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PRI MONTHLY RETAIL ANALYTICS

"BRINGING RESEARCH TO RETAIL"

Recently, Fed Chairmen Alan Greenspan projected 2005 GDP growth of 3.5%-4.0%, following 2004's growth of 4.4%. The National Association for Business Economics predicts 2005 GDP growth of 3.6%. We are leaning toward the lower range as well (GDP growth of 3.3%-3.5%), for the following reasons: 1. slowing Productivity growth (during 2004, productivity rose 4.1% versus 4.4% in 2003; fourth quarter 2004 growth of 0.8%, versus 1.8% in the third quarter); 2. The ISM Manufacturing Composite Index, while still in positive territory, has declined in five of the last six months; 3. our continued, stubborn belief that inflation will increase more than the consensus view (Chairman Greenspan also stated that "inflation and inflation expectations [are] well anchored", yet labor costs have risen in the last half of 2004, following several years of declines; the non-petroleum import price index is trending upward; the Producer Price Index of finished goods rose 0.3% in January, the core Producer Price Index advanced 0.8%, the largest monthly increase since December 1998, and the Core Intermediate goods price index increased 0.8%, for a year-to-year rise of 8.5%, versus a 8.3% rise in 2004; 4. the Index of Leading Economic Indicators fell 0.3% in January (dropping in six of the last eight months); and, 5. minutes from the February Federal Open Market Committee meeting underscore that inflation remains at the top of the central bank's agenda.

Retail sales for January fell -0.3% versus December, and rose 7.1%% versus January 2004. Excluding autos, retail sales rose 0.6% in January. For the trailing three-months, retail sales, excluding autos, rose at an annualized rate 5.7% and 7.6% for the trailing twelve-months. An improved hiring outlook, mild wage growth and the continuation of consumers seeking cash-out mortgages should result in another good year for retailers. For the fourth quarter of 2004, consumer spending rose a healthy 4.2%, versus 5.1% in the third quarter and 1.6% in the second.

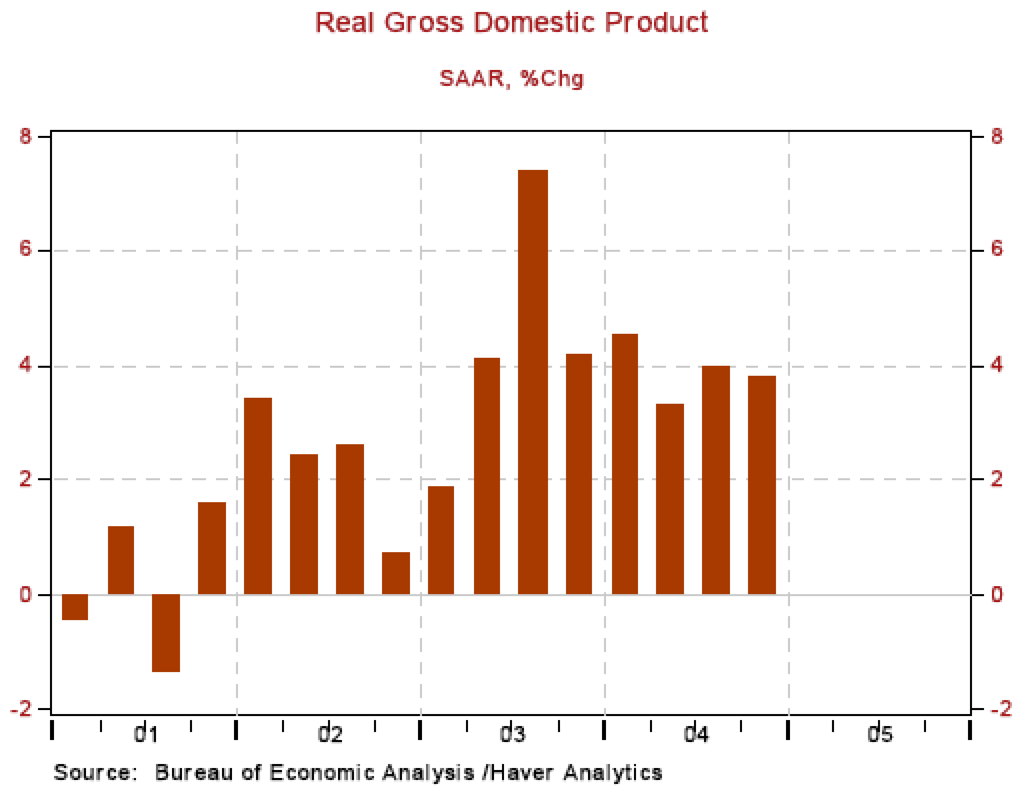
The outlook for the retail in-store development industry remains positive. Spending on non-residential buildings rose 1.2% in the fourth quarter of 2004, recovering from the third quarter drop of -1.1%. Capital spending continued to power ahead, rising 18% in the fourth quarter of 2004, following a 17.5% rise in the third quarter. Capital spending going into the first quarter of 2005 looks to be strong as well. Durable Goods Orders for January dropped 0.9%, but excluding the transportation sector, rose 0.8%. For the trailing three-months, Durable Goods Orders, excluding transportation, rose at an annualized rate 12.2% and 13.2% for the trailing twelve-months. Durable Goods Shipments for January rose 1.5%. For the trailing three-months, Durable Goods Shipments rose at an annualized rate 19.6% and 12.4% for the trailing twelve-months. Business sales and earnings, while expected to slow in 2005, should continue to fuel capital spending throughout the year.

