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RETAIL BUSINESS TREND REPORT

“BRINGING RESEARCH TO RETAIL”

The Index of Leading Economic Indicators rose 0.5% in May, demonstrating continued strong economic growth. Other economic measures buttress this finding, including gains in the ISM manufacturing index, industrial production and productivity, and improvements in hiring. Overall, the U.S. economy remains very healthy.

Retail sales improved in May, following April's decline. Wholesale clubs and fashion retailers both performed well. For April and May retail sales, excluding gasoline, are running at a 5.8% increased annualized rate, down from the 8.4% rate seen during the first quarter, and comparable to the fourth quarter of 2003. We anticipate that retail sales for the third quarter will remain in the same stable range of growth, but not at the pace experienced during the first quarter. On the plus side are improvements in personal income and job growth. On the negative side, we believe that consumer spending will be restrained by the combined drag of a slight increase in interest rates, reduced cash availability due to a slowing of mortgage refinancings and increased costs for food and gas.

While the overall manufacturing sector appears poised to ramp up-production and employment, the retail in-store development industry appears to remain on the sidelines. While the value of multi-retail construction put in place, for example, rose 3.4% from January to February 2004, no such increases are noted in the retail in-store development industry. And while strong customer demand and increased costs are leading to increased prices in some industries, not so for the retail in-store development industry.

In this issue, our research note examines the financial performance associated with implementing in-store and supply chain information technologies on a bundled basis.

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% | 3.9% | % | % | % |
| Capital Spending (equipment) | 7.8% | -5.2% | -2.8% | 5.5% | 9.2% | % | % | % |
| 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 | 5.9 | -3.2 | | | | | | | | |
| Durable Goods Shipments | -1.0 | 1.4 | 4.4 | -0.9 | | | | | | | | |
| Leading Index | 0.4 | 0.0 | 0.8 | 0.1 | 0.5 | | | | | | | |
| ISM Manuf. Survey (absolute) | 63.6 | 61.4 | 62.5 | 62.4 | 62.8 | | | | | | | |
| Industrial Capacity Utilization | 76.2 | 76.7 | 76.6 | 77.1 | 77.8 | | | | | | | |
| Industrial Production | 0.7 | 0.8 | 0.0 | 0.8 | 1.1 | | | | | | | |
| Factory Orders | -0.9 | 1.1 | 5.0 | -1.7 | | | | | | | | |
| Business Inventories | 0.2 | 0.8 | 0.7 | 0.5 | | | | | | | | |

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 | DC-04 |
|----------------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Personal Consumption | 0.5 | 0.4 | 0.5 | 0.3 | | | | | | | | |
| Change in Payroll Employ. (000) | 159 | 83 | 353 | 346 | 248 | | | | | | | |
| Unemploy. Rate | 5.6 | 5.6 | 5.7 | 5.6 | 5.6 | | | | | | | |
| Personal Income | 0.5 | 0.5 | 0.4 | 0.6 | | | | | | | | |
| Wages and Salaries | 0.8 | 0.5 | 0.3 | 0.5 | | | | | | | | |
| Consumer Price Index (all items) | 0.5 | 0.3 | 0.5 | 0.2 | 0.6 | | | | | | | |

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% | |

| (% 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 |
|--|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Retail Sales (% change; x auto) vs. last month | 1.5 | 0.6 | 1.8 | -0.1 | 0.7 | | | | | | | |
| Retail Sales (% change; x auto) vs. year ago | --- | --- | --- | --- | 9.8 | | | | | | | |

MACRO ECONOMIC INDICATORS- RETAIL IN-STORE DEVELOPMENT:

| (% 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 |
|--|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| New Buildings Put In Place-Multi-Retail | -0.2 | 3.4 | | | | | | | | | | |
| New Buildings Put In Place-Drug, Building Supply, Other Stores | -1.0 | 2.7 | | | | | | | | | | |
| New Buildings Put In Place-Food and Beverage | -11.7 | 2.3 | | | | | | | | | | |

| (% change) | 2003-1 st Qtr. | 2003-2nd Qtr. | 2003-3rd Qtr. | 2003-4th Qtr. | 2004-1 st Qtr. | 2004-2nd Qtr. | 2004-3rd Qtr. | 2004-4th Qtr. |
|-----------------------------|---------------------------|---------------|---------------|---------------|---------------------------|---------------|---------------|---------------|
| Capital Spending-Equipment | .5 | 8.0 | 17.6 | 14.9 | 9.2 | | | |
| Capital Spending-Structures | -4.0 | 3.9 | -1.8 | -1.4 | -7.4 | | | |

