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## **RETAIL ECONOMIC TREND REPORT**

BRINGING RESEARCH TO RETAIL

### **OCTOBER, 2003:**

Third quarter gross domestic product may exceed 5% on an annualized basis. Consumer spending remains strong and retail sales for September exceeded expectations.

For September, retail sales, excluding autos, rose 0.3%. On an annualized basis, retail sales rose 11.1% for the third quarter and 7.2% for the trailing twelve months. Building materials/hardware stores showed the best results in September, with auto sales and restaurants lagging. October retail sales were off to a slow start, but a strong Halloween season should result in a reasonable sales month.

We expect the fourth quarter of 2003 to show stable growth for the economy as-a-whole, but see moderation from the third quarter's brisk pace of economic activity. Also look for restraint in retail sales. In September the leading economic index declined by 0.2%, after four months of gains. This masks the fact that year-over-year, the leading index advanced 2.4% in September, the largest increase since May 2002. The holiday shopping season, with an extra shopping day, could realize 3.0-3.5%+ sales growth.

STEVEN KEITH PLATT  
DIRECTOR

**MACRO ECONOMIC INDICATORS-BUSINESS:**

| (% change )                            | 2000 | 2001  | 2002  | 2003-1 <sup>st</sup> Qtr. | 2003-2nd Qtr. | 2003-3rd Qtr. | 2003-4th Qtr. |
|--|------|-------|-------|---------------------------|---------------|---------------|---------------|
| Real GDP                               | 3.8% | .3%   | 2.4%  | 1.4%                      | 3.3%          |               |               |
| Capital Spending                       | 7.8% | -5.2% | -5.7% | -4.4%                     | 7.3%          |               |               |
| Corporate Profits (+/-1/4ly \$ change) | ---- | -7.2% | 7.6%  | +\$20.4B                  | +\$80.6B      |               |               |

| (% change)                   | JN-03 | FB-03 | MR-03 | AP-03 | MY-03 | JN-03 | JL-03 | AG-03 | SP-03 | OT-03 | NV-03 | DC-03 |
|------------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Durable Goods Orders         | 2.1   | -1.1  | 1.3   | -2.4  | 0.0   | 1.9   | 2.0   | -0.8  |       |       |       |       |
| Durable Goods Shipments      | 2.5   | -1.9  | 0.4   | -1.1  | 0.1   | 1.5   | 2.6   | -1.8  |       |       |       |       |
| Leading Index                | 0.0   | -0.5  | -0.2  | 0.1   | 1.1   | 0.4   | 0.6   | 0.4   | -0.2  |       |       |       |
| ISM Manuf. Survey (absolute) | 53.9  | 50.5  | 46.2  | 45.4  | 49.4  | 49.8  | 51.8  | 54.7  |       |       |       |       |

**MACRO ECONOMIC INDICATORS-CONSUMER:**

| (% change)                 | JN-03 | FB-03 | MR-03 | AP-03 | MY-03 | JN-03 | JL-03 | AG-03 | SP-03 | OT-03 | NV-03 | DC-03 |
|----------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Consumption Expenditures   | ----  | ----  | ----  | 0.0   | 0.5   | 0.7   | 0.9   | 0.8   |       |       |       |       |
| Payroll Employ. (absolute) | +158  | -121  | -151  | -22   | -76   | -83   | -57   | -41   | +57   |       |       |       |
| Unemployment.              | 5.7   | 5.8   | 5.8   | 6.0   | 6.1   | 6.4   | 6.2   | 6.1   | 6.1   |       |       |       |
| Personal Income            | 0.1   | 0.2   | 0.2   | 0.2   | 0.4   | 0.4   | 0.3   | 0.2   |       |       |       |       |

