-	-	0.6	-0.1	0.1	-0.1	0.1			
Chicago Fed. National Activity Index	-	-	-	0.42	0.65	-0.8	0.55	0.03	-0.01			

MACRO ECONOMIC INDICATORS-CONSUMER:

(% change)	JN-04	FB-04	MR-04	AP-04	MY-04	JN-04	JL-04	AG-04	SP-04	OT-04	NV-04	DC-04
Personal Consumption/ Spending	0.5	0.4	0.4	0.0	0.6	-0.3	1.1	0.0				
Change in Payroll Employ. (000)	159	83	353	324	208	96	85	128	96			
Unemploy. Rate	5.6	5.6	5.7	5.6	5.6	5.6	5.5	5.4	5.4			
Personal Income	0.5	0.5	0.5	0.6	0.5	0.2	0.2	0.4				
Consumer Price Index (all items)	0.5	0.3	0.5	0.2	0.6	0.3	-0.1	0.1	0.2			

MACRO ECONOMIC INDICATORS- RETAIL:

Large Retail Corporations	2002-4th Qtr	2003-1st Qtr.	2003-2nd Qtr.	2003-3rd Qtr.	2003-4th Qtr.	2004-1st Qtr.	2004-2nd Qtr.	2004-3rd Qtr.	2004-4t Qtr.
Operating Income Ratio	5.6%	4.3%	4.5%	4.4%	5.5%	5.1%	4.8%	%	%
After-Tax Profit Ratio	2.5%	3.2%	2.6%	2.6%	3.5%	2.9%	3.3%	%	%
Return on Equity (after taxes)	14.6%	13.4%	13.64%	13.3%	19.78%	15.43%	16.82%	%	%

($ millions)	1999	2000	2001	2002	2003	2004
Total Retail Sales (x auto)	$2,385,029	$2,559,985	$2,634,858	$2,717,331	$2,860,985	$
Retail Sales (% change; x auto) vs. last year	7.53%	7.34%	2.93%	3.13%	5.29%	%
Total Retail Gross Margin (x auto)	31%	30.7%	30.3%	30.8%	%	%

(% change)	JN-04	FB-04	MR-04	AP-04	MY-04	JN-04	JL-04	AG-04	SP-04	OT-04	NV-04	DC-04
Retail Sales (% change; x auto) vs. prior month	1.5	0.6	1.8	-0.2	0.9	0.2	0.4	0.2	0.6			

MACRO ECONOMIC INDICATORS- RETAIL IN-STORE DEVELOPMENT:

(% change)	JN-04	FB-04	MR-04	AP-04	MY-04	JN-04	JL-04	AG-04	SP-04	OT-04	NV-04	DC-04
New Buildings Put In Place-Multi-Retail	-0.2	4.1	1.3	2.7	1.0	-2.9						
New Buildings Put In Place-Drug, Building Supply, Other Stores	-1.0	0.5	1.6	14.0	.95	4.6						
New Buildings Put In Place-Food and Beverage	-11.7	-5.3	-2.1	4.7	8.2	-3.7						

(% change)	2003-1st Qtr.	2003-2nd Qtr.	2003-3rd Qtr.	2003-4th Qtr.	2004-1st Qtr.	2004-2nd Qtr.	2004-3rd Qtr.	2004-4th Qtr.
Capital Spending-Equipment	4.5	11.0	21.7	12.0	8.0	13.6		
Capital Spending-Structures	-13.0	14.5	-1.3.	7.9	-7.6	7.1		

MACRO ECONOMIC INDICATORS- RETAIL IN-STORE DEVELOPMENT:

	2004- 1st Qtr.	2004-2nd Qtr.	2004-3rd Qtr.	2004-4th Qtr.
Strip Malls:				
Asking Rent			0.9%	
Vacancies		7.0%	6.9%	
Absorption			6.6 million sq. ft.	
New Space			5.6 million sq. ft.	
Shopping Malls:				
Asking Rent			0.2%	
Vacancies (Source: Reis Inc.)		5.6%	5.5%	

(% change sq. ft.)	2000	2001	2002	2003	F. 2004
Retail Construction Starts (Source: McGraw-Hill Construction)	0	-10.0	-8.0	10.0	2.0

II. MAJOR RETAIL SECTOR TRENDS:

BUILDING MATERIALS, GARDEN AND SUPPLY STORES

Sales rose 1.4% in September. On an annualized rate, revenue is up 9.6% for the trailing 3-months and is up 14.4% for the trailing 12 months.

