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PRI QUARTELY RETAIL ANALYTICS

“BRINGING RESEARCH TO RETAIL”

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By Cristina Ziliani, Universita di Parma, Italy

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By Sharon E. Beatty, The University of Alabama and
M. Elizabeth Ferrell, Southwestern Oklahoma State University

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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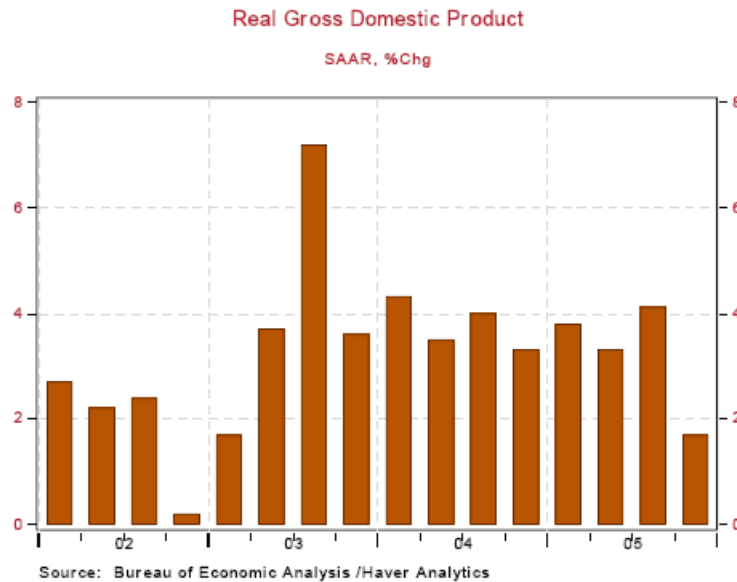
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I. BUSINESS OUTLOOK

BUSINESS INDICATORS

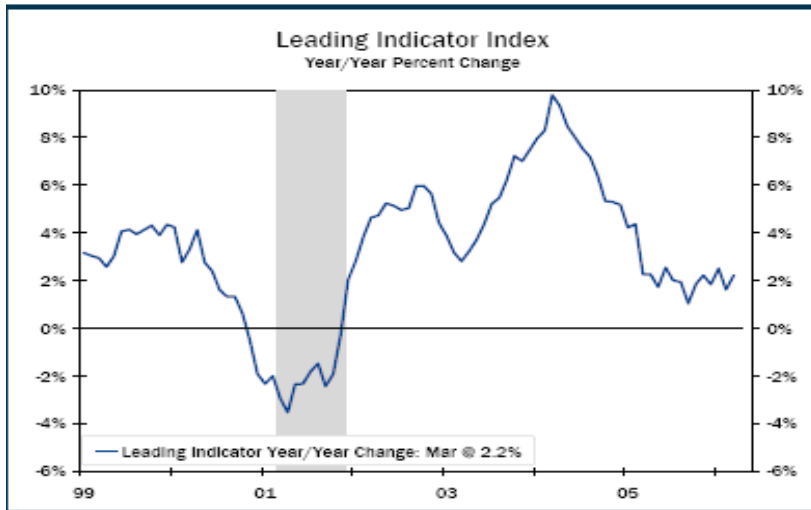
Last year, the U.S. economy grew by 3.5%, versus 4.2% in 2004. The fourth quarter of 2005 was especially weak, as a result of hurricanes and high oil prices, growing at a 1.7% annual rate (see chart 1). First quarter 2006 GDP advanced at 4.8%, which is the strongest in over two years. However, this rate of growth is not sustainable.

Chart 1.



We look for a slowdown in U.S. economic activity for the balance of this year, but do not believe that this easing will be severe. Buttressing this view, in February the Federal Open Market Committee advanced its revised opinion for real GDP growth at the low end of 3.0% to 3.5% for 2006. The Index of Leading Economic Indicators also indicates a moderation in economic growth, but not a recession. The LEI fell 0.1% in March after falling 0.5% in February. This is the first time that the LEI has declined in two consecutive months since 2001. On a quarterly average basis, the LEI in the first quarter of 2005 was up only 1.5% on a year-over-year basis. Since the high achieved in the first quarter of 2004, growth in the LEI has been trending lower (see chart 2). The Chicago Fed National Activity Index came in at +0.37 in March, versus a February reading of +0.19. A reading above zero indicates above-trend growth. Yet the three-month moving average index fell to +0.29 in March from +0.36 in February, well above its historical trend growth, but again indicative of moderating activity (see chart 3).

