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RETAIL BUSINESS TREND REPORT

“BRINGING RESEARCH TO RETAIL”

The economy is moderating to a more sustainable level. Preliminary second quarter GDP was 3.0% versus 4.5% during the first quarter. Recently, the Federal Reserve lowered its projected 2004 GDP estimate to 4.0%-4.75%. Downward trends in other economic indicators further support this view. The Leading Index fell in June for the first time since March 2003, and Durable Goods Orders and Shipments also slowed in June. Consumer spending likewise slowed to 1.0% for the second quarter versus 4.5% for the first. In addition, the Consumer Piece Index is running at an annualized rate of 5.1% for the first five months of the year.

The trend in retail sales is also slowing. Excluding autos, retail sales rose 5.5% on an annualized basis in the second quarter of 2004 versus 10.3% in the first quarter. Retail sales, excluding autos, slowed in June, following a strong May. Major factors contributing to this decline included poor weather conditions, smaller than anticipated payroll gains and higher gas and food prices, which are draining discretionary spending for the majority of Americans. Furniture and home furnishing stores, as well as sporting good, hobby, book and music stores, however, performed well. For the trailing 3-months, retail sales increased at an annualized rate of 1.9%, and 8.3% for the trailing 12-months. With seasonal inventories due to be liquidated, July retail sales may also be weak.

Retail store related capital spending should remain stable for the balance of the year. For the second quarter, capital spending on equipment was 10.0% versus 8.0% in the first quarter. Capital spending on buildings improved in the fourth quarter as well, rising 5.2% versus a -7.6% decline in the first quarter. Retail after-tax profits will continue to fuel spending. In addition, depreciation allowances that are scheduled to expire at year-end will further support store spending. Construction of new retail stores for the first-quarter of 2004 also remained on track, with the exception of new food and beverage stores.

In this issue, our research note examines the consumer-store decision-making process.

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%	4.5%	3.0%	%	%
Capital Spending (equipment)	7.8%	-5.2%	-2.8%	5.5%	8.0%	10.0%	%	%
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	-2.7	-0.9	0.7						
Durable Goods Shipments	-1.0	1.4	4.4	-0.8	-0.6	0.7						
Leading Index	0.4	0.0	0.8	0.1	0.5	-0.2						
ISM Manuf. Survey (absolute)	63.6	61.4	62.5	68.4	65.2	59.9						
Industrial Capacity Utilization	76.2	76.7	76.6	77.0	77.6	77.2						
Industrial Production	0.7	0.8	0.0	0.7	0.9	-0.3						

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	0.6	0.2	1.0							
Change in Payroll Employ. (000)	159	83	353	324	235	112						
Unemploy. Rate	5.6	5.6	5.7	5.6	5.6	5.6						
Personal Income	0.5	0.5	0.5	0.6	0.6							
Consumer Price Index (all items)	0.5	0.3	0.5	0.2	0.6	0.3						

MACRO ECONOMIC INDICATORS- RETAIL:

Large Retail Corporations	2002-4th Qtr	2003-1 st Qtr.	2003-2nd Qtr.	2003-3 rd Qtr.	2003-4th Qtr.	2004-1 st Qtr.	2004-2nd Qtr.	2004-3 rd Qtr.	2004-4th Qtr.
Operating Ratio	5.6%	4.3%	4.6%	4.4%	5.5%	5.1%	%	%	%
After-Tax Profit Ratio	2.5%	3.2%	2.7%	2.6%	3.5%	2.6%	%	%	%
Return on Equity (after taxes)	14.6%	13.4%	16.31%	13.3%	19.78%	13.73%	%	%	%

(\$ millions)	1999	2000	2001	2002	2003	2004
Total Retail Sales (x auto)	\$2,385,029	\$2,559,985	\$2,634,858	\$2,717,331	\$2,860,985	\$
Retail Sales (% change; x auto) vs. last year	7.53%	7.34%	2.93%	3.13%	5.29%	%
Total Retail Gross Margin (x auto)	31%	30.7%	30.3%	30.8%	%	%

