



The Retail Sector Encounters The “Soft Patch”

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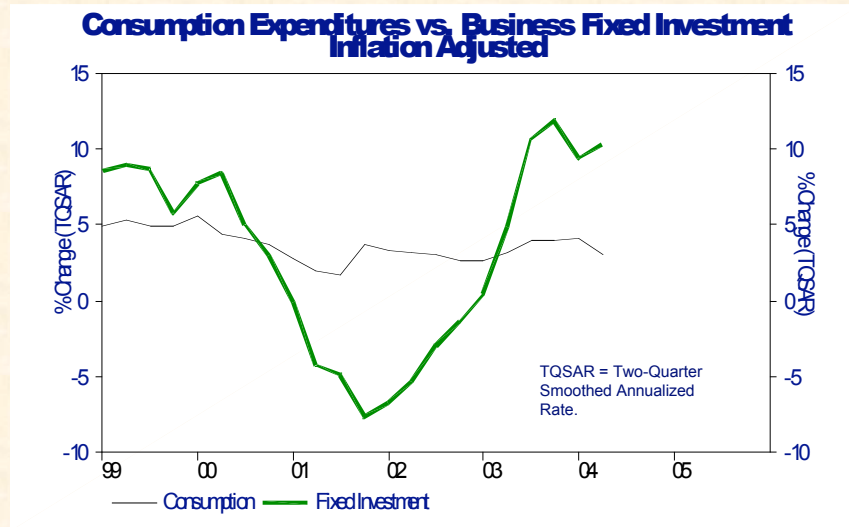
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Retail Sector Issues

- The Consumer is No Longer in the Driver Seat of the Economy
- The State of the Retail Industry – Experiencing the Soft Patch
- The State of the Consumer - Mixed
- Gasoline Price Impacts
- 2004 Christmas Outlook & Beyond

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Business Spending Takes the Lead Over Consumer Spending

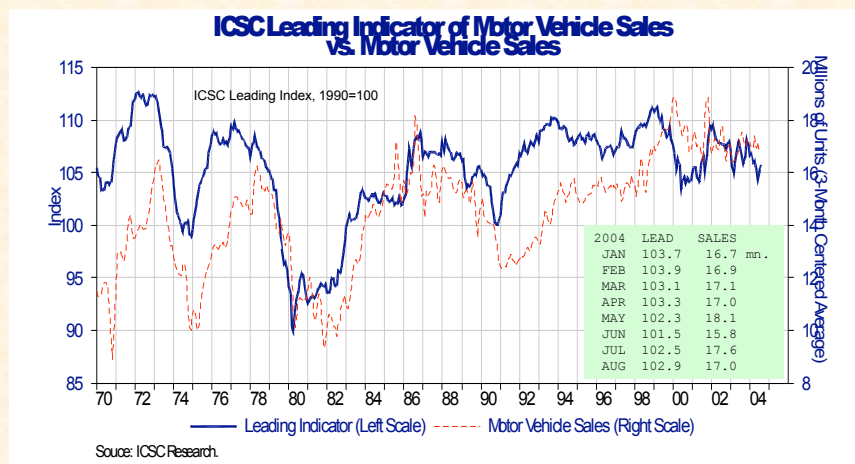


Sources: U.S. Department of Commerce; ICSC Research.

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Retail Sector Encounters the Soft Patch – Where?

Motor Vehicle Leading Indicator Signals Softness in Key Discretionary Spending Component...But Indicator has been Improving in Last Two Months



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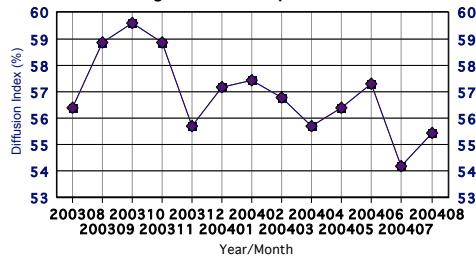
The State of the Non-Auto Retail Industry



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Shopping Center Executive Business Barometer

Readings Over 50% Represent Growth



The Soft Patch Through the Eyes of the Industry

The **ICSC Shopping Center Executive Opinion Survey** found that industry business conditions improved in August 2004, but the **pace** of the improvement was a tad softer than the same time of 2003.