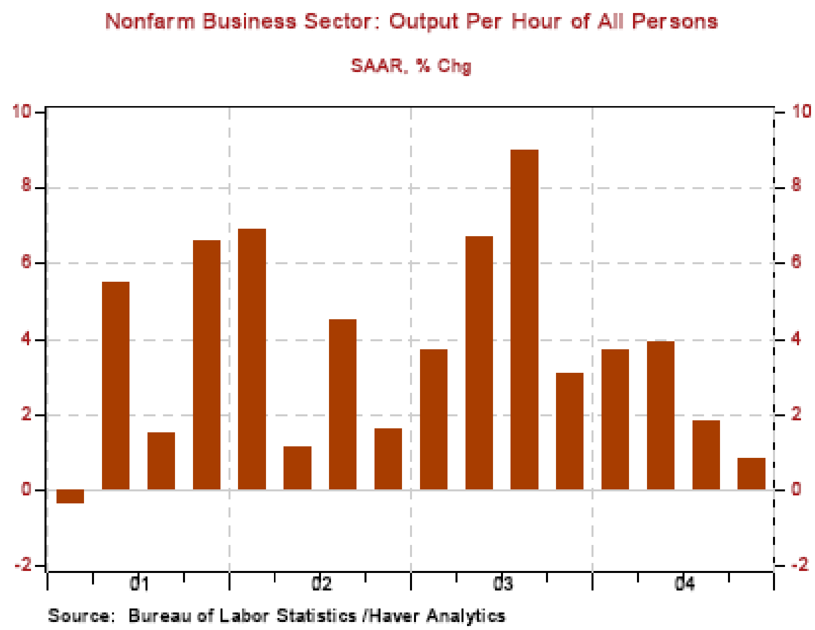
In this issue, our research note highlights measuring the impact of loyalty programs on customer retention.