**MACRO ECONOMIC INDICATORS- RETAIL:**

| (% change)                          | 2000    | 2001    | 2002    | 2003-1 <sup>st</sup> Qtr. | 2003-2nd Qtr. | 2003-3 <sup>rd</sup> Qtr. | 2003-4th Qtr. |
|-------------------------------------|---------|---------|---------|---------------------------|---------------|---------------------------|---------------|
| Top Retailer After-Tax Profit Ratio | ----    | 1.82%   | 2.6%    | 2.4%                      | 2.5%          |                           |               |
| Retail Profits (+/- \$ change)      | \$73.4B | \$79.1B | \$81.2B | \$-.3B                    | \$11.1B       |                           |               |
| Retail GDP Change                   | 7.5%    | 4.6%    | 5.9%    |                           |               |                           |               |

| (% change)          | 2000 | 2001 | 2002  | E. 2003 | E. 2004 |
|---------------------|------|------|-------|---------|---------|
| Retail Construction | ---- | ---- | -8.0% | 2.0%    | 3.0%    |

| (% change)            | JN-03 | FB-03 | MR-03 | AP-03 | MY-03 | JN-03 | JL-03 | AG-03 | SP-03 | OT-03 | NV-03 | DC-03 |
|-----------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Retail Sales (x auto) | ----  | ----  | ----  | ----  | 0.3   | 1.2   | 1.2   | 1.2   | 0.3   |       |       |       |

**MAJOR RETAILER TRENDS:**

**SUPERMARKETS:**

Sales for September rose 0.2%. For the third quarter, sales at food stores rose 5.2% on an annualized basis. For twelve months, sales rose 4.6% on an annualized basis. The sector is generally not performing well. Kroger reported a 24.2% decrease in earnings in the second quarter of versus the year earlier quarter; Albertson's recently stated that Moody's Investors Services cut its long-term debt rating; Safeway's third-quarter profit fell 28%; Winn-Dixie sales were off 5.8% and its stock hit a 52 week low; Ahold's 2002 loss now exceeds \$5 billion and Great A&P reported a second quarter loss of \$2.17 per share. Slowing sales and reduced margins due to competitive pressures will clearly continue to challenge the industry. All style of retailer now offers food items, from dollar to drug stores, and this will continue to challenge the industry.

S.K. Platt & Company estimates that food stores accounted for 19% of all capital spending by retailers in 2001. Kroger is expected to grow its square footage by 3.5% in 2004 versus 3.0% in 2003; Albertson's is expected to grow its square footage by 2.8% in 2004 versus 2.3% in 2003; and, Winn-Dixie is expected to grow its square footage by 2.4% in 2004 versus 2.4% in 2003.

**Kroger (NYSE:KR):**

News: sales for the second quarter increased 3.6% over last years second quarter. For the first two quarters, total sales were \$28.6 billion, an increase of 3.7% over total sales of \$27.6 billion for the same period last year. Also announced it has reached an agreement to purchase four Cub Food stores in the Denver area from Supervalu Inc.

| (\$ in M)          | 2000    | 2001    | 2002    | 2003    | 2004-1 <sup>st</sup> Qtr. | 2004-2nd Qtr. | 2004-3rd Qtr. | 2004-4th Qtr. |
|--------------------|---------|---------|---------|---------|---------------------------|---------------|---------------|---------------|
| Revenue            | \$45.35 | \$49.00 | \$50.10 | \$51.80 | \$16.27                   | \$12.40       | \$            | \$            |
| Earnings Per Share | \$.74   | \$1.04  | \$1.26  | \$1.56  | \$.46                     | \$.25         | \$            | \$            |

**Albertson's (NYSE:ABS):**

News: Moody's Investors Services cut its long-term debt ratings on Albertson's saying the grocer's efforts to build sales and market share may not yield significant results soon.

| (\$ in M)          | 2000    | 2001    | 2002    | 2003    | 2004-1 <sup>st</sup> Qtr. | 2004-2nd Qtr. | 2004-3rd Qtr. | 2004-4th Qtr. |
|--------------------|---------|---------|---------|---------|---------------------------|---------------|---------------|---------------|
| Revenue            | \$37.48 | \$36.76 | \$37.93 | \$35.63 | \$8.94                    | \$9.05        | \$            | \$            |
| Earnings Per Share | \$1.00  | \$1.83  | \$1.23  | \$1.45  | \$.47                     | \$.44         | \$            | \$            |

**Safeway (NYSE:SWY):**

News: shares recently fell 3 percent, or 72 cents, to \$23.34 and the Company lowered its fourth-quarter forecast.

