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PRI MONTHLY RETAIL ANALYTICS

"BRINGING RESEARCH TO RETAIL"

We remain cautiously optimistic regarding the economic outlook for 2005. We maintained our 3.3-3.5% GDP forecast during the first several months of the year, revising this up slightly in March to an annual forecast 3.4-3.7%. This compares to GDP growth of 4.4% in 2004, following a 3.0% increase in 2003. The principal reasons for our conservative forecast are as follows: 1. an expected retrenchment consumer income and spending; 2. a moderation in manufacturing activity; and, 3. our view that inflation will increase faster than the consensus view. Our slight upward revision in March was attributable to continuing strength in corporate profits and capital spending, although the recent release of first quarter GDP suggests capital spending is slowing as well.

The recent release of first quarter GDP confirms our view. GDP grew at an annual rate of 3.1% in the first quarter, following a 3.8% increase in the previous quarter. The Leading Index also indicates a slowing in economic activity. The U.S. leading index has declined in six out of the last eight months. The index advanced 0.1% in February following a 0.3% drop in the prior month.

Consumer spending has outpaced gains in income. Personal income increased 3.3%, while spending increased by 3.5% from February 2004 to February 2005. For the first quarter, consumer spending rose at an annual rate of 3.5%, a decline from the 4.2% increase in the fourth quarter. The annualized increase in consumer spending was only 3.5% in the first quarter, down from gains of 5.1% and 4.2% in the third and fourth quarter of 2004. Savings rates are low; consumer debt is high. Rising interest rates and inflation, especially in the energy area, will also drain consumer dollars from retail purchases. Finally, the cash that consumers have raised from mortgage refinancing to fuel spending is also expected to slow, as mortgage rates move higher and housing price appreciation slows.

Indications are that manufacturing activity is moderating as well. During the first quarter, Industrial Production rose at an annual rate of 3.7% versus a 4.5% increase in the fourth quarter. Factory Production increased at an annual rate of 3.6% in the first quarter, compared with a 4.6% rise in the fourth quarter. Durable Goods Orders were weak in March, falling by 2.8%. Excluding transportation, Durable Goods Orders fell 1.0% for the month.

The Federal Reserve is now publicly addressing inflation risk. A recent Fed release stated that "pressures on inflation has picked up in recent months, and pricing power is more evident." Inflation data, as measured by various indexes, confirms this. The GDP price index rose 2.2% in 2004 vs. a 1.8% gain in 2003. The GDP price index excluding food and energy advanced 1.9% in 2004 vs. a 1.6% increase in 2003. The Consumer Price Index rose 0.6% in March, vs. a 0.4% increase in February. The CPI is up at an annual rate of 4.3% compared with a 3.3% increase for all of 2004.

Capital spending on equipment and software rose an impressive 18.4% in 2004. The outlook for capital spending remains positive going into 2005. However, for the first quarter, Capital Spending on equipment and software increased at an annual rate of 6.9%, a sharp slowing from the double-digit growth of the prior three quarters. The March reading for shipments of non-defense capital goods excluding aircraft also posted a significant decline. After tax corporate profits, which in part support these expenditures, rose 16.1% in 2004, compared with a 13.8% increase in 2003.

While the outlook for retail capital spending remains positive, we believe that it deviates to the downside from the general prognosis for capital spending. We base this conclusion on a variety of factors. First, as already discussed, we anticipate consumer spending will slow, which will impact retail profits. Second, while retail sales and profits are growing, they are not growing as rapidly as that of manufactures. Thus, we believe that a disproportionate percentage of capital spending is being absorbed by manufactures, rather than retailers. Finally, McGraw-Hill Construction forecasts that retail construction starts for new and additional space will decline by -2% in 2005, following a rise of 3% in 2004 and 10% in 2003.

