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RETAIL BUSINESS TREND REPORT

“BRINGING RESEARCH TO RETAIL”

JANUARY 2004:

2003 was a transition year for the economy, which ended a little weaker than hoped on several fronts; notably retail sales and employment. December industrial production rose a less than anticipated 0.1%. Capacity utilization was stable at 75.8% in December, yet still below the 1972-2002 average of 81.3%. The ISM purchasing mangers index rose to 66.2 in December, indicating a recovery in manufacturing. Personal income and personal expenditures improved in November. The Consumer Price Index rose modestly in December, yielding a full year CPI increase of 1.9% vs. 2.4% in 2002. For December, unemployment dropped to 5.7%, yet payroll gains remain weak. Construction spending continues to remain strong.

Retail sales rose 0.5% in December; 0.1% excluding autos. December sales were weaker than hoped, although stronger than last year. A lift in December retail sales was provided by high-end retailers, while discounters came in at the mid-to-lower end of their targets. For December, food stores saw sales decline -0.8%, building materials stores declined -0.3%, and department stores declined -0.1%. For the third quarter, large retailers reported an 8.9% increase in revenue and 20% increase in net income vs. the third quarter of 2002. For all of 2003, retail sales rose 5.6%.

The outlook for 2004 is encouraging. The Index of Leading Indicators rose for the third consecutive month in December. Inflation is modest and interest rates remain at historic lows. Labor productivity is also high, corporate profits are improving and capital spending is on the rise.

In this issue, our research note examinescustomer perceptions of wait time related to store check-out and sales assistance, the resulting impact on store patronage, and advances suggestions for retailers to address these issues.

STEVEN KEITH PLATT
DIRECTOR

I. ECONOMIC OVERVIEW

MACRO ECONOMIC INDICATORS-BUSINESS:

(% change)	2000	2001	2002	2003-1st Qtr.	2003-2nd Qtr.	2003-3rd Qtr.	2003-4th Qtr.
Real GDP	3.8%	.3%	2.4%	1.4%	3.3%	8.2%	----
Capital Spending	7.8%	-5.2%	-5.7%	-4.4%	8.0%	17.6%	----
Corporate Profits	----	-7.2%	17.4%	+$20.4B	+$80.6B	+105.5B	----
Labor Productivity	3.0%	1.9%	5.4%	2.1%	7.0%	8.1%	----

(% 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	1.6	-0.5	1.5	-2.6	0.3	1.9	2.0	-0.3	1.4	4.0	-3.1	----
Durable Goods Shipments	2.5	-1.9	0.4	-1.1	0.1	1.5	2.6	-1.7	1.4	0.9	0.1	----
Leading Index	0.0	-0.5	-0.2	0.1	1.1	0.4	0.6	0.4	-0.2	0.5	0.2	0.2
ISM Manuf. Survey (absolute)	53.9	50.5	46.2	45.4	49.4	49.8	51.8	54.7	53.7	57.0	62.8	66.2
Industrial Capacity Utilization	----	----	----	----	----	----	----	74.6	74.9	75.1	75.8	75.8
Industrial Production Index										0.4	1.0	0.1

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
Personal Consumption Expenditures (current dollars)	----	0.0	0.8	0.0	0.5	0.7	0.9	0.9	0.0	0.1	0.4	----
Change in Payroll Employ. (000)	158	-121	-151	-22	-76	-83	-57	35	99	100	43	1
Unemploy. Rate	5.7	5.8	5.8	6.0	6.1	6.4	6.2	6.1	6.1	6.0	5.9	5.7
Personal Income (current dollars)	0.1	0.2	0.2	0.2	0.4	0.4	0.4	0.2	0.3	0.2	0.5	----

MACRO ECONOMIC INDICATORS- RETAIL:

	2000	2001	2002	2003-1st Qtr.	2003-2nd Qtr.	2003-3rd Qtr.	2003-4th Qtr.
Large Retailer After-Tax Profit Ratio	----	1.82%	2.6%	2.4%	2.3%	2.5%	----
Large Retailer After-Tax Profits	$73.4B	$79.1B	$81.2B	$8.57B	$8.44B	$9.45B	----
Large Retailer Return on Equity (net Income)	----	----	----	12.44%	12.17%	13.15%	----
Large Retailer Return on Assets (net	----	----	----	4.80%	4.74%	5.06%	----

Income)							

(% change)	2000	2001	2002	2003
Retail GDP	7.5%	4.6%	5.9%	----
Retail Sales	----	----	----	5.6%
Retail Construction	----	----	-8.0%	2.0% (e)

	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 (% change; x auto)	1.5	-0.6	1.5	-0.9	0.3	1.2	1.2	1.1	0.1	0.4	0.7	0.1
Retail Sales ($ in millions; x auto; adj.)	235	233	236	234	235	238	240	243	243	244	246	246
Retail Inventories (% change; adjusted)	----	----	----	----	----	----	----	----	----	0.7	0.7	----

II. MAJOR RETAIL SECTOR TRENDS:

BUILDING MATERIALS, GARDEN AND SUPPLY STORES

Sales growth declined, after showing consistent strength throughout the year, in December by -0.3%, versus .04% growth in November and 1.4% growth in October. On an annualized rate, revenue is up 6.4% for the trailing 3-months and 11.9% for the trailing 12 months.