| (\$ in M)          | 2000    | 2001    | 2002    | 2003-1 <sup>st</sup> Qtr. | 2003-2nd Qtr. | 2003-3rd Qtr. | 2003-4th Qtr. |
|--------------------|---------|---------|---------|---------------------------|---------------|---------------|---------------|
| Revenue            | \$31.98 | \$34.30 | \$32.40 | \$7.5                     | \$7.7         | \$7.8         | \$            |
| Earnings Per Share | \$2.13  | \$2.44  | \$.27   | \$.36                     | \$.36         | \$.45         | \$            |

**Winn-Dixie (NYSE:WIN):**

News: Sales for the 12 weeks ended September 17, 2003 were \$2.7 billion, a decrease of \$164.1 million or 5.8% compared with the same quarter last year. For the quarter, identical store sales, which include enlargements and exclude the stores that opened or closed during the period, decreased 6.6%. The stock price reached a new 52-week low of \$8.08.

| (\$ in M)          | 2000    | 2001    | 2002    | 2003    | 2004-1 <sup>st</sup> Qtr. | 2004-2nd Qtr. | 2004-3rd Qtr. | 2004-4th Qtr. |
|--------------------|---------|---------|---------|---------|---------------------------|---------------|---------------|---------------|
| Revenue            | \$13.70 | \$12.90 | \$12.33 | \$12.17 | \$2.7B                    | \$            | \$            | \$            |
| Earnings Per Share | \$-1.57 | \$.32   | \$.64   | \$1.70  | \$.01                     | \$            | \$            | \$            |

**Supervalu (NYSE:SVU):**

News: reported net sales of \$4.6 billion compared to \$4.3 billion last year, net earnings of \$62.2 million compared to \$58.8 million last year, and diluted earnings per share of \$0.46 compared to \$0.44 last year. Also plans to sell its Denver-based operations as part of an asset-rationalization program and narrowed its fiscal 2004 earnings guidance. Financial terms of the sale, which includes nine retail stores and a warehouse facility, weren't disclosed.

| (\$ in M)          | 2000    | 2001    | 2002    | 2003    | 2004-1st Qtr. | 2004-2nd Qtr. | 2004-3 <sup>rd</sup> Qtr. | 2004-4th Qtr. |
|--------------------|---------|---------|---------|---------|---------------|---------------|---------------------------|---------------|
| Revenue            | \$20.34 | \$23.19 | \$20.91 | \$19.16 | \$5.81        | \$4.60        | \$                        | \$            |
| Earnings Per Share | \$1.87  | \$.62   | \$1.55  | \$1.92  | \$.55         | \$.46         | \$                        | \$            |

**Great A&P Tea Co.: (NYSE:GAP):**

News: posted a net loss of \$83.7 million, or \$2.17 a share, for the period ended Sept. 6, compared with a year-earlier loss of \$144.7 million, or \$3.76 a share. Also agreed to sell its Eight O'clock coffee unit.

| (\$ in M)          | 2000    | 2001    | 2002     | 2003     | 2004-1 <sup>st</sup> Qtr. | 2004-2nd Qtr. | 2004-3rd Qtr. | 2004-4th Qtr. |
|--------------------|---------|---------|----------|----------|---------------------------|---------------|---------------|---------------|
| Revenue            | \$10.15 | \$10.62 | \$10.97  | \$10.79  | \$3.20                    | \$2.44        | \$            | \$            |
| Earnings Per Share | \$.37   | \$.-65  | \$.-1.69 | \$.-5.34 | \$.52                     | \$.-2.17      | \$            | \$            |

**CHAIN DRUG STORES:** Sales for September rose 0.4%. For the third quarter, sales at drug stores rose 10.2% on an annualized basis. For twelve months, sales rose 6.6% on an annualized basis.

**Walgreen (NYSE:WAG):**

News: September same-store sales rose 12.9%.

| (\$ in M)          | 2000    | 2001    | 2002    | 2003    | 2004-1 <sup>st</sup> Qtr. | 2004-2nd Qtr. | 2004-3rd Qtr. | 2004-4th Qtr. |
|--------------------|---------|---------|---------|---------|---------------------------|---------------|---------------|---------------|
| Revenue            | \$21.21 | \$24.62 | \$28.68 | \$32.51 | \$                        | \$            | \$            | \$            |
| Earnings Per Share | \$.76   | \$.86   | \$.99   | \$1.14  | \$                        | \$            | \$            | \$            |

| (% change)        | JN-03 | FB-03 | MR-03 | AP-03 | MY-03 | JN-03 | JL-03 | AG-03 | SP-03 | OT-03 | NV-03 | DC-03 |
|-------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Comp. Store Sales | 7.7   | 7.7   | 5.7   | 10.8  | 8.1   | 10.1  | 9.8   | 9.6   | 12.9  |       |       |       |