Chart 2.



Source: Wachovia

Chart 3.

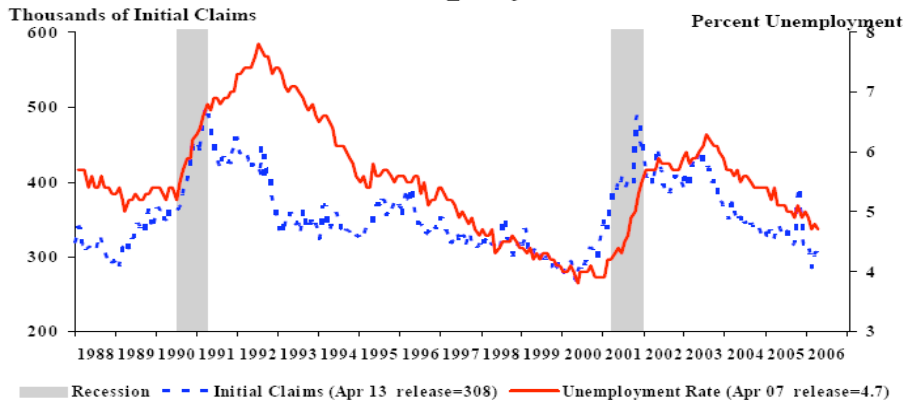


Overall trends in employment, housing, and inflation continue to provide further guidance into the overall direction of the economy, consumer spending, and retail sales. Job creation and wages are growing at their fastest rate in several years (see chart 4). This is good news for consumers maintaining a consistent to slightly upbeat level of spending. On the other hand, the housing market is slowing rapidly, and this will have a negative impact on spending (see chart 5). This is because equity extracted by homeowners powered spending by consumers between 2001 and 2004, evidenced by consumer spending exceeding incomes, while the personal savings rate was negative. That is, the money had to come from somewhere and, to a great extent, it was coming from the U.S. housing boom, which is now slowing. The recently released March New-Home sales gain of 13.8%, however, was a surprise. On the inflation front, recent spikes in oil prices will, once again, impact consumer spending (see chart 6). The negative impact of high energy prices upon consumers and the economy was demonstrated in the fourth quarter of 2005. Consider that for the twelve months ended February 2006, the energy component of the Consumer Price Index rose by 20%, on top of a prior year twelve month rise of 10%.

Chart 4.



Initial Claims for Unemployment and Unemployment Rate

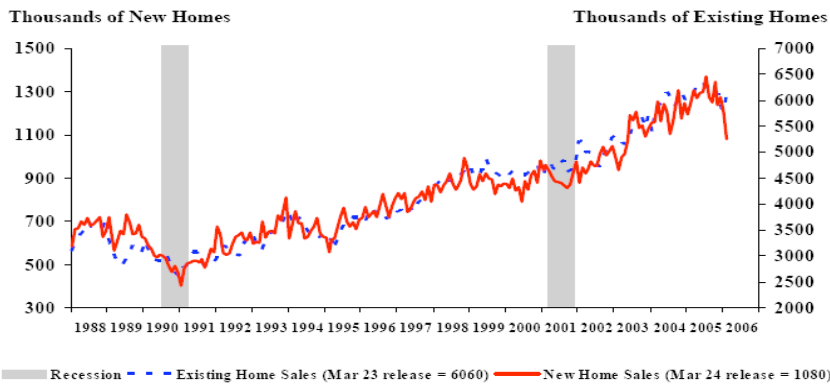


Source: Bureau of Labor Statistics, Department of Labor <http://www.dallasfed.org>

Chart 5.



Home Sales

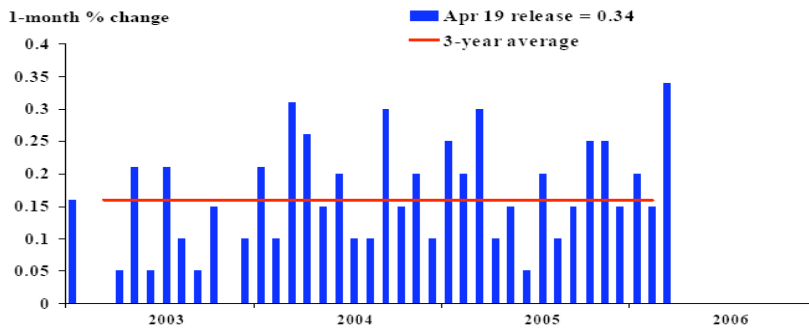


Source: Bureau of the Census, National Association of Realtors <http://www.dallasfed.org>

Chart 6.