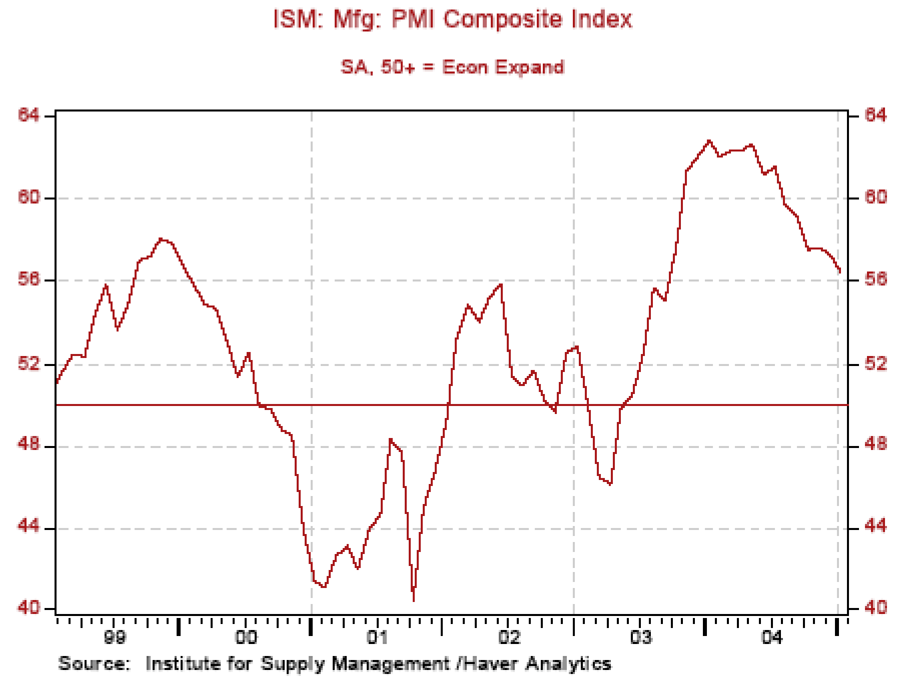
STEVEN KEITH PLATT
DIRECTOR

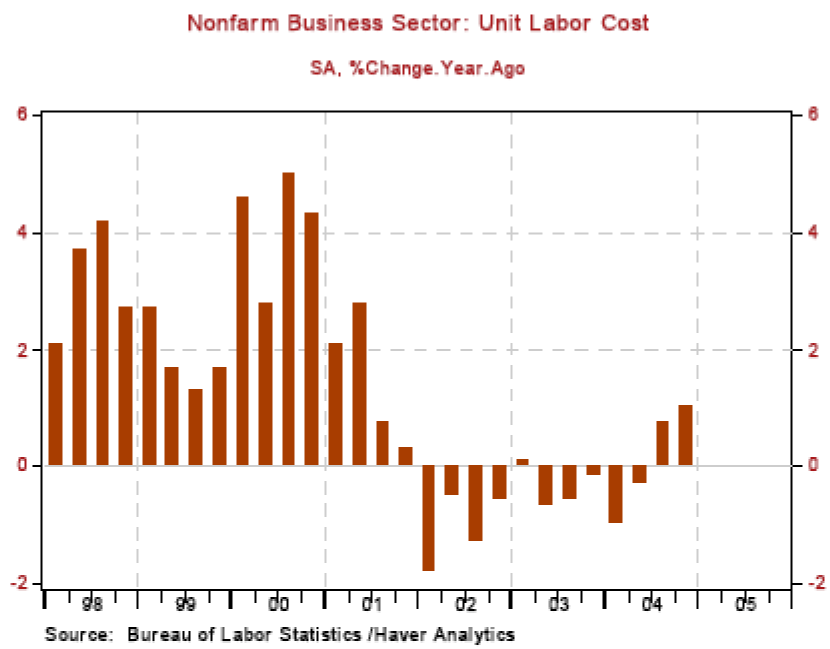
I. ECONOMIC OVERVIEW

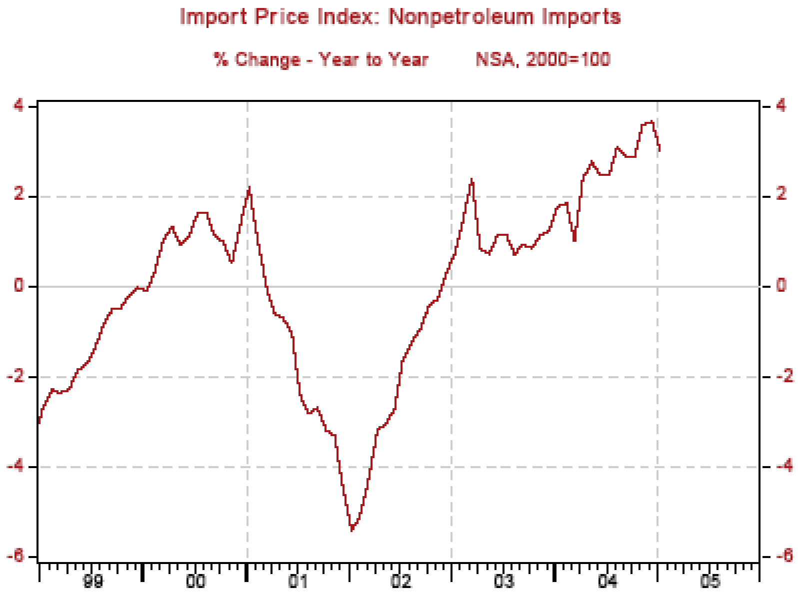
MACRO ECONOMIC INDICATORS-BUSINESS:



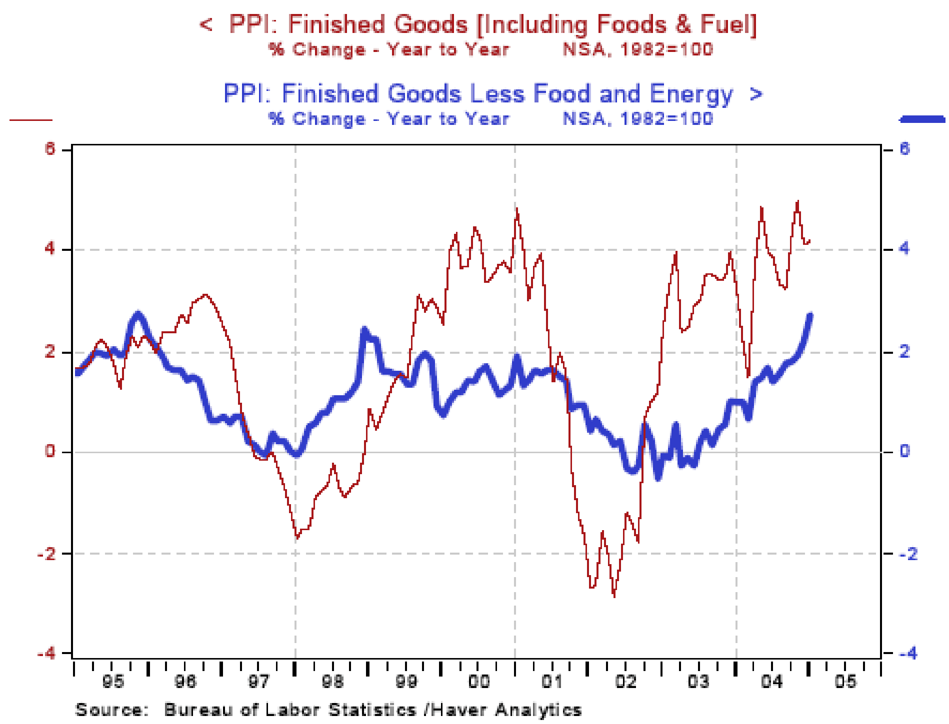



ISM: Mfg: PMI Composite Index
SA, 50+ = Econ Expand
64
60
56
52
48
44
40
99
00
01
02
03
04
Source: Institute for Supply Management /Haver Analytics