Monthly % Change	JN-04	FB-04	MR-04	AP-04	MY-04	JN-04	JL-04	AG-04	SP-04	OT-04	NV-04	DC-04
Sales	0.6	0.4	9.8	-0.5	-1.2	0.8	0.1	0.7	1.4			

FOOD AND BEVERAGE STORES

Sales rose 0.6% in September. On an annualized rate, revenue is up 5.8% for the trailing 3-months and is up 4.0% for the trailing 12 months.

Monthly % Change	JN-04	FB-04	MR-04	AP-04	MY-04	JN-04	JL-04	AG-04	SP-04	OT-04	NV-04	DC-04
Sales	1.7	-0.5	0.9	0.0	0.8	-0.2	-0.2	1.0	0.6			

HEALTH AND PERSONAL CARE (DRUG) STORES

Sales rose 0.4% in September. On an annualized rate, revenue is up 3.3% for the trailing 3-months and is up 4.9% for the trailing 12 months.

Monthly % Change	JN-04	FB-04	MR-04	AP-04	MY-04	JN-04	JL-04	AG-04	SP-04	OT-04	NV-04	DC-04
Sales	0.6	-0.5	2.1	-0.4	0.2	0.9	-0.3	0.7	0.4			

	SEPTEMBER COMP. STORE SALES
Walgreen	9.3%
CVS	6.1%

CLOTHING AND ACCESSORY (APPAREL) STORES

Sales rose 0.8% in September. On an annualized rate, revenue is up 1.4% for the trailing 3-months and is up 4.0% for the trailing 12 months.

Monthly % Change	JN-04	FB-04	MR-04	AP-04	MY-04	JN-04	JL-04	AG-04	SP-04	OT-04	NV-04	DC-04
Sales	2.1	0.9	0.8	-2.1	1.1	-0.9	0.2	-0.7	0.8			

	SEPTEMBER 2004 COMP. STORE SALES
Chico's	5.2%
Gap	-3.0%
Limited Brands	-5.0%

GENERAL MERCHANDISE STORES

Sales rose 1.1 % in September. On an annualized rate, revenue is up 6.5% for the trailing 3-months and is up 5.4% for the trailing 12 months.

Monthly % Change	JN-04	FB-04	MR-04	AP-04	MY-04	JN-04	JL-04	AG-04	SP-04	OT-04	NV-04	DC-04
Sales	1.0	1.4	0.7	-0.8	1.0	-0.6	0.8	-0.3	1.1			

	SEPTEMBER 2004 COMP. STORE SALES
Costco	8.0%
Dollar Gen.	4.2%
Target Stores	5.6%
Wal-Mart (consolidated)	2.4%

DEPARTMENT STORES

Sales rose 0.9% in September. On an annualized rate, revenue is up 2.2% for the trailing 3-months and is down -1.3% for the trailing 12 months.

Monthly % Change	JN-04	FB-04	MR-04	AP-04	MY-04	JN-04	JL-04	AG-04	SP-04	OT-04	NV-04	DC-04
Sales	-	-	-	-	0.6	-1.0	0.4	-0.7	0.9			

	SEPTEMBER 2004 COMP. STORE SALES
Federated	0.1%
Sears	-3.2%
JC Penney	2.0%
Dillard's	-3.0%
Kohl/s	-1.3%

III. RESEARCH NOTE

“Implications for Retail Adoption of Digital Signage Systems”
White Paper, October 2004

By Steven Keith Platt, Platt Retail Institute, Dr. Kingshuck K. Sinha, University of Minnesota and Research Fellow, Platt Retail Institute, Dr. Barton A. Weitz, University of Florida, with Pat Hellberg, Nike, Inc., GV Iyer, Bank of America, and Margot Myers, U.S. Postal Service

Digital signage systems are rapidly being adopted by some of the largest retailers in the world, including Tesco, Target, the United States Postal Service and the Bank of America. The rationale for implementing this emerging technology includes the impact upon the customer shopping experience and the related financial implications for a retailer. This White Paper explores the decision matrix supporting retailer adoption of digital signage systems, reviews the considerations required for an implementation, and advances a framework for assessing a retail digital signage (“RDS”) system. This is significant for the following reasons:

1. The cost associated with implementing an RDS system can be substantial.
2. The failure to adopt an RDS system may place a retailer at a competitive disadvantage.
3. The benefits to be derived from RDS can be considerable.