**CVS (NYSE:CVS):**

News: September same-store sales rose 6.6%. Also plans to open about 300 stores in the U.S. by the end of 2003, as the pharmacy retail chain spreads into the South and West.

| (\$ in M)          | 2000    | 2001    | 2002    | 2003-1 <sup>st</sup> Qtr. | 2003-2nd Qtr. | 2003-3rd Qtr. | 2003-4th Qtr. |
|--------------------|---------|---------|---------|---------------------------|---------------|---------------|---------------|
| Revenue            | \$20.09 | \$22.24 | \$24.18 | \$6.31                    | \$6.45        | \$            | \$            |
| Earnings Per Share | \$1.83  | \$1.00  | \$1.75  | \$ .48                    | \$ .49        | \$            | \$            |

| (% change)        | JN-03 | FB-03 | MR-03 | AP-03 | MY-03 | JN-03 | JL-03 | AG-03 | SP-03 | OT-03 | NV-03 | DC-03 |
|-------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Comp. Store Sales | 5.8   | 4.0   | 2.3   | 7.1   | 4.6   | 4.9   | 6.1   | 6.4   | 6.6   |       |       |       |

**Rite Aid (NYSE:RAD):**

News: September same-store sales rose 6%. Reported a net loss of \$10.6 million, or four cents a share, for the quarter ended Aug. 30. In the year-earlier quarter, Rite Aid had a net loss of \$105.3 million, or 21 cents a share.

| (\$ in M)          | 2000    | 2001    | 2002    | 2003    | 2004-1 <sup>st</sup> Qtr | 2004-2nd Qtr. | 2004-3rd Qtr. | 2004-4th Qtr. |
|--------------------|---------|---------|---------|---------|--------------------------|---------------|---------------|---------------|
| Revenue            | \$14.68 | \$14.52 | \$15.17 | \$15.80 | \$4.05                   | \$4.05        | \$            | \$            |
| Earnings Per Share | \$-4.44 | \$-5.65 | \$-1.68 | \$-.31  | \$-.08                   | \$-0.4        | \$            | \$            |

| (% change)        | JN-03 | FB-03 | MR-03 | AP-03 | MY-03 | JN-03 | JL-03 | AG-03 | SP-03 | OT-03 | NV-03 | DC-03 |
|-------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Comp. Store Sales | 5.7   | 3.2   | 2.4   | 5.9   | 4.5   | 5.2   | 6.3   | 6.2   | 6.0   |       |       |       |

**Longs (NYSE:LDG):**

News: Sales increased 0.7% in the second quarter of fiscal 2004 (ended July 31, 2003) over the same quarter in fiscal 2003. Growth in the number of stores accounted for 2.5% of total sales growth, offset by a 1.9% decrease in same-store sales.

| (\$ in M)          | 2000   | 2001   | 2002   | 2003   | 2004-1 <sup>st</sup> Qtr. | 2004-2nd Qtr. | 2004-3rd Qtr. | 2004-4th Qtr. |
|--------------------|--------|--------|--------|--------|---------------------------|---------------|---------------|---------------|
| Revenue            | \$3.67 | \$4.03 | \$4.31 | \$4.43 | \$1.10                    | \$1.11        | \$            | \$            |
| Earnings Per Share | \$1.76 | \$1.19 | \$1.25 | \$ .82 | \$ .16                    | \$ .14        | \$            | \$            |

| (% change)        | JN-03 | FB-03 | MR-03 | AP-03 | MY-03 | JN-03 | JL-03 | AG-03 | SP-03 | OT-03 | NV-03 | DC-03 |
|-------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Comp. Store Sales | 0.2   | 1.0   | -3.0  | 0.3   | -1.8  | -2.0  | -1.6  | -1.2  |       |       |       |       |

**DISCOUNTERS/VALUE:** Sales for September rose 0.3%. For the third quarter, sales at general merchandise stores rose 13.0% on an annualized basis. For twelve months, sales rose 7.1% on an annualized basis.