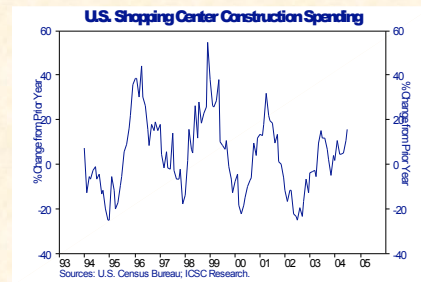
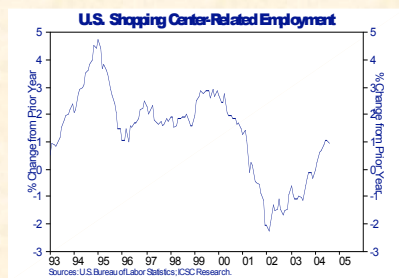
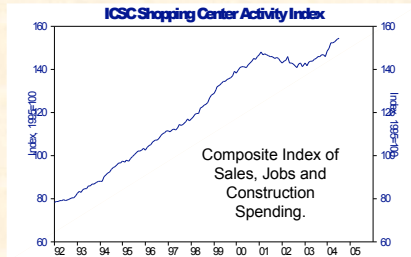
ICSC Shopping Center Executive Component Diffusion Indexes (%)

Components	Aug '03	Sep '03	Oct '03	Nov '03	Dec '03	Jan '04	Feb '04	Mar '04	Apr '04	May '04	Jun '04	Jul '04	Aug '04
SCE Barometer	56.4	58.9	59.9	56.8	55.5	57.5	57.2	56.4	56.8	55.5	57.5	56.4	55.5
Current Conditions	54.6	57.0	57.5	56.8	55.6	57.5	57.5	56.8	57.5	55.5	57.5	56.8	55.6
Sales	56.8	59.3	59.6	56.4	56.1	56.0	55.9	55.9	56.1	55.9	56.2	57.6	55.6
Customer Traf	57.4	57.4	57.6	56.3	56.6	54.6	56.2	56.0	56.0	56.2	58.7	59.8	55.5
Occupancy Rate	57.7	56.2	59.8	55.4	55.5	57.8	55.5	57.3	56.3	53.7	58.0	45.7	54.9
Rent Spreac	52.1	51.1	65.7	65.5	85.7	55.4	25.4	85.4	75.4	95.4	35.9	15.2	65.7
Capitalization Ra	48.9	53.6	49.4	45.2	34.5	85.1	05.1	95.2	64.7	84.7	74.1	54.3	64.4
Expectations	58.2	60.6	61.1	55.9	85.5	05.8	45.8	15.7	55.5	75.7	05.7	35.4	85.6
Sales	64.0	67.7	66.7	96.6	36.1	26.4	26.4	16.3	36.3	26.4	86.4	56.3	35.9
Customer Traf	64.4	67.7	66.9	06.8	05.8	26.2	56.3	76.1	66.2	86.1	86.1	76.2	55.9
Occupancy Rate	63.2	66.6	16.3	15.9	95.7	26.3	95.9	85.9	45.7	56.1	46.3	25.8	56.0
Rent Spreac	55.1	58.6	60.4	58.7	56.3	57.5	55.5	95.5	85.7	05.6	46.0	95.4	86.0
Capitalization Ra	44.4	43.9	47.3	45.9	42.1	43.8	46.9	47.5	38.0	40.7	73.6	33.4	74.2

Note: Capitalization rate diffusion indexes are inverted to capture the effect that a higher capitalization rate will lower the value of the property, other things being equal.

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How Is the Shopping-Center Industry Performing?



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The New Katona Paradigm For Understanding Consumer Spending Motivation

Original Paradigm

Consumer Spending = f(Ability to Spend, Willingness to Spend)