Core Consumer Price Index



Source: Bureau of Labor Statistics <http://www.dallasfed.org>

RETAIL INDICATORS

During 2005, retail sales grew by 6.1%, following a strong 7.0% gain in 2004. The National Retail Federation looks for retail sales to slow during 2006 to 4.7% (see charts 7 and 8). The recently released Federal Reserve Beige Book states that “the majority of Districts cite improving retail sales overall.”

Retail sales in March were solid, up 0.6%, versus February’s drop of -0.8%. For the first quarter, retail sales were up 13.4%, a favorable reversal from the 1.9% rate recorded in the fourth quarter of last year (excluding autos, retail sales rose 11.1% in the first quarter versus 7.8% in the fourth quarter). Excluding volatile auto, gas and building materials, retail sales increased at an annualized rate of 8.8% for the trailing three months and 7.5% for the trailing twelve months. We continue to look for a second-half slowdown but, as noted, do not believe that it will be severe. To illustrate this, the Bank of Tokyo-Mitsubishi Weekly Leading Indicator of Non-Auto Retail Sales at April 20, 2006 was up +0.9% in latest week, but year-on-year momentum is slowing (see chart 9).

First quarter consumer spending grew a strong 5.5%, versus an increase of 0.9% during the fourth quarter (see chart 10). Looking into the second quarter, higher oil prices, rising interest rates, and weakness in the housing market will drag consumer spending. Forecasts call for consumer spending to drop to 2.6% in the second quarter. First quarter estimates for personal income, which correlates with spending, are expected in the 5.4% range, versus an increase of 4.6% during the fourth quarter (see chart 11). Forecasts call for personal income to increase slightly to 5.7% in the second quarter.

Chart 7.

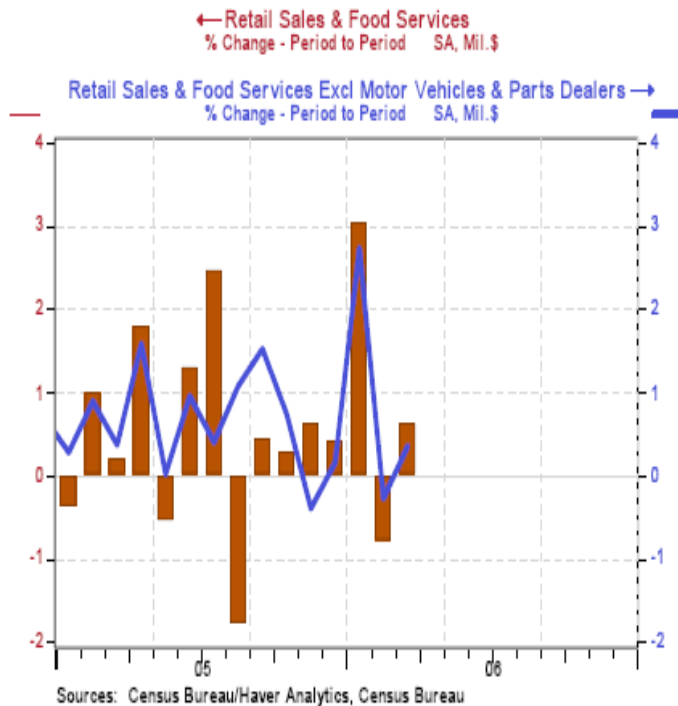


Chart 8.