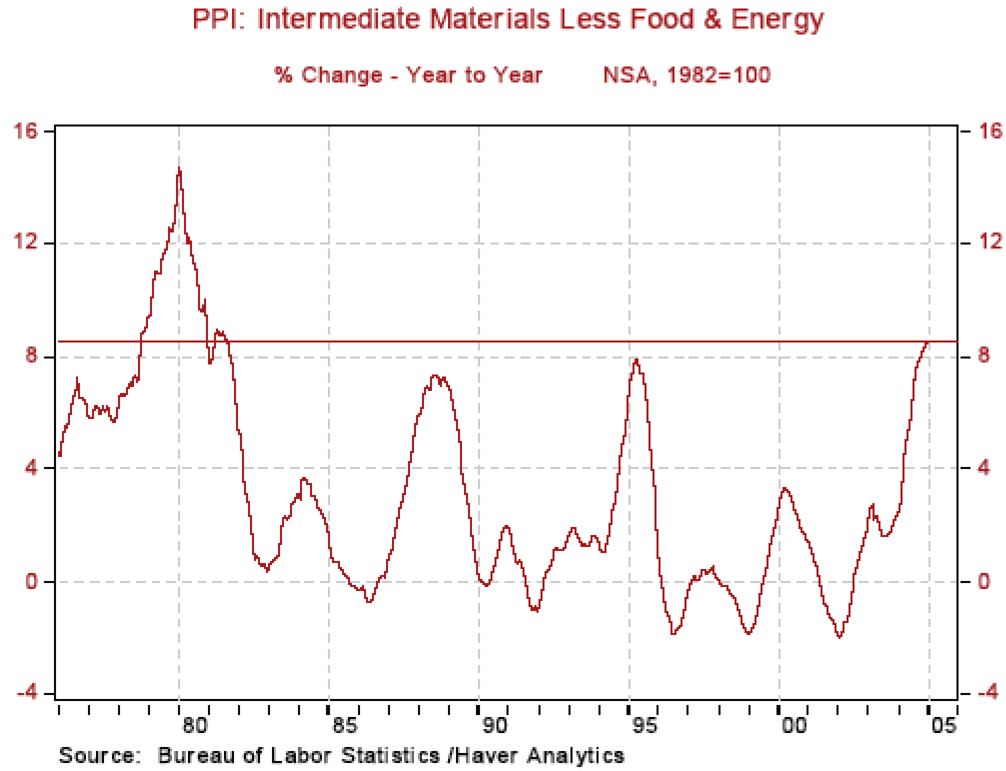

Nonfarm Business Sector: Unit Labor Cost
SA, %Change.Year.Ago
6
4
2
0
-2
98
99
00
01
02
03
04
05
Source: Bureau of Labor Statistics /Haver Analytics

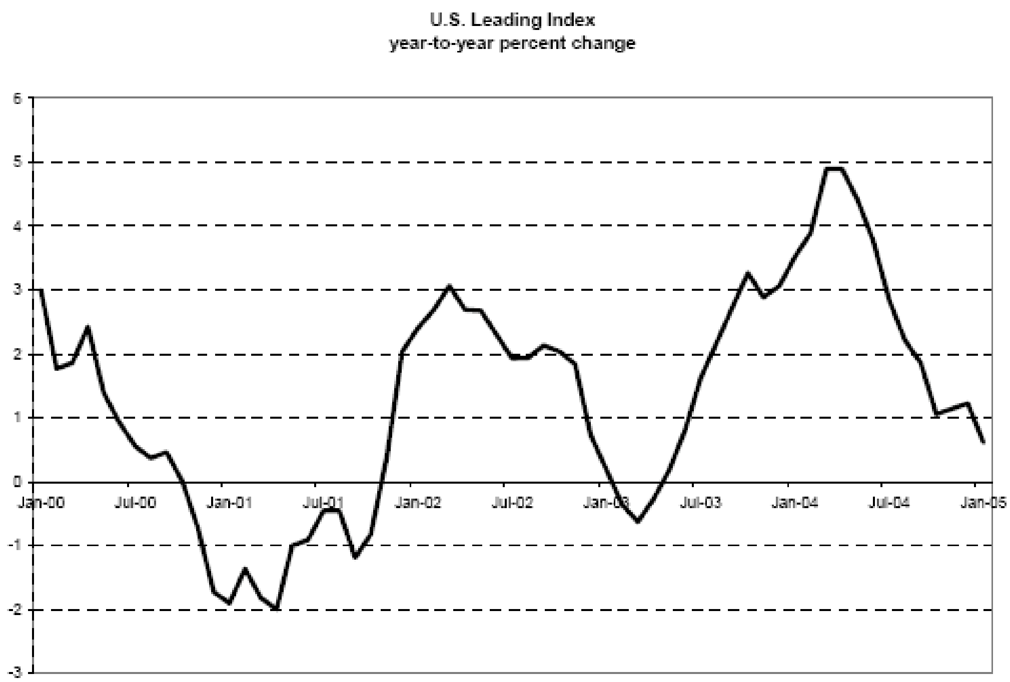


Import Price Index: Nonpetroleum Imports
% Change - Year to Year
NSA, 2000=100
4
2
0
-2
-4
-6
99
00
01
02
03
04
05

