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PRI MONTHLY RETAIL ANALYTICS

"BRINGING RESEARCH TO RETAIL"

The U.S. economy ended the year with fourth quarter GDP growth of 3.1%, which was below our 3.6% forecast. For 2004, GDP rose a healthy 4.4%, versus 3.0% in 2003. The economy is poised to grow at a slower pace in 2005. We are looking for GDP growth of 3.3%-3.5% for the year, predicated upon our belief that inflation and interest rates will rise slightly faster than the consensus view.

Retail sales for December rose 1.2% versus November, and 8.7% versus December 2003. Excluding autos, retail sales rose 0.3% in December. For the trailing three-months, retail sales, excluding autos, rose at an annualized rate 7.7% and 8.6% for the trailing twelve-months. Overall, retail sales rose a strong 8.0% in 2004, the best showing since 1999. We anticipate another solid year for retail sales, but do not envision 2004's 8% sales growth will be matched. Standard & Poor's estimates that retail sales will grow 3.8% in 2005; The National Retail Federation forecasts 3.5% growth. We agree that workers incomes are trailing inflation, and that rising interest rates can be a drag on consumer spending.

The outlook for corporate profits is similarly anticipated to moderate from 2004's level due to increased material and labor costs. This is compounded by slowing productivity growth to cover these increased costs. While spending on capital equipment surged in the third quarter of 2003 and rose a healthy 14.9% in the fourth quarter, slowing corporate profits and slowing productivity growth could impact capital spending going forward.

Sales in the retail in-store development industry appear to have rebounded smartly in the second-half of the year. The outlook for industry sales in 2005 is promising. Profits, on the other hand, will continue to remain elusive for many in the industry. We look for industry consolidation to pick-up in 2005, as weaker players continue to struggle and stronger ones seek to maintain sales and profit growth.

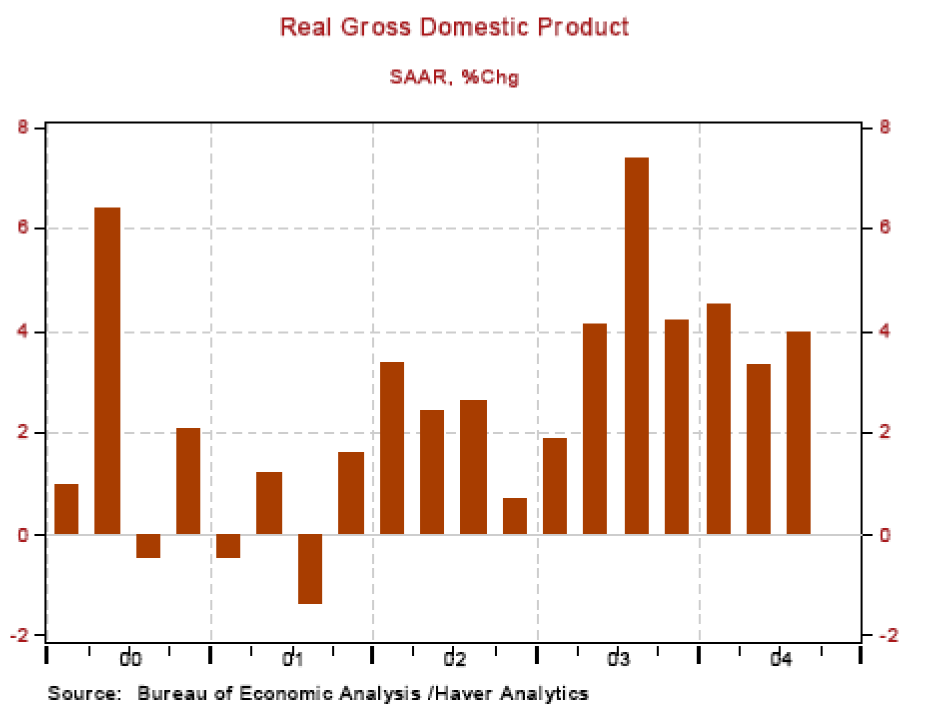
In this issue, our research note highlights the benefits that may be derived from merchandising optimization systems.