**Wal-Mart (NYSE:WMT):**

| (\$ in M)          | 2000    | 2001    | 2002    | 2003    | 2004-1 <sup>st</sup> Qtr. | 2004-2nd Qtr. | 2004-3rd Qtr. | 2004-4th Qtr. |
|--------------------|---------|---------|---------|---------|---------------------------|---------------|---------------|---------------|
| Revenue            | \$165.0 | \$191.3 | \$217.8 | \$244.5 | \$56.72                   | \$62.64       | \$            | \$            |
| Earnings Per Share | \$1.25  | \$1.40  | \$1.49  | \$1.96  | \$.42                     | \$.56         | \$            | \$            |

| (% change)        | JN-03 | FB-03 | MR-03 | AP-03 | MY-03 | JN-03 | JL-03 | AG-03 | SP-03 | OT-03 | NV-03 | DC-03 |
|-------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Comp. Store Sales | 2.3   | 2.6   | 0.7   | 4.6   | 2.1   | 2.7   | 4.6   | 6.9   | 6.0   |       |       |       |

**Costco (NASDAQ: COST):**

| (\$ in M)          | 2000    | 2001    | 2002    | 2003    | 2004-1 <sup>st</sup> Qtr. | 2004-2nd Qtr. | 2004-3rd Qtr. | 2004-4th Qtr. |
|--------------------|---------|---------|---------|---------|---------------------------|---------------|---------------|---------------|
| Revenue            | \$32.16 | \$34.80 | \$38.76 | \$45.55 | \$                        | \$            | \$            | \$            |
| Earnings Per Share | \$1.36  | \$1.29  | \$1.48  | \$1.53  | \$                        | \$            | \$            | \$            |

| (% change)        | JN-03 | FB-03 | MR-03 | AP-03 | MY-03 | JN-03 | JL-03 | AG-03 | SP-03 | OT-03 | NV-03 | DC-03 |
|-------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Comp. Store Sales | 4.0   | 7.0   | 8.0   | 6.0   | 4.0   | 7.0   | 6.0   | 9.0   | 10.0  |       |       |       |

**Target Stores (NYSE:TGT):**

| (\$ in M)          | 2000    | 2001    | 2002    | 2003    | 2004-1 <sup>st</sup> Qtr. | 2004-2nd Qtr. | 2004-3rd Qtr. | 2004-4th Qtr. |
|--------------------|---------|---------|---------|---------|---------------------------|---------------|---------------|---------------|
| Revenue            | \$33.70 | \$36.90 | \$39.90 | \$43.92 | \$10.32                   | \$10.98       | \$            | \$            |
| Earnings Per Share | \$1.27  | \$1.38  | \$1.51  | \$1.81  | \$.38                     | \$.39         | \$            | \$            |

| (% change)        | JN-03 | FB-03 | MR-03 | AP-03 | MY-03 | JN-03 | JL-03 | AG-03 | SP-03 | OT-03 | NV-03 | DC-03 |
|-------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Comp. Store Sales | 0.3   | -0.5  | -1.3  | 5.6   | 1.4   | 2.4   | 4.3   | 8.3   | 7.2   |       |       |       |

**Dollar General (NYSE:DG):**

| (\$ in M)             | 2000   | 2001   | 2002   | 2003   | 2004-1 <sup>st</sup><br>Qtr. | 2004-<br>2nd Qtr. | 2004-<br>3rd Qtr. | 2004-4th<br>Qtr. |
|-----------------------|--------|--------|--------|--------|------------------------------|-------------------|-------------------|------------------|
| Revenue               | \$3.89 | \$4.55 | \$5.32 | \$6.10 | \$1.57                       | \$1.70            | \$                | \$               |
| Earnings<br>Per Share | \$.65  | \$.21  | \$.62  | \$.79  | \$.18                        | \$.18             | \$                | \$               |

| (% change)           | JN-<br>03 | FB-<br>03 | MR-<br>03 | AP-<br>03 | MY-<br>03 | JN-<br>03 | JL-<br>03 | AG-<br>03 | SP-<br>03 | OT-<br>03 | NV-<br>03 | DC-<br>03 |
|----------------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| Comp.<br>Store Sales | 3.8       | 2.5       | 4.2       | 5.9       | 4.9       | 4.4       | 4.9       | 4.5       | 3.8       |           |           |           |

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