II. MAJOR RETAIL SECTOR TRENDS:

BUILDING MATERIALS, GARDEN AND SUPPLY STORES

Sales fell -1.4% in May, following a -0.4% decline in April and 9.8% rise in March. On an annualized rate, revenue is up 35.1% for the trailing 3-months and is 16.6% for the trailing 12 months.

FOOD AND BEVERAGE STORES

Sales rose 0.8% in May, following an increase of 0.2% in April and 0.9% in March. On an annualized rate, revenue is up 7.7% for the trailing 3-months and is 5.3% for the trailing 12 months.

HEALTH AND PERSONAL CARE (DRUG) STORES

Sales rose 0.9 % in May, following a decline of -0.1% in April and an increase of 2.1% in March. On an annualized rate, revenue is up 12.4% for the trailing 3-months and 8.3% for the trailing 12 months.

| | MAY COMP. STORE SALES |
|----------|-----------------------|
| Walgreen | 8.5% |
| CVS | 6.1% |

CLOTHING AND ACCESSORY (APPAREL) STORES

Sales increased 0.9% in May, following a –2.3% decline in April and a 0.8% rise in March. On an annualized rate, revenue declined –2.6% for the trailing 3-months and increased 6.7% for the trailing 12 months.

| | MAY 2004 COMP. STORE SALES |
|----------------|-------------------------------|
| Chico's | 17.9% |
| Gap | 11.0% |
| Limited Brands | 3.0% |

GENERAL MERCHANDISE STORES

Sales rose 1.3% in May, following a decline of –0.7% in April and rise of 0.7% in March. On an annualized rate, revenue is up 5.4% for the trailing 3-months and is 8.4% for the trailing 12 months.

| | MAY 2004 COMP. STORE SALES |
|----------------------------|-------------------------------|
| Costco | 18.0% |
| Dollar Gen. | 4.0% |
| Target Stores | 5.8% |
| Wal-Mart (consolidated) | 5.9% |

DEPARTMENT STORES

Sales increased 0.8% in May, following a –1.6% decline in April and a –0.9% decline in March. On an annualized rate, revenue declined –6.8% for the trailing 3-months and increased 0.2% for the trailing 12 months.

| | MAY 2004 COMP. STORE SALES |
|-----------|-------------------------------|
| Federated | 2.9% |
| Sears | -3.7% |
| JC Penney | 9.1% |
| Dillard's | -5.0% |

III. RESEARCH NOTE

“Complementarities Between In-Store and Supply Chain Technologies:
An Empirical Analysis of Food Retailing Operations”

Working Paper, May 2004

By Xiaowen Huang, University of Minnesota, Kingshuck K. Sinha, University of Minnesota and Research Fellow, The Platt Retail Institute, and Yan Dong, University of Minnesota

The impact of information technologies upon retail store performance varies greatly. Yet most research into this area has been limited to gauging the effectiveness of specific information technologies adopted on a piecemeal basis. In this paper, the researchers examine the financial performance associated with implementing in-store and supply chain information technologies on a bundled or holistic basis. Specifically, the researchers sought to answer the following questions: what are the technology adoption patterns in retail supermarkets and what are the performance implications of the different technology adoption patterns? The researchers found, among many other things, that supermarkets tend to adopt technologies in bundles. In-store technologies being embraced revolve around those that enable shelf-space allocation plan-o-grams, product movement analysis, and category management. Supply chain technologies being adopted include those that enable electronic transmission of data to headquarters or suppliers and Internet/Intranet links to corporate headquarters and suppliers. The researchers also found that, over time, supermarkets that adopt complementary in-store and supply chain technologies as a bundle significantly outperform those that adopt such technologies on a piecemeal basis.

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