Yet the outlook for these retailers remains strong for 2004, as the construction and housing markets remain robust, which are strong indicators of the outlook for these retailers. Construction spending rose 1.2% in November. Residential construction expenditures increased 2.0% in November. U.S. housing starts rose 1.7% in December, making the second straight month of starts at an annualized 2 million level. Building permits recovered from November's -6.0% decrease, rising 3.3% to 1.9 million units at an annualized rate.

Monthly % 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
Sales	----	----	7.2	0.2	0.1	2.6	2.2	0.6	0.9	1.4	0.4	-0.3

FOOD AND BEVERAGE STORES

Sales declined in December by -0.8%, versus .04% growth in November and -0.4% decline in October. On an annualized rate, revenue is down -3.0% for the trailing 3-months and up 3.2% for the trailing 12 months. Increased competition continues to impact both sales and margins. Giant Eagle chairman and CEO David Shapira recently stated it well, waning "Those food retailers that lack innovative vision run the risk of not only losing market share today, but of ultimate extinction, as well."

Monthly % 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
Sales	----	----	0.5	-0.1	-.04	1.0	0.9	0.3	0.4	-0.4	0.4	-0.8

HEALTH AND PERSONAL CARE (DRUG) STORES

Sales rose in December by 0.2%, versus 0.9% growth in November and 0.4% growth in October. On an annualized rate, revenue is up 6.1% for the trailing 3-months and 9.2% for the trailing 12 months. The outlook for drug stores remains favorable. Front-end sales should benefit from an improving economy, store traffic will improve as a result of the recent passage of the prescription benefit package, the convenience associated with shopping this retail format is expanded, and positive demographic tends.

Monthly % 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
Sales	----	----	0.8	0.1	0.3	1.3	1.4	0.6	0.7	0.4	0.9	0.2

CLOTHING AND ACCESSORY (APPAREL) STORES

Sales grew 0.1% in December, versus 1.0% in November and 0.3% in October. On an annualized rate, revenue is up 5.7% for the trailing 3 months and is 5.3% for the trailing 12 months.

Monthly % 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
Sales	----	----	1.5	-1.4	1.7	1.2	1.3	0.0	0.5	0.3	1.0	0.1

GENERAL MERCHANDISE STORES

Sales rose 0.3% in December, versus .01% growth in November and a -0.1% decline in October. On an annualized rate, revenue is up 1.5% for the trailing 3-months and 5.4% for the trailing 12 months. Value retailers performed well in 2003, as consumers continued to seek low price offerings. Many value retailers also met their December forecasts.

Monthly % 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
Sales	----	----	0.2	-0.8	1.2	0.8	1.6	0.9	-0.3	-0.1	0.1	0.3

III. RESEARCH NOTE

"The Effects of Wait Expectations and Store Atmosphere Evaluations on Patronage Intentions in Service-Intensive Retail Stores"

Journal of Retailing, Volume 79, Issue #4, 2003

By Dhruv Grewal, Toyota Chair of Commerce and Electronic Business, Marketing Department, Babson College; Julie Baker, University of Texas at Arlington; Michael Levy, Charles Clarke Reynolds Professor of Marketing, Babson College; and, Glenn B. Voss, North Carolina State University

This study examines, among other things, customer perceptions of wait time related to store check-out and sales assistance, the resulting impact on store patronage, and advances suggestions for retailers to address these issues. "In the eyes of customers, there is nothing positive about having to wait…making people wait can cost sales, but lowering wait times..." may require incurring expenses. The authors advance three ways to reduce wait expectations. The first is to have more employees visible in a store. The second is to invest in technology, such as efficient checkout equipment and kiosks. The third is to reduce the perception of wait without necessarily reducing the actual wait. The perception of wait can be impacted in a number of ways. This includes making the customer feel as if the service process has begun early, creating a relaxed environment in which customers' linger and experimentation with merchandise is encouraged, and by enhancing a store's atmosphere, which in-turn can make customers less aware of their wait because they are either distracted and/or entertained. According to the authors, atmospherics can be positively impacted by a store's layout, the method of displaying merchandise, through visual communications, lighting, color and music.