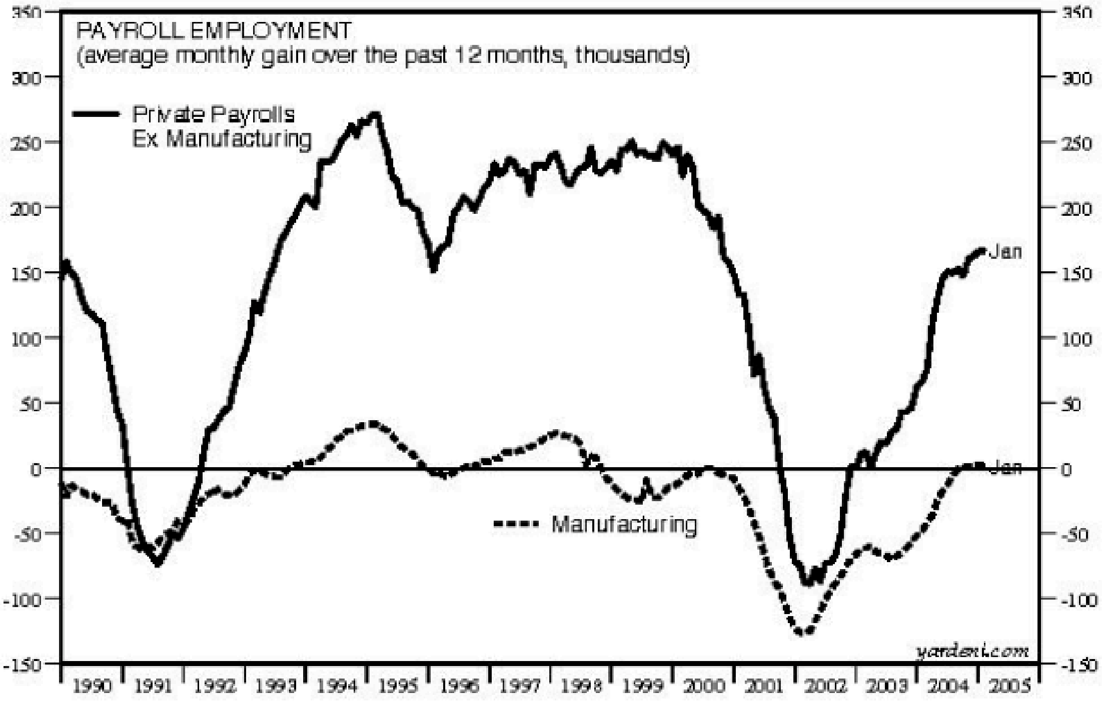


< PPI: Finished Goods [Including Foods & Fuel]
% Change - Year to Year
NSA, 1982=100
PPI: Finished Goods Less Food and Energy >
% Change - Year to Year
NSA, 1982=100
6
4
2
0
-2
-4
95
96
97
98
99
00
01
02
03
04
05
Source: Bureau of Labor Statistics /Haver Analytics