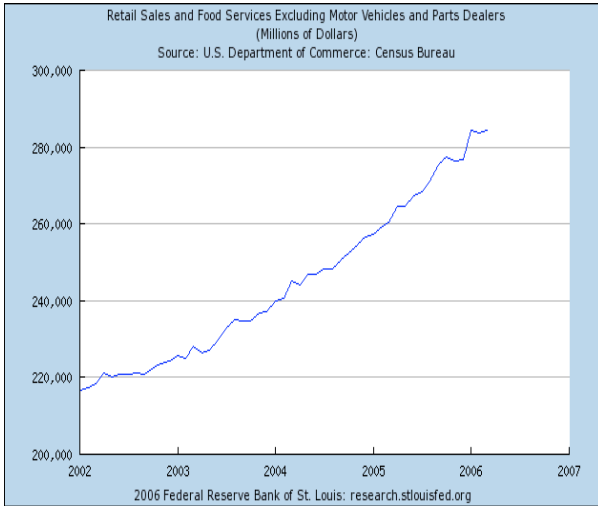
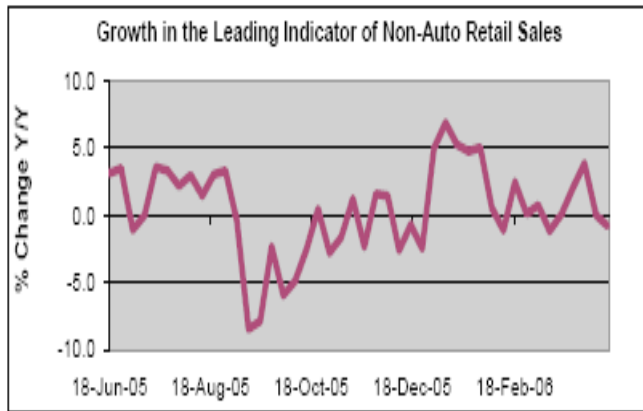


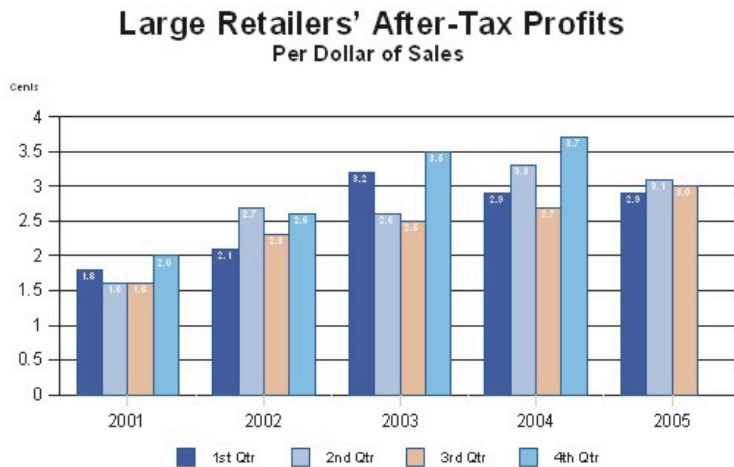
Chart 9.



Source: Bank of Tokyo- Mitsubishi

On the surface, the strength in corporate after-tax profits should bode well for U.S. capital spending in 2006 in general, as well as for the retail sector. Yet the place of capital investment by U.S. firms is showing a distinct overseas flavor. For example, manufacturing firms have reduced capital spending at home, while increasing their capital commitments overseas. Since most retailers do not invest heavily overseas, viewing general trends in capital spending may be a bit misleading as to the direction of retail capital spending. A better indicator may be found by looking at large retailers' after-tax profits. The most recent data available from the Census Bureau is from the third-quarter of 2005 (see chart 12). For the first half of 2005, retail after-tax profits trailed 2004. This may well indicate that retail capital spending gains for 2006 will trail those experienced in 2004, as well as lag the general overall economy.

Chart 12.



Source: Census Bureau

II. MAJOR RETAIL SECTOR TRENDS:

BUILDING MATERIALS, GARDEN AND SUPPLY STORES

Sales rose 1.2% in March. On an annualized rate, sales are up 39.3% for the trailing 3-months and are up 17.9% for the trailing 12 months.

FOOD AND BEVERAGE STORES

Sales were flat in March. On an annualized rate, sales are up 3.0% for the trailing 3-months and are up 4.2% for the trailing 12 months.

HEALTH AND PERSONAL CARE (DRUG) STORES

Sales rose 0.8% in March. On an annualized rate, sales are up 7.6% for the trailing 3-months and are up 6.9% for the trailing 12 months.

CLOTHING AND ACCESSORY (APPAREL) STORES

Sales were flat in March. On an annualized rate, sales are up 5.6% for the trailing 3-months and are up 6.6% for the trailing 12 months.

GENERAL MERCHANDISE STORES

Sales rose 0.1% in March. On an annualized rate, sales are up 7.6% for the trailing 3-months and are up 6.4% for the trailing 12 months.

DEPARTMENT STORES

Sales fell -0.1% in March. On an annualized rate, sales are up 2.5% for the trailing 3-months and are up 0.4% for the trailing 12 months.