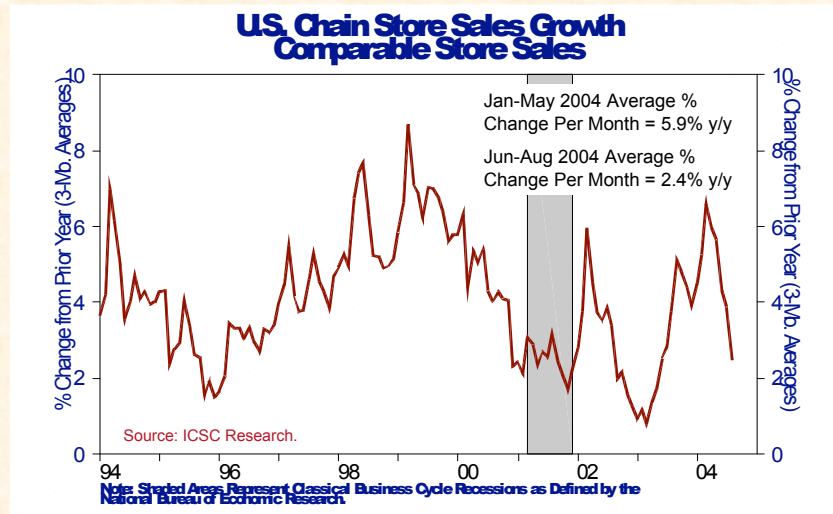
The Expanded Katona Paradigm



Motivation for Spending

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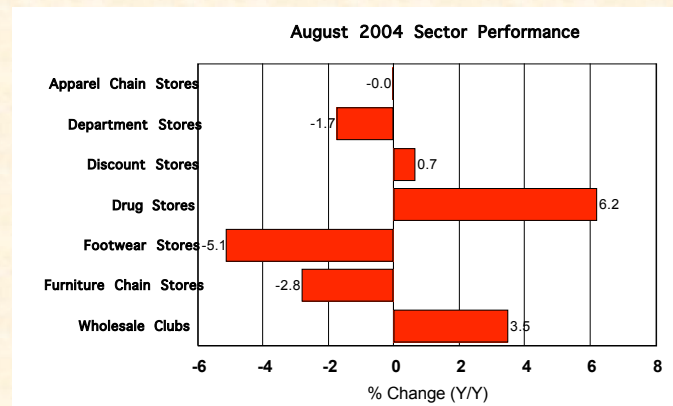
A Closer Look: Store Sales Growth Rate Trends Weaken Sustainable Pace About 3% For Remainder of Year



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The Relative Sales Story

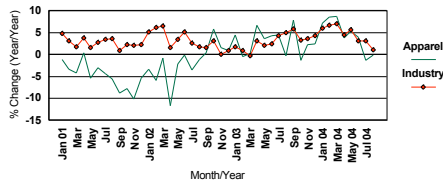
August 2004 Comp-Store Industry Sales Grew By 1.1% Year/Year



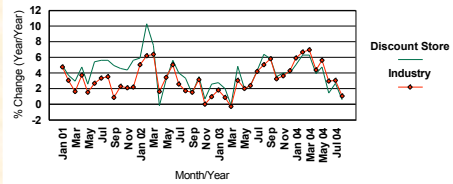
Even the Once Mighty Discount Sector Has Slowed Sharply

A Further Look at Sector Sales Performance -10-

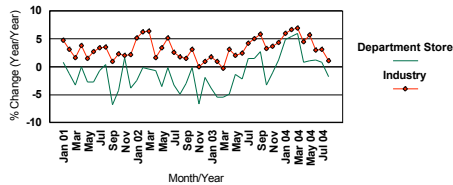
**Apparel Specialty Sales vs. Industry
Comparable-Store Sales Performance**



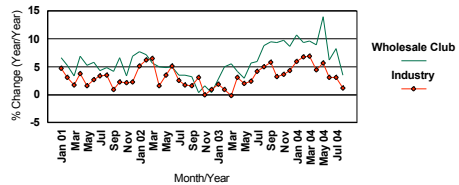
**Discount Store Sales vs. Industry
Comparable-Store Sales Performance**



**Department Store Sales vs. Industry
Comparable-Store Sales Performance**



**Wholesale Club Sales vs. Industry
Comparable-Store Sales Performance**

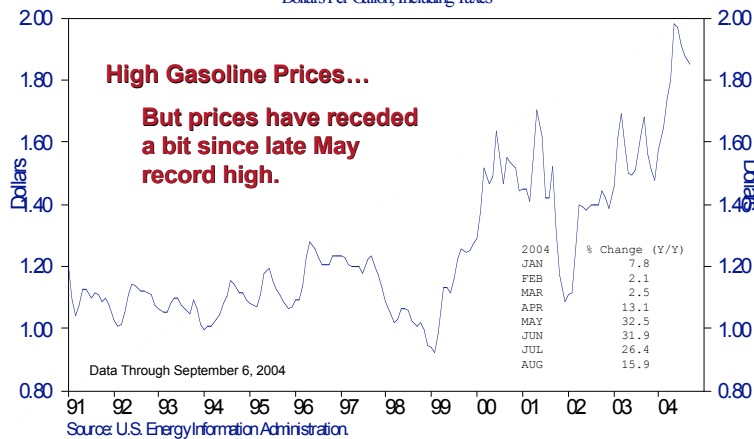


Retail Sector Encounters the Soft Patch – Why

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Causes of the Economic Soft Patch and Why It Lingers

US Regular Gasoline Prices Dollars Per Gallon, Including Taxes



Examining the Gasoline Price Impact

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How Sensitive are Store Sales to Gasoline Price Swings?