Retail sales for March rose 0.3% versus February, and 5.8% versus March 2004. Excluding autos, retail sales rose 0.1% in March, and 6.6% versus March 2004. For the trailing three-months, retail sales, excluding autos, rose at an annualized rate 6.57%. Neither tax refunds, nor an early Easter, were sufficient to offset raising gas prices, which are up 25% versus last year. Federal Reserve Governor Donald Kohn recently noted that "increases in energy prices are siphoning purchasing power [and] persistence of higher prices may have an effect on spending…which might now be showing up in the latest reading on retail sales". Overall, retail sales rose a strong 8.0% in 2004, the best showing since 1999. We anticipate a solid year for retail sales, but do not envision 2004's 8.0% sales growth will be matched.

In this issue, our Research Note explores establishing retail digital signage as a technologically enhanced advertising medium that is capable of both impacting consumer shopping behavior in-store and measuring this impact.

STEVEN KEITH PLATT, DIRECTOR

CONTENTS

PRI's mission is to initiate and secure the funding of studies on specific retail business issues. PRI functions as a conduit, bringing together retail executives with leading researchers. The genesis of the Retail Institute is the recognition of the wealth of knowledge being produced at the University level, on the one hand, and the need for more advanced yet practical business research and insight at the retail level, on the other. It is, therefore, the Retail Institute's main objective to serve as a knowledge bridge between the University and retail industry and its related vendors. It will achieve this objective through the commercialization of the resources of its Research Fellows and University relationships.

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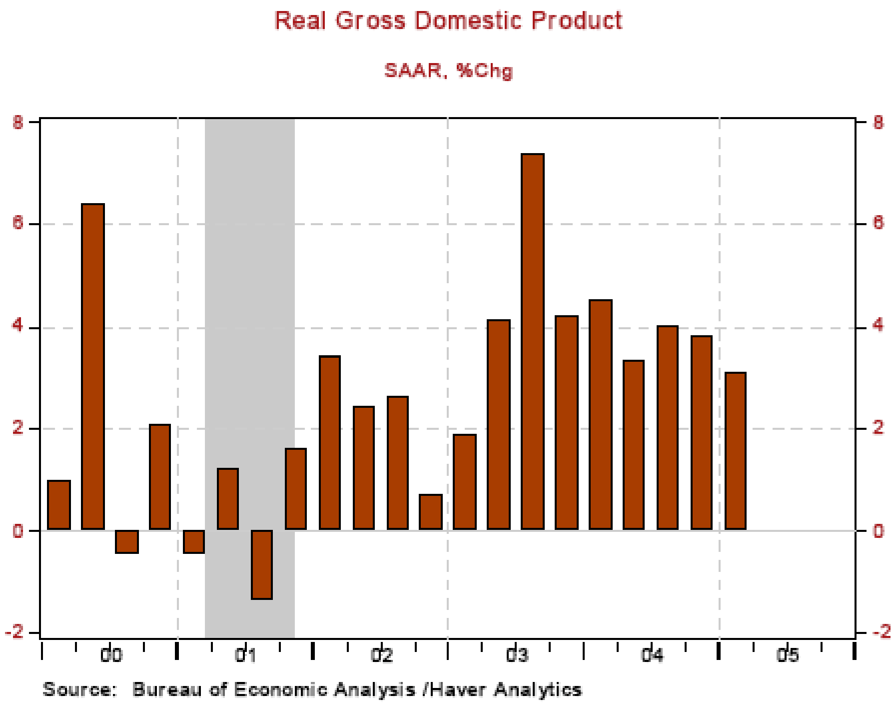
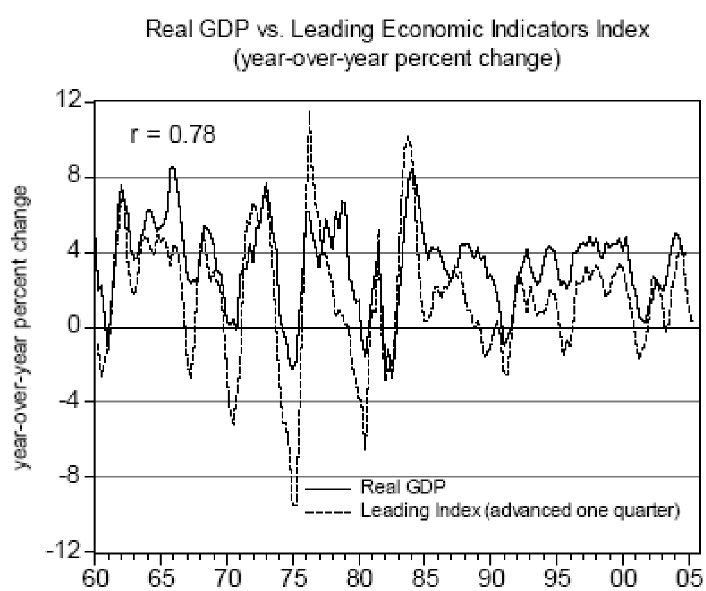
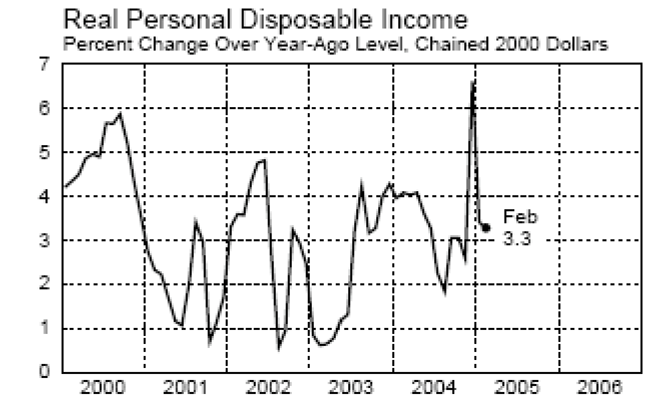
I. ECONOMIC OVERVIEW