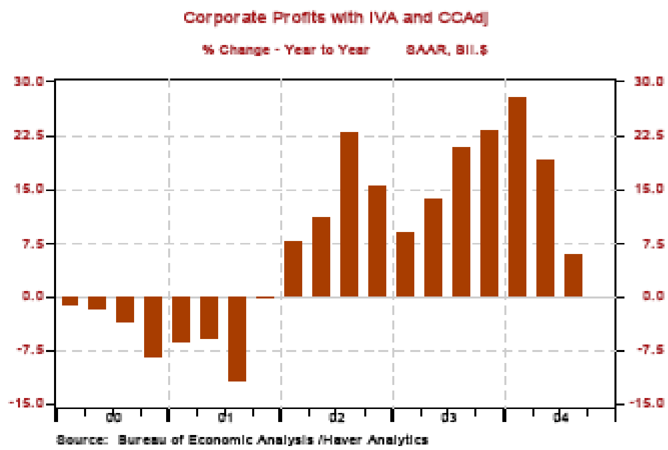
STEVEN KEITH PLATT, DIRECTOR

I. ECONOMIC OVERVIEW

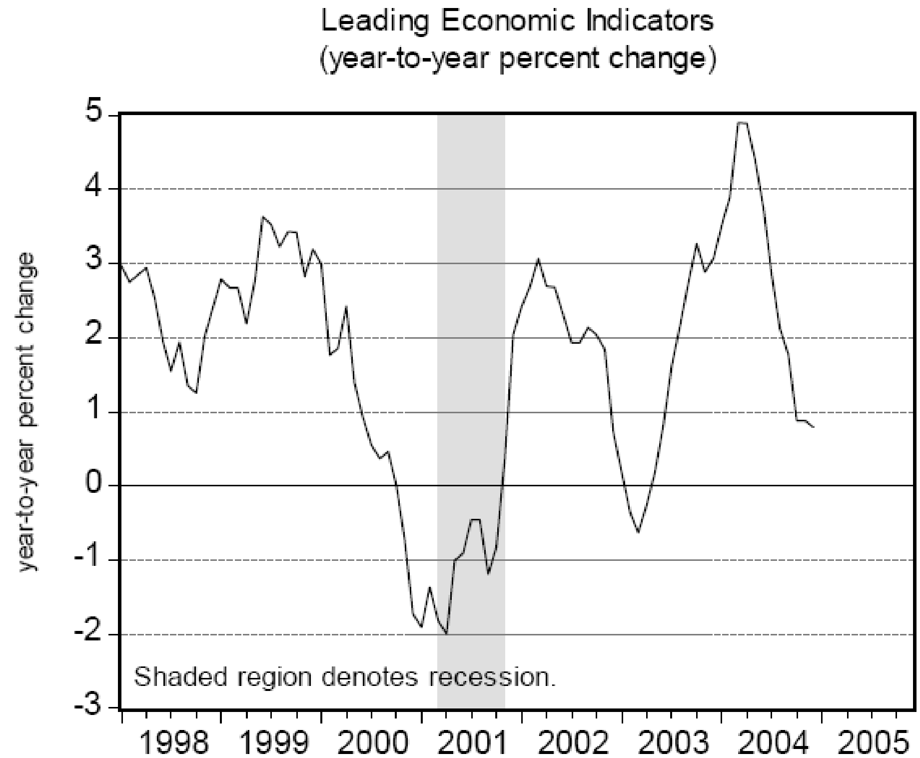
MACRO ECONOMIC INDICATORS-BUSINESS:

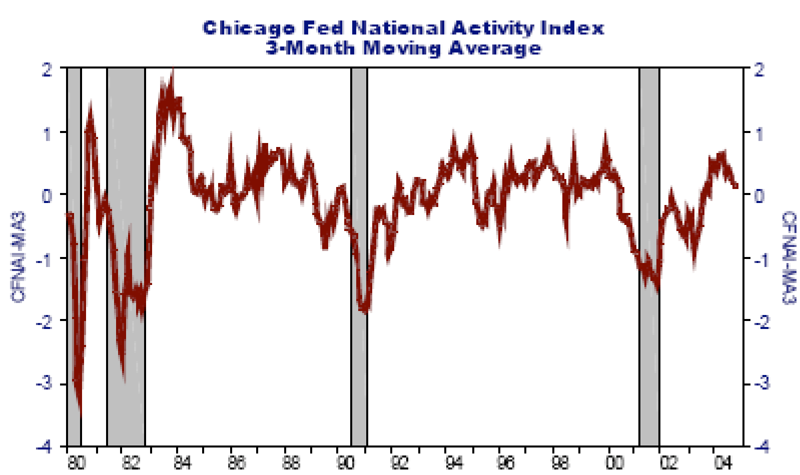
(% change)	2000	2001	2002	2003	2004	2004- 1st Qtr.	2004- 2nd Qtr.	2004- 3rd Qtr.	2004- 4th Qtr.
Real GDP	3.7%	0.5%	1.9%	3.0%	4.4%	4.5%	3.3%	4.0%	3.1%
Capital Spending (business equipment)	7.8%	-4.9%	-5.5%	6.4%	----%	8.0%	14.2%	17.5%	14.9%
Capital Spending (non-residential structures)	----	-2.3%	-17.8%	-5.6%	----%	7.9%	6.9%	-1.1%	-4.1%
Personal Consumption Expenditures	----	----	----	3.3%	----%	4.1%	1.6%	5.1%	4.6%
Corporate Profits	----	-6.2%	14.0%	16.8%	----%	3.2%	-0.7%	-4.2%	----%
Business Productivity	3.6%	1.8%	5.1%	5.7%	----%	3.7%	3.9%	1.9%	----%





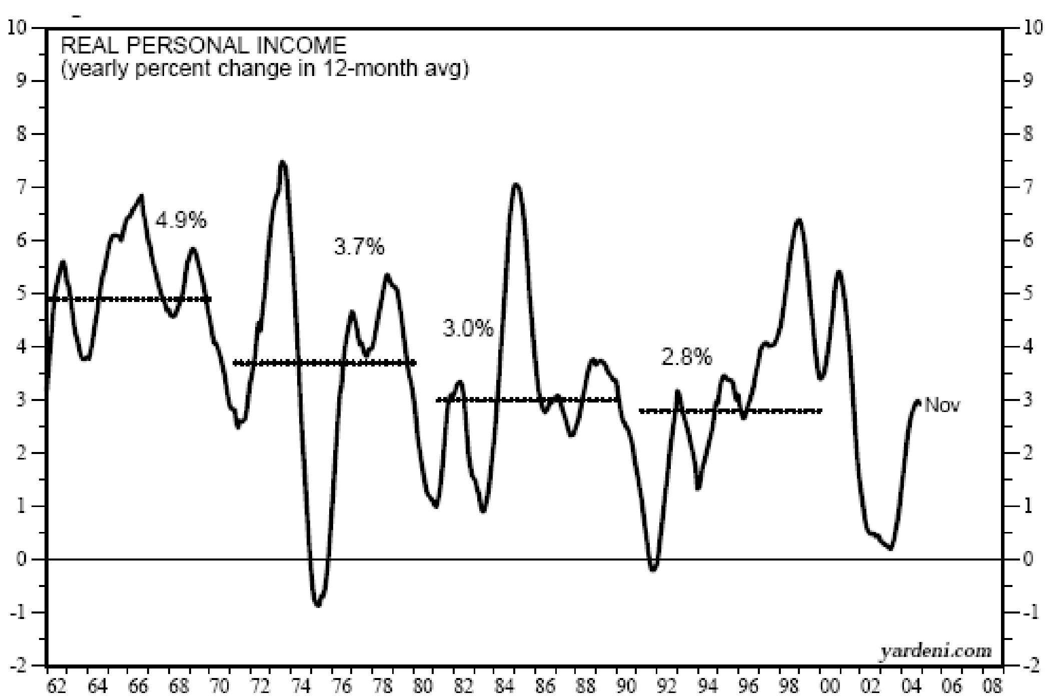
(% change)	2004	FB-04	MR-04	AP-04	MY-04	JN-04	JL-04	AG-04	SP-04	OT-04	NV-04	DC-04
Durable Goods Orders	11.6	3.9	5.9	-2.7	-0.9	1.3	1.9	-0.5	0.9	-0.9	1.6	0.6
Durable Goods Shipments	10.5	1.4	4.4	-0.8	-0.6	1.2	0.5	1.9	-1.0	0.3	-0.2	2.1
Leading Index	----	0.0	0.8	0.1	0.5	-0.1	-0.3	-0.3	-0.3	-0.3	0.3	0.2
ISM Manuf. Survey (absolute)	----	61.4	62.5	62.4	62.8	61.1	62.0	59.0	58.5	56.8	57.8	58.6
ISM Services Survey (absolute)	----	----	----	----	65.2	59.9	64.8	58.2	56.7	59.8	61.1	61.3
Industrial Capacity Utilization	----	76.7	76.6	77.0	77.4	77.0	78.3	78.3	78.0	78.5	78.6	79.2
Industrial Production	----	0.8	0.0	0.7	0.9	-0.4	0.7	0.1	-0.3	0.8	0.2	0.8
Producer Price Index	----	----	-----	----	0.6	-0.1	0.1	-0.1	0.1	1.7	0.5	----
Chicago Fed. National Activity Index	----	----	----	0.42	0.65	-0.8	0.55	0.03	-0.04	0.49	0.12	----