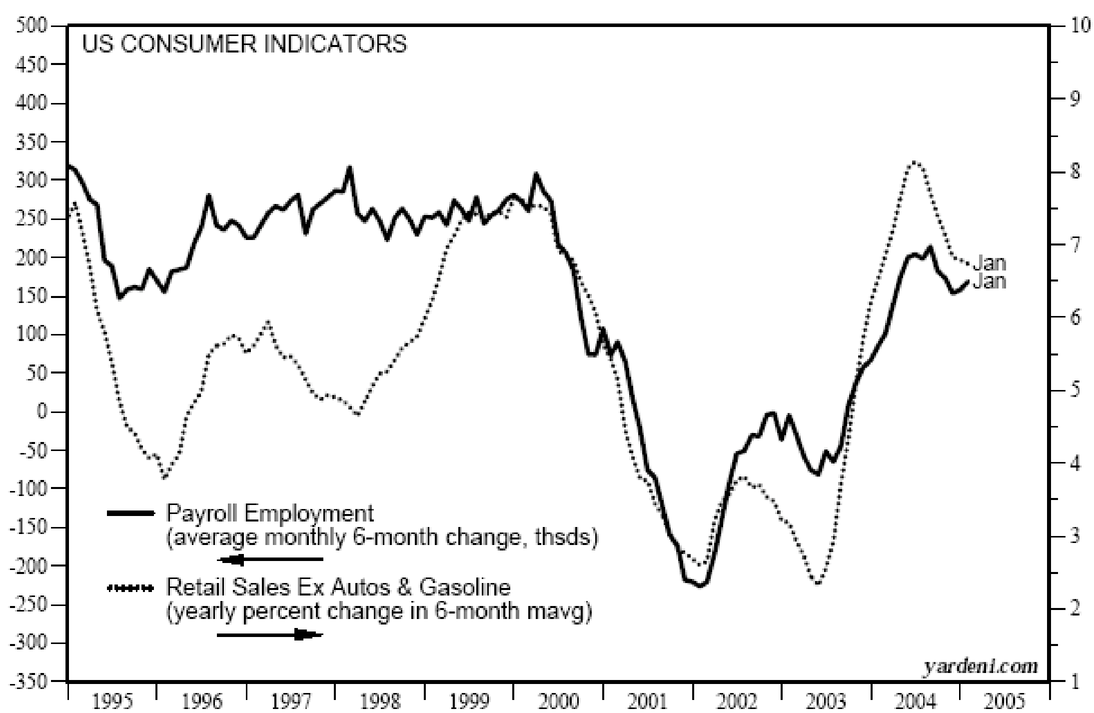

PPI: Intermediate Materials Less Food & Energy
% Change - Year to Year
NSA, 1982=100
16
12
8
4
0
-4
80
85
90
95
00
05
Source: Bureau of Labor Statistics /Haver Analytics


U.S. Leading Index
year-to-year percent change
6
5
4
3
2
1
0
-1
-2
-3
Jan-00
Jul-00
Jan-01
Jul-01
Jan-02
Jul-02
Jan-03
Jul-03
Jan-04
Jul-04
Jan-05

MACRO ECONOMIC INDICATORS-CONSUMER:

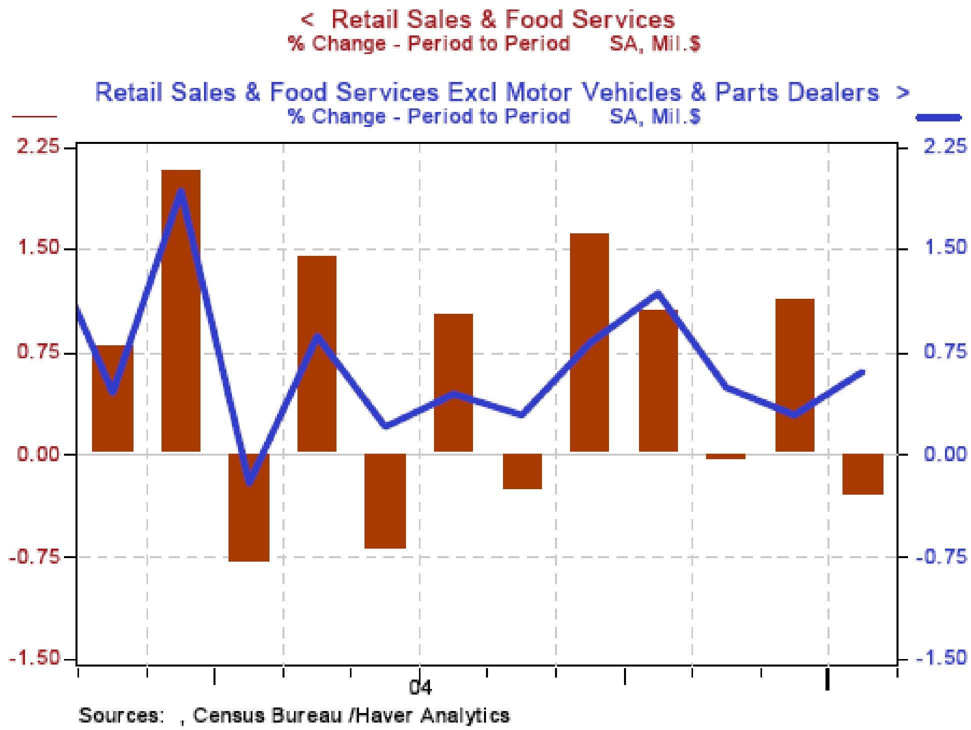


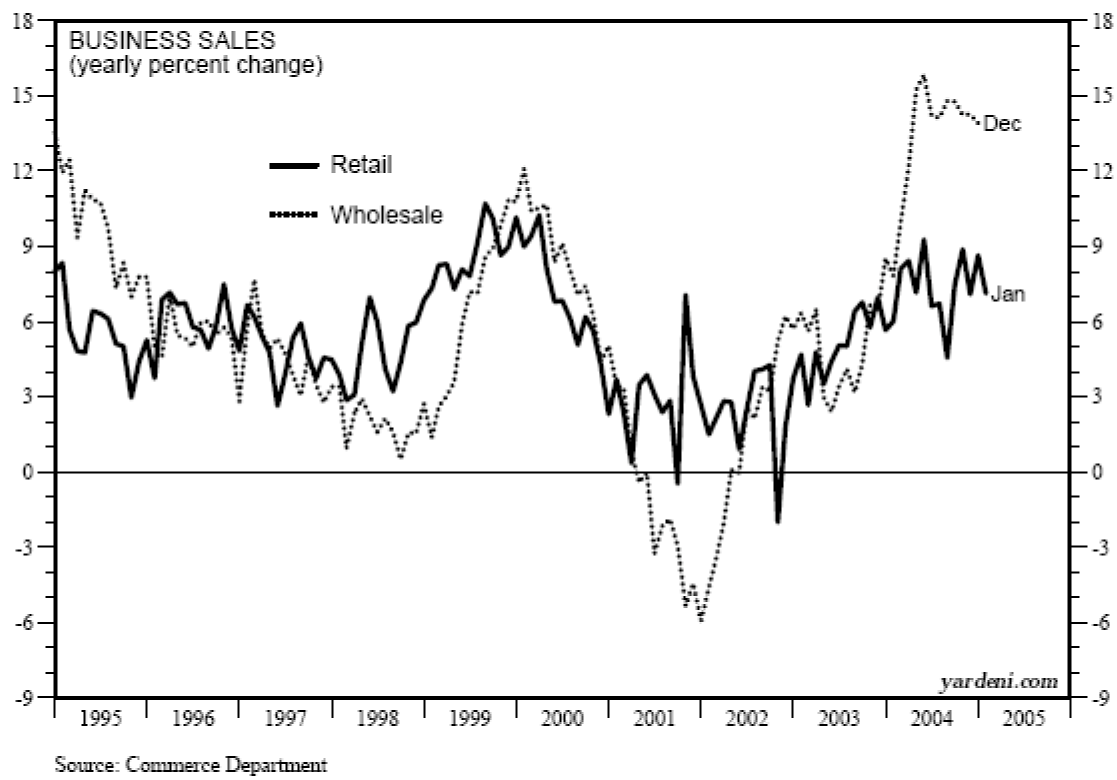
Source: Bureau of Labor Statistics.



Source: Bureau of the Census and Bureau of Labor Statistics.

MACRO ECONOMIC INDICATORS- RETAIL:



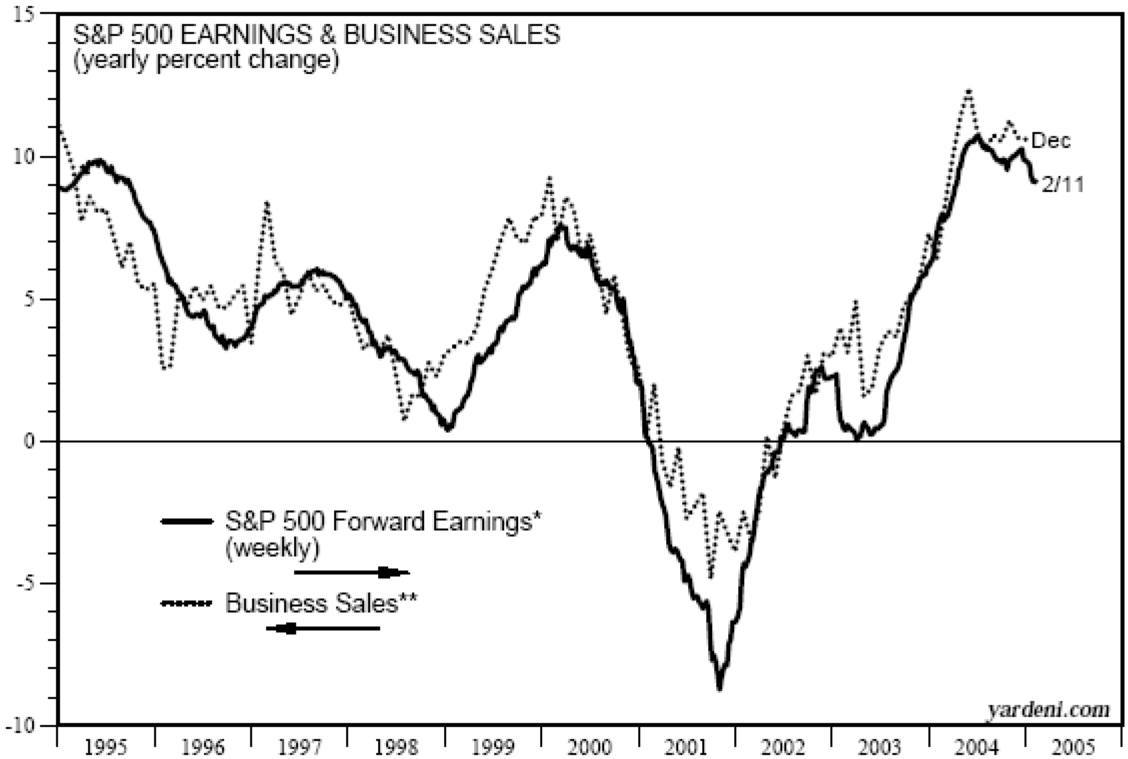


Large Retail Corporations	2004-1st Qtr.	2004-2nd Qtr.	2004-3rd Qtr.	2004-4th Qtr.	2005-1st Qtr.	2005-2nd Qtr.	2005-3rd Qtr.	2005-4th Qtr.
Operating Income Ratio	5.1%	4.7%	4.0%	----%	----%	----%	----%	----%
After-Tax Profit Ratio	2.9%	3.3%	2.8%	----%	----%	----%	----%	----%
Return on Equity (after taxes)	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	0.6	----	----	----	----	----	----	----	----	----	----	----