Estimated Consumption Function, November 1996 - April 2004

Store/Store Type	Every 10% Increase in Gasoline Impacts Store Sales By	August 2004 Estimated Impact of Gasoline Price Increase (in Percentage Points)
Wal-Mart	-0.77	-1.2
Discount Stores	-0.66	-1.0
Furniture Stores	-0.60	-1.0
Overall Chain Store Sales	-0.36	-0.6
Department Stores	-0.34	-0.5
Drug Stores	-0.31	-0.5
Footwear	-0.21	-0.3
GAFO Sales	-0.14	-0.2
Wholesale Clubs	-0.13	-0.2
Apparel Specialty	-0.11	-0.2

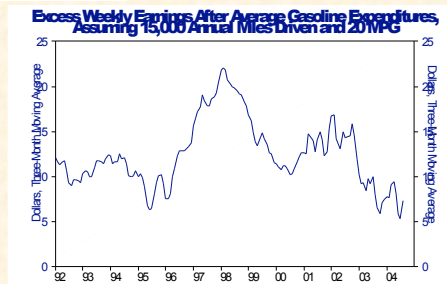
Note: Those rows shaded in gray represent not statistically significant results.

Discounters most sensitive sector to high gasoline prices.

Chart to Right: How much more is the consumer spending for gasoline relative to the increase in average weekly earnings?

Average Expenditure Per Week for Gasoline:

Early September \$26.70
May 2004 \$28.60
December 2003 \$21.30

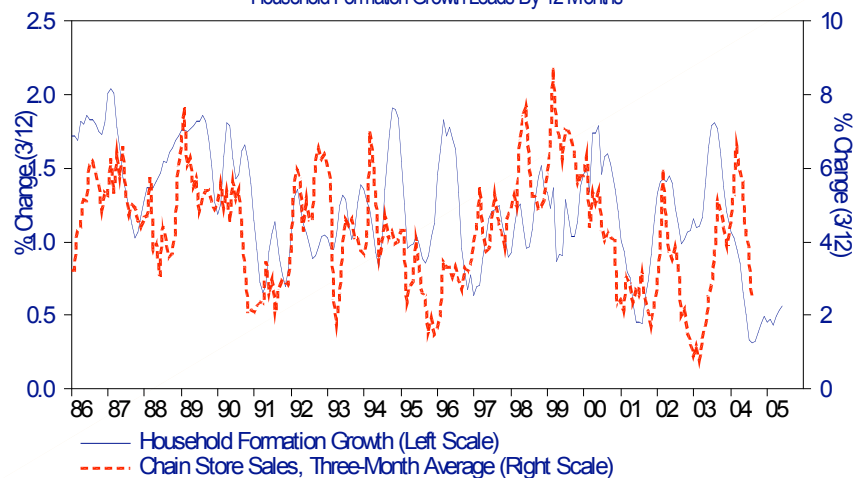


Retail Sector Encounters the Soft Patch – Why Short-Term Demographics Turned Negative

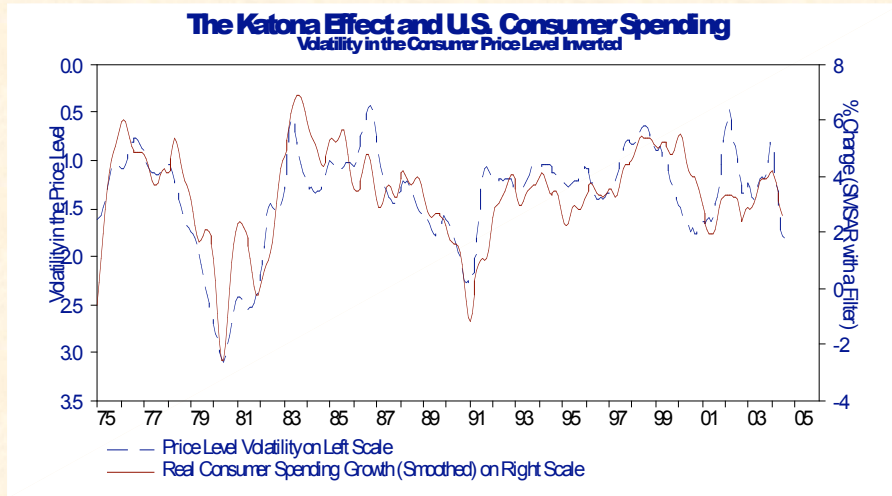
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Household Formation & Chain Store Sales

