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RETAIL BUSINESS TREND REPORT

“BRINGING RESEARCH TO RETAIL”

MARCH 2004:

2003 GDP increased by 3.1%, the strongest showing since 2000. The consensus forecast for 2004 is for 4.2% growth. This is predicated upon continuing improvements in manufacturing activity, strong productivity growth, and healthy consumer balance sheets and income growth, among other things. Business spending continues to pick up and corporate profits remain robust. Job losses appear to have declined, but employment gains have yet to materialize. Oil prices are the highest since 1990, and may have a slight negative impact on consumer spending later in the year.

Retail sales, excluding autos, were unchanged in February, following a 1.2% gain in January. On an annualized basis, retail sales are up 5.9% for the trailing 3-months and up 7.3% for the trailing 12 months. Personal income rose 0.4% in February, following a 0.3% gain in January. Consumer spending rose 0.2% in February, following a 0.5% gain in January, and is expected to match or slightly exceed the fourth quarter's 3.2% annualized gain. Also encouraging, consumer net worth is at an all time high, yet recent declines in equity markets are troublesome as the stock market's performance is a contributor to consumer spending.

The outlook for the retail in-store development industry remains positive. Capital spending, an indicator of the industry's prospects, continues to exhibit strength. Supporting this view, durable goods orders rose 2.5% in February, for a year-to-date increase of 8.0% versus the same period in 2003. Durable good shipments rose 0.8% in February, for a year-to-date increase of 7.2% versus the same period in 2003.

In this issue, our research note examines factors that impact private label brand performance within various product categories at food retailers.

STEVEN KEITH PLATT
DIRECTOR

I. ECONOMIC OVERVIEW

MACRO ECONOMIC INDICATORS-BUSINESS:

(% change)	2000	2001	2002	2003	2003- 1 st Qtr.	2003- 2nd Qtr.	2003- 3rd Qtr.	2003-4th Qtr.
Real GDP	3.8%	0.0%	2.2%	3.1%	1.4%	3.3%	8.2%	4.1%
Capital Spending (equipment)	7.8%	-5.2%	-2.8%	5.5%	-4.4%	8.0%	17.6%	10.8%
Corporate Profits	----	-7.2%	17.4%	----	+\$20.4B	+\$95.7B +10.3%	+101.4B +9.9%	+81.4B +7.2%
Labor Productivity	3.0%	1.9%	4.9%	4.2%	2.1%	6.1%	9.5%	2.6%

(% 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
Durable Goods Orders	-2.7	2.5										
Durable Goods Shipments	-1.0	0.8										
Leading Index	0.4	0.0										
ISM Manuf. Survey (absolute)	63.6	61.4										
Industrial Capacity Utilization	76.1	76.6										
Industrial Production	0.8	0.7										

MACRO ECONOMIC INDICATORS-CONSUMER:

(% change)	Dec-03	JN-04	FB-04	MR-04	AP-04	MY-04	JN-04	JL-04	AG-04	SP-04	OT-04	NV-04
Personal Consumption	0.5	0.2										
Change in Payroll Employ. (000)	112	21										
Unemploy. Rate	5.6	5.6										
Personal Income	0.3	0.4										
Consumer Price Index	0.5	0.3										

MACRO ECONOMIC INDICATORS- RETAIL:

	2000	2001	2002	2003-1 st Qtr.	2003-2nd Qtr.	2003-3 rd 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 Income)	----	----	----	4.80%	4.74%	5.06%	----

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

Construction				
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	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)	1.2	0.0										

II. MAJOR RETAIL SECTOR TRENDS:

BUILDING MATERIALS, GARDEN AND SUPPLY STORES

Sales were flat in February, versus a -1.0% decline in January and 0.2% gain in December. On an annualized rate, revenue is down -2.8% for the trailing 3-months and up 14.7% for the trailing 12 months.

Monthly % 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
Sales	-1.0	0.0										

FOOD AND BEVERAGE STORES

Sales declined by -0.8 in February, versus a 2.0% gain in January and a -0.6% decline in December. On an annualized rate, revenue is up 2.4% for the trailing 3-months and 2.7% for the trailing 12 months.

Monthly % 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
Sales	2.0	-0.8										

HEALTH AND PERSONAL CARE (DRUG) STORES

Sales declined by 1.2% in February, versus a gain of 0.5% in January and a -0.1% decline in December. On an annualized rate, revenue is down 3.3% for the trailing 3-months and up 5.3% for the trailing 12 months.

Monthly % 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
Sales	0.5	-1.2										

CLOTHING AND ACCESSORY (APPAREL) STORES

Sales grew by 0.4% in February, versus 2.1% growth in January and 0.5% growth in December. On an annualized rate, revenue is up 12.6% for the trailing 3-months and 9.6% for the trailing 12 months.

Monthly % 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
Sales	2.1	0.4										

GENERAL MERCHANDISE STORES

Sales grew in February by 1.3%, versus 1.2% growth in January and a 0.8% increase in December. On an annualized rate, revenue is up 14.1% for the trailing 3-months and 7.2% for the trailing 12 months.

Monthly % 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
Sales	1.2	1.3										

DEPARTMENT STORES

Sales grew in February by 1.2%, versus 0.7% growth in January and a 0.2% increase in December. On an annualized rate, revenue is up 9.0% for the trailing 3-months and 0.7% for the trailing 12 months.

Monthly % 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
Sales	0.7	1.2										

III. RESEARCH NOTE

“Why Store Brand Penetration Varies by Retailer”

Marketing Science, Volume 16, No. 3, 1997

By Sanjay K. Dhar, Graduate School of Business, University of Chicago and Stephen J. Hoch, The Wharton School, University of Pennsylvania

This paper examines variations in private label (“PL”) brand performance within various product categories at food retailers. The researchers’ found substantial variation in PL brand penetration in different geographic markets and among retailers in the same market, as well as finding different levels of penetration by product category at each retailer. Key insights from this research are summarized as follows:

1. PL brand penetration across all categories is impacted by a retailer’s pricing strategy, quality commitment, breadth of product offering, name selection, and number of stores.
2. When consistent with a retailer’s strategy, everyday low pricing benefits the PL brand in product categories where quality is not a primary factor.
3. Promotions have an impact on PL category performance.
4. To the extent that a retailer uses national brands to build traffic, a store’s PL brands may be negatively impacted. Higher PL quality, however, tends to reduce this affect.
5. Price differential between PL and national brands exerts an influence on PL sales penetration.
6. Retailers with a high category penetration tend to similarly have high PL penetration within the same category.
7. PL product quality, whether high or low, is a dominate factor when formulating a PL strategy.

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