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RETAIL BUSINESS TREND REPORT

“BRINGING RESEARCH TO RETAIL”

First quarter gross domestic product was revised upward to an impressive 4.4% annual rate. Notwithstanding, many of April's economic indicators are trending flat to slightly down. Manufacturing orders and shipments slipped in March. The Index of Leading Economic Indicators rose a slight 0.1% in April. While the economic outlook remains excellent, we may have reached a short-term plateau due to a combination of rising food, fuel and other commodity prices, concern about the war and terrorism, and rising interest rates. On a positive note, industrial production, employment, corporate profits and capital spending remain strong.

Retail sales for April, excluding autos, fell -0.1%, the first drop this year. Yet retail sales are up 9.4% versus last April. On an annualized rate, revenue is up 9.7% for the trailing 3-months and is up 9.4% for the trailing 12 months. Consumer spending rose at an annual rate of 3.9% in the first quarter, versus 3.2% for the fourth quarter. Increasing prices are and will impact the lowest income households, and thus the stores they shop.

As for the outlook for the retail in-store development industry, business capital investment was a strong 7.2% in the first quarter, versus 10.9% in the fourth quarter. Corporate after-tax profits rose 1.4% during the first quarter, versus 7.6% in the fourth quarter. Many firms are reporting strong sales and even stronger backlogs. But margins are continuing to be pressured by competitive factors and rising material costs. As retailers and CPG's push releases back into the third quarter, margins will come under further pressure as firms will be forced to work overtime to meet short lead times and may be forced to pay even higher prices for increasingly scarce raw materials.

In this issue, our research note examines an experimental method to achieve more profitable retail assortments.

STEVEN KEITH PLATT
DIRECTOR

I. ECONOMIC OVERVIEW

MACRO ECONOMIC INDICATORS-BUSINESS:

(% change)	2000	2001	2002	2003	2004-1 st Qtr.	2004-2nd Qtr.	2004-3rd Qtr.	2004-4th Qtr.
Real GDP	3.7%	0.5%	2.2%	3.1%	4.4%	%	%	%
Capital Spending (equipment)	7.8%	-5.2%	-2.8%	5.5%	7.2%	%	%	%
Corporate Profits	----	-7.2%	17.4%	----	1.4%	%	%	%
Business Productivity	3.6%	1.8%	5.1%	5.7%	4.5%	%	%	%

(% 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	-2.6	3.9	5.7	-2.9								
Durable Goods Shipments	-1.0	1.4	4.3	-0.8								
Leading Index	0.4	0.0	0.8	0.1%								
ISM Manuf. Survey (absolute)	63.6	61.4	62.5	62.4								
Industrial Capacity Utilization	76.2	76.6	76.5	76.9								
Industrial Production	0.7	0.7	-0.1	0.8								

MACRO ECONOMIC INDICATORS-CONSUMER:

(% change)	JN-04	FB-04	MR-04	AP-04	MY-04	JN-04	JL-04	AG-04	SP-04	OT-04	NV-04
Personal Consumption	0.6	0.4	0.4								
Change in Payroll Employ. (000)	159	83	337	288							
Unemploy. Rate	5.6	5.6	5.7	5.6							
Personal Income	0.5	0.5	0.4								
Consumer Price Index	0.5	0.3	0.5	0.2							

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)	1999	2000	2001	2002	2003	2004
Retail GDP	---	7.5%	4.6%	5.9%		
Total Retail and Food Serv. Sales	8.4%	6.6%	3.1%	2.5%	5.4%	

	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)	1.5	0.6	1.8	-0.1								
Retail Inventories	--	0.7%	1.1%									
Inventory to Sales Ratio (months)	--	1.33	1.30									

II. MAJOR RETAIL SECTOR TRENDS:

BUILDING MATERIALS, GARDEN AND SUPPLY STORES

Sales fell -0.7% in April, following increases of 11.0% in March and 0.4% in February. On an annualized rate, revenue is up 49.8% for the trailing 3-months and is up 20.4% for the trailing 12 months.

FOOD AND BEVERAGE STORES

Sales rose 0.4% in April, following an increase of 0.7% in March and a decrease of -0.5% in February. On an annualized rate, revenue is up 2.3% for the trailing 3-months and is up 3.6% for the trailing 12 months.

HEALTH AND PERSONAL CARE (DRUG) STORES

Sales declined -0.1% in April, following an increase of 1.9% in March and a -0.5% decline in February. On an annualized rate, revenue is up 5.1% for the trailing 3-months and is up 6.8% for the trailing 12 months.

	APRIL COMP. STORE SALES
Walgreen	10.3%
CVS	5.4%

CLOTHING AND ACCESSORY (APPAREL) STORES

Sales declined –2.0% in April, following an increase of 0.8% in March and 0.9% in February. On an annualized rate, revenue is down –1.1% for the trailing 3-months and is up 8.2% for the trailing 12 months.

	APRIL 2004 COMP. STORE SALES
Chico's	16.0%
Gap	3.0%
Limited	2.0%

GENERAL MERCHANDISE STORES

Sales declined –0.8% in April, following increases of 0.4% in March and 1.4% in February. On an annualized rate, revenue is up 4.4% for the trailing 3-months and is up 7.2% for the trailing 12 months.

	APRIL 2004 COMP. STORE SALES
Costco	10.0%
Dollar Gen.	2.1%
Target Stores	4.9%
Wal-Mart	4.4%

DEPARTMENT STORES

Sales declined –1.7% in April, following a decline of -1.0% in March and an increase 1.2% in February. On an annualized rate, revenue is off –6.0% for the trailing 3-months and –0.1% 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	0.8	1.5	-0.8									

	APRIL 2004 COMP. STORE SALES
Federated	5.4%
Sears	-1.8%
JC Penney	5.3%
Dillard's	1.0%

III. RESEARCH NOTE

“The Selection and Pricing of Retail Assortments: An Empirical Approach”
Journal of Retailing, Volume 75, Issue # 3, 1999

By Shelby H. McIntyre, Santa Clara University and Christopher M. Miller, The American Graduate School of International Management.

Determining optimal merchandise assortment is essential to the success of any retailer. Not only does assortment impact category profits, but it is also an important determinant of where consumers choose to shop. Key to the merchandising assortment decision is what items to stock and how to price them.

This paper advances an experimental methodology that determines more profitable retail assortments when compared to traditional buyer decision-making approaches, and also predicts sales and profitability more accurately than these same approaches. This is accomplished by aggregating product market demand by determining how much value the market places on each available product and how the market assesses product substitutions across products based on price. The approach captures both the uniqueness and degree of product substitution, as well as the size of the market potential that changes as a result of product assortment and pricing, yielding better buying decisions.

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