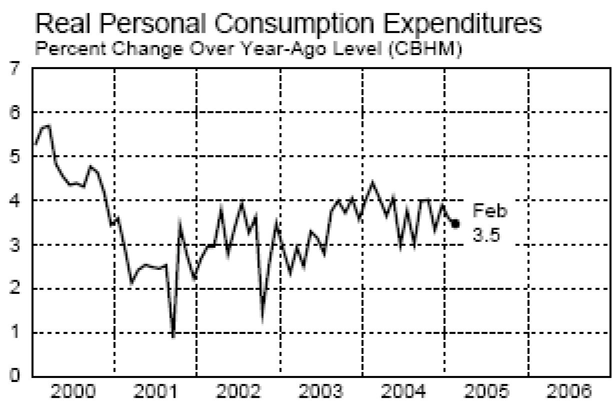
MACRO ECONOMIC INDICATORS-BUSINESS:

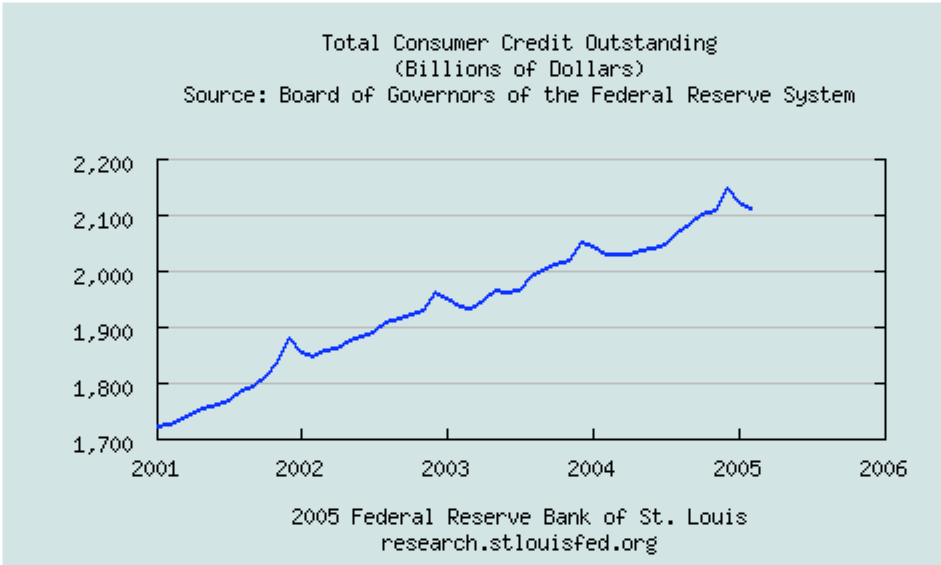


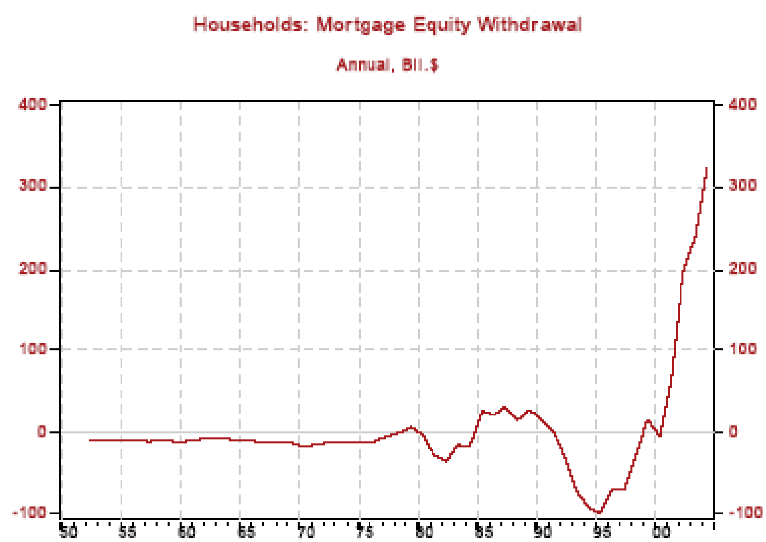


MACRO ECONOMIC INDICATORS-CONSUMER:

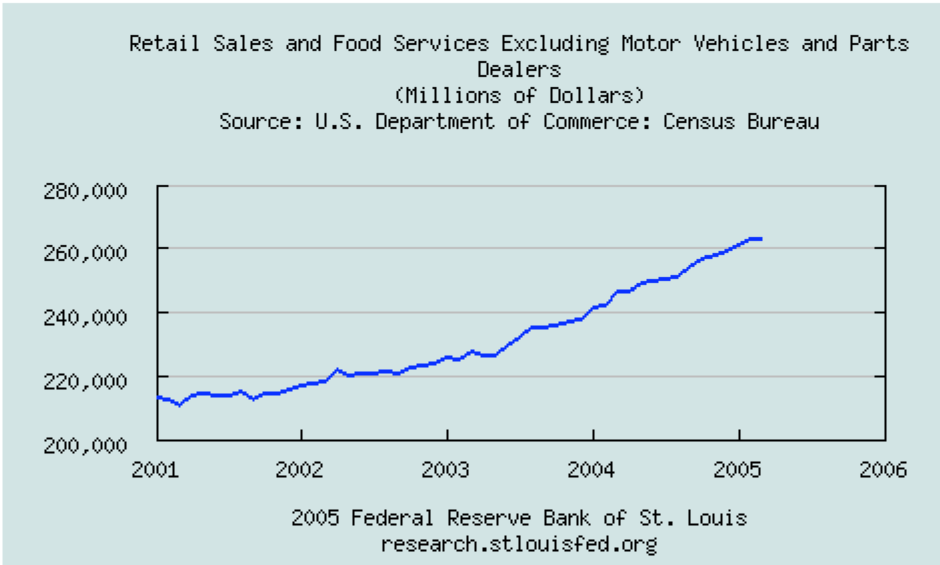


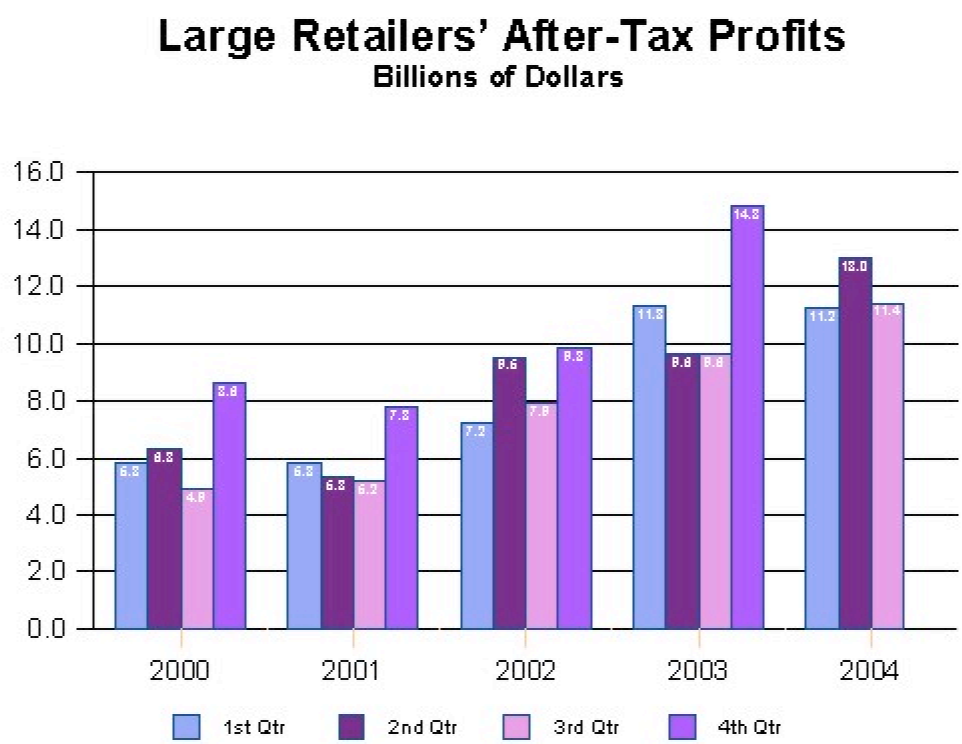


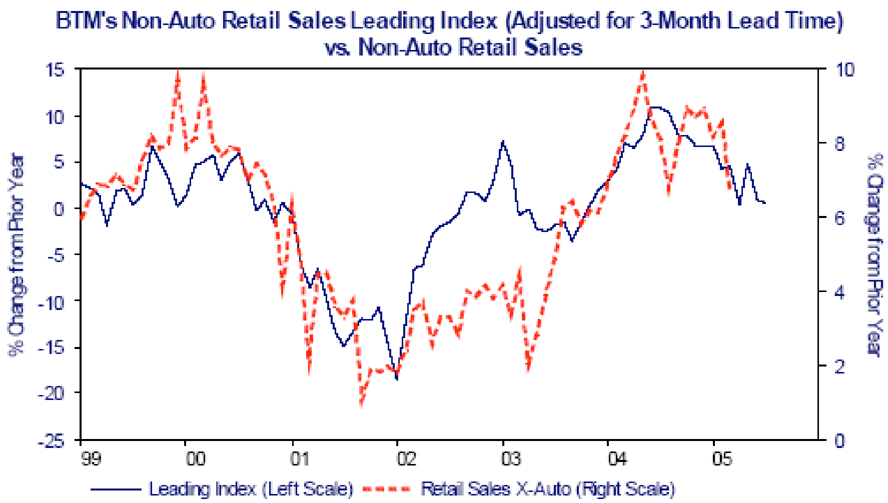

Total Consumer Credit Outstanding
(Billions of Dollars)
Source: Board of Governors of the Federal Reserve System
2,200
2,100
2,000
1,900
1,800
1,700
2001
2002
2003
2004
2005
2006
2005 Federal Reserve Bank of St. Louis
research.stlouisfed.org


Households: Mortgage Equity Withdrawal
Annual, Bil.$
400
300
200
100
0
-100
50
55
60
65
70
75
80
85
90
95
00