(% 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	-0.2	0.9	-0.2						

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	4.1	1.3									
New Buildings Put In Place-Drug, Building Supply, Other Stores	-1.0	0.4	1.6									
New Buildings Put In Place-Food and Beverage	-11.7	-5.3	-2.1									

(% 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	8.0	10.0		
Capital Spending-Structures	-4.0	3.9	-1.8	-1.4	-7.6	5.2		

II. MAJOR RETAIL SECTOR TRENDS:

BUILDING MATERIALS, GARDEN AND SUPPLY STORES

Sales rose 0.1% in June. On an annualized rate, revenue is down –5.0% for the trailing 3-months and is up 14.3% 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	0.6	0.4	9.8	-0.5	-0.9	0.1						

FOOD AND BEVERAGE STORES

Sales were flat in June. On an annualized rate, revenue is up 3.2% for the trailing 3-months and up 3.4% 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	1.7	-0.5	0.9	0.0	0.8	0.0						

HEALTH AND PERSONAL CARE (DRUG) STORES

Sales rose 0.2 % in June. On an annualized rate, revenue is up 0.8% for the trailing 3-months and up 6.0% 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	0.6	-0.5	2.1	-0.4	0.4	0.2						

	JUNE COMP. STORE SALES
Walgreen	10.6%
CVS	6.6%

CLOTHING AND ACCESSORY (APPAREL) STORES

Sales fell –0.5% in June. On an annualized rate, revenue is off 4.9% for the trailing 3-months and up 6.0% for the trailing 12 months

	JUNE 2004 COMP. STORE SALES
Chico's	10.9%
Gap	-2.0%
Limited Brands	19.0%

GENERAL MERCHANDISE STORES

Sales fell –0.2% in June. On an annualized rate, revenue is up 0.3% for the trailing 3-months and is 6.7% 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	1.4	0.7	-0.8	1.1	-0.2						

	JUNE 2004 COMP. STORE SALES
Costco	6.0%
Dollar Gen.	2.3%
Target Stores	2.3%
Wal-Mart (consolidated)	2.2%

DEPARTMENT STORES

Sales fell –0.8% in June. On an annualized rate, revenue is off –7.7% for the trailing 3-months and down –1.3% for the trailing 12 months

	JUNE 2004 COMP. STORE SALES
Federated	3.4%
Sears	-3.1%
JC Penney	4.8%
Dillard's	-1.0%

III. RESEARCH NOTE

“Where the Rubber Meets the Road: A Model of In-Store Consumer Decision Making”
Working Paper, October 1998

By J. Jeffrey Inman, University of Pittsburgh and Russell S. Winer, University of California, Berkeley

In this paper, the researchers identify specific factors that affect in-store purchases. This is significant because of their finding that 60% of purchase decisions are unplanned, and that the average shopper makes 9.8 unplanned purchases and 4.2 specifically planned purchases per store visit. Specifically, the researchers model provides a basis for better understanding the in-store decision-making process by analyzing the impact of shopping-trip-specific factors and consumer-specific factors on choice behavior. Some of the their findings are summarized as follows:

- Planned purchases are more prevalent in small shopping baskets.
- Unplanned purchases increase as the shopping basket size increases.
- Shopping–trip-specific factors, such as the number of aisles shopped and trip-type (major versus fill-in) exert the greatest impact upon in-store decision-making.
- Product placement and displays impact unplanned consumer decisions.
- In-store decision-making is more prevalent among younger consumers.
- Shoppers who are more deal-prone (i.e., respond to in-store specials) make more in-store purchase decisions than less deal-prone shoppers.
- In-store decision-making increases as household size, shopping party size, compulsiveness and income increase, and is greater among women and shoppers without a list.

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