Leading Economic Indicators
(year-to-year percent change)
year-to-year percent change
5
4
3
2
1
0
-1
-2
-3
Shaded region denotes recession.
1998
1999
2000
2001
2002
2003
2004
2005


Chicago Fed National Activity Index
3-Month Moving Average
CFNAI-MA3
2
1
0
-1
-2
-3
-4
80
82
84
86
88
90
92
94
96
98
00
02
04
Source: Federal Reserve Bank of Chicago

MACRO ECONOMIC INDICATORS-CONSUMER:

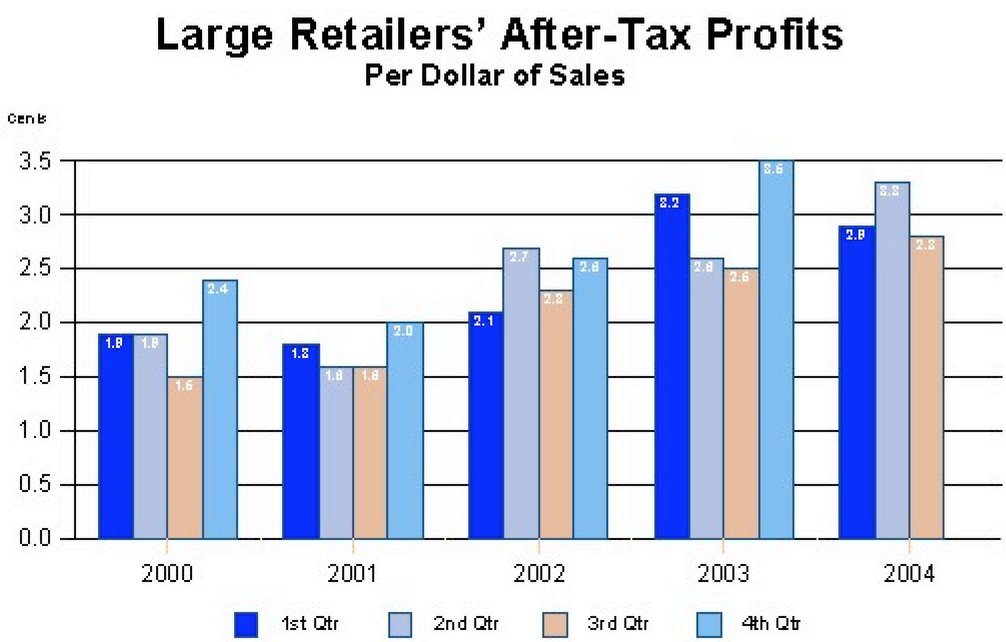
(% change)	JN-04	FB-04	MR-04	AP-04	MY-04	JN-04	JL-04	AG-04	SP-04	OT-04	NV-04	DC-04
Personal Income	0.5	0.5	0.5	0.6	0.5	0.2	0.2	0.3	0.2	0.6	0.3	----
Personal Consumption/ Spending	0.5	0.4	0.4	0.0	0.6	-0.3	1.2	-0.1	0.6	0.8	0.2	----
Savings Rate	-	-	-	-	-	1.4	0.4	0.7	0.3	0.1	0.3	----
Change in Payroll Employ. (000)	159	83	353	324	208	96	85	198	139	312	137	157
Unemploy. Rate	5.6	5.6	5.7	5.6	5.6	5.6	5.5	5.4	5.4	5.5	5.4	5.4
Consumer Price Index (all items)	0.5	0.3	0.5	0.2	0.6	0.3	-0.1	0.1	0.2	0.6	0.2	-0.1