AUTOS

Sales rose 1.6% in March. On an annualized rate, sales are up 11.7% for the trailing 3-months and are up 3.3% for the trailing 12 months.

III. RESEARCH NOTES

RETAIL MICRO-MARKETING: STRATEGIC ADVANCE OR GIMMICK?

International Review of Retail, Distribution and Consumer Research, October 2000

By Cristina Ziliani, Università di Parma, Italy

This paper advances that an in-depth understanding of the consumer is at the core of retailing. Yet large-scale, mass retailers lose touch with their customers. Micro, rather than the mass-marketing predominately practiced today, serves to address this. Micro-marketing is defined as the “orientation of retailers to measure and respond punctually to both the spatial and the behavioral complexity of their market, facilitated by information technology.” Micro-marketing attracts customers that are more likely to be loyalty-prone by increasing satisfaction, trust, and barriers to exit. Loyalty programs, such as frequent shopper programs, are an example of micro-marketing. Yet the retailers analyzed in this study were found to have failed in collecting and analyzing available loyalty derived data. Thus, the author concludes that most loyalty programs only address customers that are in the store and fail to match this information, for example, with merchandising selections at the stores. Stated another way, most retailers implement such programs on only a mass basis (as differentiating between card holders and non-card holders), but fail to leverage such information to reach deeper into customer clusters and categories. Such programs are mere enablers, but fail to reach their potential, which rests in the information produced and strategic relevance thereof. Therefore, the ability of a retailer to interpret and translate this type of information into appropriate actions will, it is advanced, result in building customer satisfaction and emotional loyalty.

IMPULSE BUYING: MODELING ITS PRECURSORS

Journal of Retailing, Volume 74, 1998

By Sharon E. Beatty, The University of Alabama and M. Elizabeth Ferrell, Southwestern Oklahoma State University

The researchers advance a model for understanding what drives consumer impulse purchases, and discuss how a retailer can benefit from leveraging this knowledge. They define an impulse purchase as an “immediate purchase...which behavior occurs after experiencing an urge to buy, and it tends to be spontaneous and without a lot of reflection...” According to the authors, in-store browsing by consumers (those who lack an immediate intent to buy) is central to impulse buying. That is, the longer a shopper browses, the more stimuli they will encounter, which results in a desire that can lead to an impulse to purchase. Physical proximity to the product to satisfy this urge is important. For a retailer, impacting in-store browsing time and a consumer’s feeling of money availability (i.e., easy credit), creating positive shopping experiences, and targeting promotions to high impulse and recreational shoppers will result in more impulse sales.

This concept is illustrated as follows:

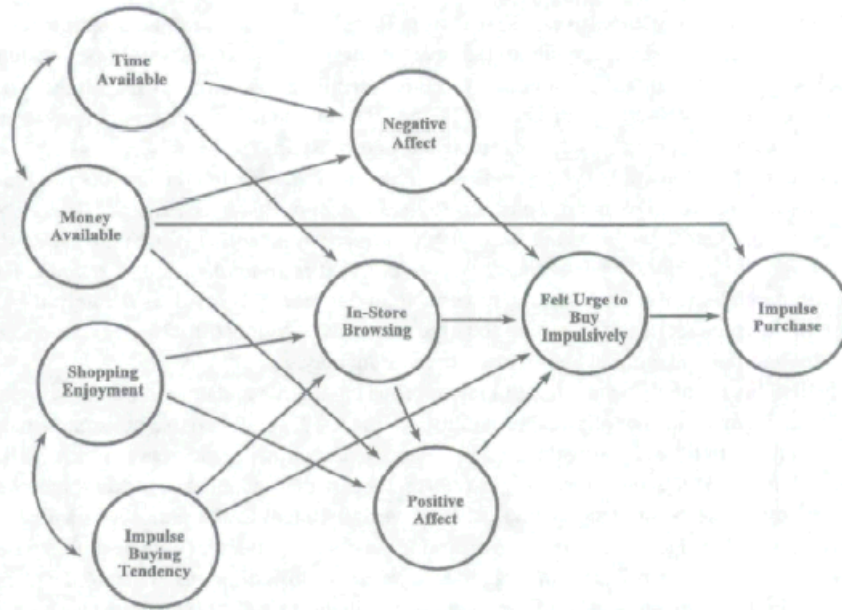


FIGURE 1

Proposed Impulse Buying Model

(Our research notes are published monthly, and can be found on the National Retail Federation's website at: <http://www.nrf.com/RetailResearch/View.aspx>).

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