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%	5.5%	----%	----%	----%	----%
After-Tax Profit Ratio	2.9%	3.3%	2.8%	3.7%	----%	----%	----%	----%
Return on Equity (after taxes)	15.43%	16.89%	14.39%	19.94%	----%	----%	----%	----%

(% 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	0.9	0.6	0.1	----	----	----	----	----	----	----	----	----

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

II. MAJOR RETAIL SECTOR TRENDS:

BUILDING MATERIALS, GARDEN AND SUPPLY STORES

Sales rose 1.5% in March. On an annualized rate, sales are up 7.4% for the trailing 3-months and are up 5.5% 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	0.7	-0.4	1.5	----	----	----	----	----	----	----	----	----

FOOD AND BEVERAGE STORES

Sales rose 0.1% in March. On an annualized rate, sales are up 2.2% for the trailing 3-months and are up 4.2% 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	0.4	0.1	0.1	----	----	----	----	----	----	----	----	----

HEALTH AND PERSONAL CARE (DRUG) STORES

Sales rose 0.1% in March. On an annualized rate, sales are up 11.4% for the trailing 3-months and are up 5.0% 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	2.2	0.5	0.1	----	----	----	----	----	----	----	----	----

CLOTHING AND ACCESSORY (APPAREL) STORES

Sales declined -1.9% in March. On an annualized rate, sales are up 4.2% for the trailing 3-months and are up 1.6% 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	1.9	1.1	-1.9	----	----	----	----	----	----	----	----	----

GENERAL MERCHANDISE STORES

Sales declined -0.7% in March. On an annualized rate, sales are up 2.9% for the trailing 3-months and are up 4.4% 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	0.7	0.7	-0.7	----	----	----	----	----	----	----	----	----

DEPARTMENT STORES

Sales declined -2.0% in March. On an annualized rate, sales are down -6.7% for the trailing 3-months and are down -2.1% 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	-0.2	0.5	-2.0	----	----	----	----	----	----	----	----	----

III. RESEARCH NOTE

"A SYSTEMATIC APPROACH TO ESTABLISHING RETAIL DIGITAL SIGNAGE AS A NEW MEDIA AND MEASUREING ITS EFFECTIVENESS"

Working Paper No. 2, 2005

By Steven Keith Platt, Director and Research Fellow, Platt Retail Institute, Francis J. Mulhern, Associate Dean, Department of Integrated Marketing Communications, Northwestern University, and Guy Vaughan, Director, Retail Marketing Services and Director, POPAI UK/Ireland and Head of Research

This study examines how retail digital signage systems influence consumer shopping behavior, and details the measurement of its impact upon sales to assist retailers in determining whether to allocate promotional dollars to this new medium. The research objective is to scientifically establish retail digital signage as a technologically enhanced advertising medium that is capable of both impacting consumer shopping behavior in-store and measuring this impact to substantiate its inclusion in the marketing mix.

This is significant for several reasons. First, consumer purchase decisions are, to a significant extent, made in-store. As a consequence, retail digital signage can impact sales at the store level. Secondly, because measurement of the results from retail marketing spending have generally failed to keep pace with technology. retail digital signage enabled technology offers the ability to match marketing spending to its sales impact at the store-level.

This Working Paper addresses the following:

1. The extent to which retail digital signage influences consumer shopping behavior in a retail environment. By analyzing the stages of the buying process, the authors conclude that retail digital signage has the potential to substantially affect consumer shopping behavior.
2. Explores the fragmentation of mass media to ascertain whether marketing-decision makers may be receptive to an in-store advertising medium. The authors advance that retail digital signage has distinct functionality that warrants its inclusion as part of the marketing mix.
3. Defining retail digital signage and advancing its benefits as a new retail in-store marketing medium.
4. Detailing relevant testing methods to be applied when measuring the impact of retail digital signage.
5. Demonstrating the application of these testing methodologies by detailing the results achieved from a convenience store and a grocery store digital signage system deployment.