* Dashed lines show decades' annual averages.
Source: U.S. Department of Commerce, Bureau of Economic Analysis.

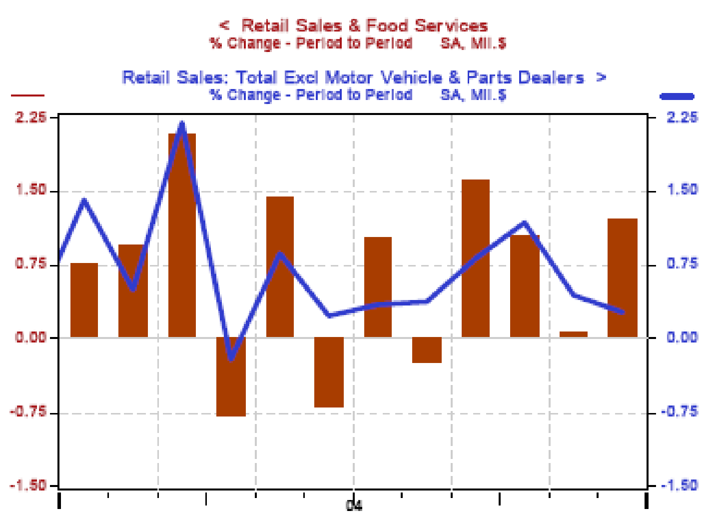
MACRO ECONOMIC INDICATORS- RETAIL:

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.	2004-4th Qtr.
Operating Income Ratio	5.6%	4.3%	4.5%	4.3%	5.5%	5.1%	4.7%	4.0%	----%
After-Tax Profit Ratio	2.5%	3.2%	2.6%	2.5%	3.5%	2.9%	3.3%	2.8%	----%
Return on Equity (after taxes)	14.6%	13.4%	13.64%	13.14%	19.78%	15.43%	16.89%	14.34%	----%



(% 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	0.3	0.8	1.2	0.4	0.3

($ millions)	1999	2000	2001	2002	2003	2004
Retail Sales (% change)	8.5%	7.34%	2.9%	2.5%	5.4%	8.0%



MACRO ECONOMIC INDICATORS- RETAIL IN-STORE DEVELOPMENT:

(% change)	2001	2002	2003	2004
New Buildings Put In Place-Multi-Retail	10.0	-4.7	-0.9	----
New Buildings Put In Place-Drug, Building Supply, Other Stores	-10.6	0.9	-8.0	----
New Buildings Put In Place-Food and Beverage	-0.9	-9.4	6.0	----