($ 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:



* Time-weighted average of current and next year's consensus earnings estimates. **Manufacturing and trade sales.
Source: Thomson Financial and U.S. Department of Commerce, Bureau of the Census.

(% 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-05	FB-05	MR-05	AP-05	MY-05	JN-05	JL-05	AG-05	SP-05	OT-05	NV-05	DC-05
New Buildings Put In Place-Multi-Retail	----	----	----	----	----	----	----	----	----	----	----	----
New Buildings Put In Place-Drug, Building Supply, Other Stores	----	----	----	----	----	----	----	----	----	----	----	----
New Buildings Put In Place-Food and Beverage	----	----	----	----	----	----	----	----	----	----	----	----

	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	----	----	----	----	----	----
Absorption	----	----	----	----	----	----
New Space	----	----	----	----	----	----
Shopping Malls:	----	----	----	----		----
Asking Rent	----	-0.1%	----	----	----	----
Vacancies (Source: Reis Inc.)	----	----	----	----	----	----

(% 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 fell -0.3% in January. On an annualized rate, sales are up 9.3% for the trailing 3-months and are up 14.1% for the trailing 12 months.

Monthly % Change	JN-05	FB-05	MR-05	AP-05	MY-05	JN-05	JL-05	AG-05	SP-05	OT-05	NV-05	DC-05
Sales	-0.3	----	----	----	----	----	----	----	----	----	----	----

FOOD AND BEVERAGE STORES

Sales rose 0.5% in January. On an annualized rate, sales are up 6.7% for the trailing 3-months and are up 4.8% for the trailing 12 months.

Monthly % Change	JN-05	FB-05	MR-05	AP-05	MY-05	JN-05	JL-05	AG-05	SP-05	OT-05	NV-05	DC-05
Sales	0.5	----	----	----	----	----	----	----	----	----	----	----

HEALTH AND PERSONAL CARE (DRUG) STORES

Sales rose 0.6% in January. On an annualized rate, sales are up 2.6% for the trailing 3-months and are up 3.5% for the trailing 12 months.

Monthly % Change	JN-05	FB-05	MR-05	AP-05	MY-05	JN-05	JL-05	AG-05	SP-05	OT-05	NV-05	DC-05
Sales	0.6	----	----	----	----	----	----	----	----	----	----	----

CLOTHING AND ACCESSORY (APPAREL) STORES

Sales rose 1.8% in January. On an annualized rate, sales are up 3.1% for the trailing 3-months and are up 3.8% for the trailing 12 months.

Monthly % Change	JN-05	FB-05	MR-05	AP-05	MY-05	JN-05	JL-05	AG-05	SP-05	OT-05	NV-05	DC-05
Sales	1.8	----	----	----	----	----	----	----	----	----	----	----

GENERAL MERCHANDISE STORES

Sales rose 0.9% in January. On an annualized rate, sales are up 8.3% for the trailing 3-months and are up 6.5% for the trailing 12 months.

Monthly % Change	JN-05	FB-05	MR-05	AP-05	MY-05	JN-05	JL-05	AG-05	SP-05	OT-05	NV-05	DC-05
Sales	0.9	----	----	----	----	----	----	----	----	----	----	----

DEPARTMENT STORES

Sales rose 0.3% in January. On an annualized rate, sales are up 2.8% for the trailing 3-months and are up 1.4% for the trailing 12 months.

Monthly % Change	JN-05	FB-05	MR-05	AP-05	MY-05	JN-05	JL-05	AG-05	SP-05	OT-05	NV-05	DC-05
Sales	0.3	----	----	----	----	----	----	----	----	----	----	----

III. RESEARCH NOTE

"The Influence of Loyalty Programs and Short-Term Promotions on Customer Retention"

Journal of Marketing Research, August 2004

By Michael Lewis, University of Florida

This article details a methodology to measure the impact of loyalty programs upon long-term customer retention. The study not only considers cumulative purchases, but is extended to include other techniques that may increase repeat buying, such as short-term discounts, reduced shipping charges, etc. This is achieved by considering decisions based on both current and future customer expectations. Stated another way, the research is aimed at estimating the impact of a reward program, as well as other related marketing incentives, on customer purchase behavior over time by measuring consumer response to a loyalty program. In support of this, the researcher analyzed data from an on-line grocery and drugstore merchant, and found that the particular loyalty programs being adopted were successful in increasing annual purchases for a substantial portion of that retailer's customers.

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