(% 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	6.9	3.64	1.39	----	----	----
New Buildings Put In Place-Drug, Building Supply, Other Stores	-1.0	0.5	1.6	14.0	.95	4.6	.25	-2.35	2.31	----	----	----
New Buildings Put In Place-Food and Beverage	-11.7	-5.3	-2.1	4.7	8.2	-3.7	4.1	1.63	-12.94	----	----	----

	2003	2004	2004- 1st Qtr.	2004-2nd Qtr.	2004-3rd Qtr.	2004-4th Qtr.
Strip Malls:	----	----	----	----	----	----
Asking Rent	+2.8%	+2.9%	----	----	+0.9%	+0.7%
Vacancies	----	----	----	7.0%	6.9%	6.8%
Absorption	----	----	----	----	6.6 million sq. ft.	9.0 million sq. ft.
New Space	----	----	----	----	5.6 million sq. ft.	----
Shopping Malls:	----	----	----	----		----
Asking Rent	----	-0.1%	----	----	+0.2%	+.08%
Vacancies (Source: Reis Inc.)	----	----	----	5.6%	5.5%	5.3%

(% 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 1.2% in December. On an annualized rate, sales are up 5.8% for the trailing 3-months and are up 13.2% 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	0.2	1.4	-0.4	0.6	1.2

FOOD AND BEVERAGE STORES

Sales rose 0.4% in December. On an annualized rate, sales are up 4.2% for the trailing 3-months and are up 5.3% 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	1.7	-0.5	0.9	0.0	0.8	-0.2	-0.2	0.9	0.8	0.3	0.5	0.4

HEALTH AND PERSONAL CARE (DRUG) STORES

Sales rose 0.2% in December. On an annualized rate, sales are up 4.3% for the trailing 3-months and are up 3.6% 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	0.5	0.0	0.5	0.4	0.2

	DECEMBER COMP. STORE SALES
Walgreen	4.2%
CVS	4.6%

CLOTHING AND ACCESSORY (APPAREL) STORES

Sales fell -0.6% in December. On an annualized rate, sales are up 4.9% for the trailing 3-months and are up 3.3% 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	2.1	0.9	0.8	-2.1	1.1	-0.9	0.2	-0.9	1.1	2.6	-0.8	-0.6

	DECEMBER 2004 COMP. STORE SALES
Chico's	18.6%
Gap	-1.0%
Limited Brands	2.0%

GENERAL MERCHANDISE STORES

Sales rose 0.7% in December. On an annualized rate, sales are up 8.3% for the trailing 3-months and are up 7.0% 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	1.0	1.4	0.7	-0.8	1.0	-0.6	0.8	0.0	1.3	0.9	0.4	0.7

	DECEMBER 2004 COMP. STORE SALES
Costco	9.0%
Dollar Gen.	1.7%
Target Stores	5.1%
Wal-Mart (consolidated)	3.0%

DEPARTMENT STORES

Sales rose 0.2% in December. On an annualized rate, sales are up 3.1% for the trailing 3-months and are up 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	-0.4	1.1	0.7	-0.1	0.2

	DECEMBER 2004 COMP. STORE SALES
Federated	2.3%
Sears	-3.0%
JC Penney	-1.2%
Dillard's	1.0%
Kohl's	3.1%

III. RESEARCH NOTE

"Welcome to the New World of Merchandising"

Harvard Business Review, November 2001

By Scott C. Friend, ProfitLogic, Patricia H. Walker, Accenture

This paper details the benefits that may be derived from implementing merchandising optimization software systems. The authors advance the position that by analyzing inventory and sales data, such systems help predict demand. This is achieved by considering the impact of demand drivers such as price, inventory, promotional levels and seasonal factors, as well as historical data. Such enhanced forecasts may affect merchandise planning, buying, replenishing, pricing and promotional decisions. The authors state that the impact of such systems has been felt in the area of markdowns, by enhancing decisions relative to optimal depth and timing of markdown decisions.