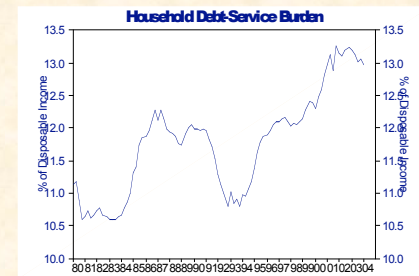
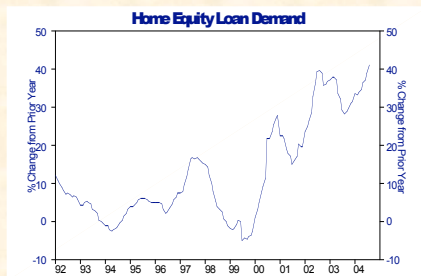
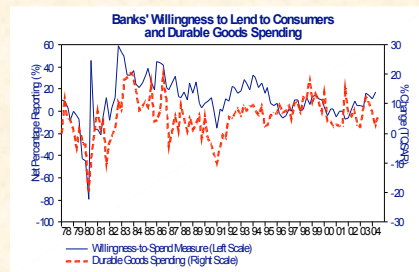
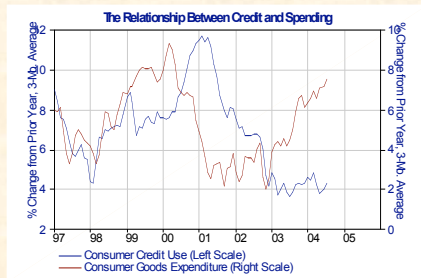
Household Formation Growth Leads By 12 Months



Consumers React to Price Volatility (as Uncertainty) and Curtail Spending

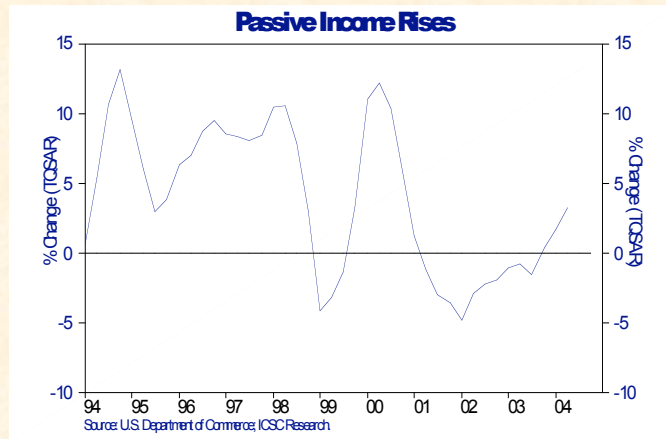


Consumer Debt Trends



But Not Everything is Negative... Some Sources of Income Are Improving

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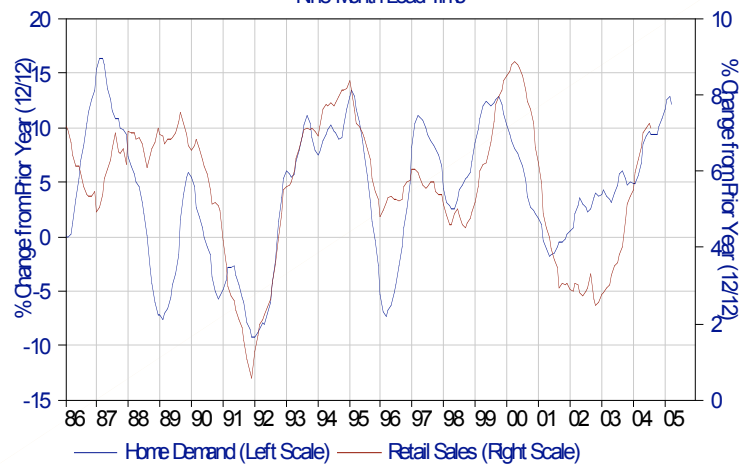
Interest and Dividend Income Account for about 14% of Personal Income. These two categories of “passive income” have started to rise more rapidly this year.

Consumer Fundamentals...

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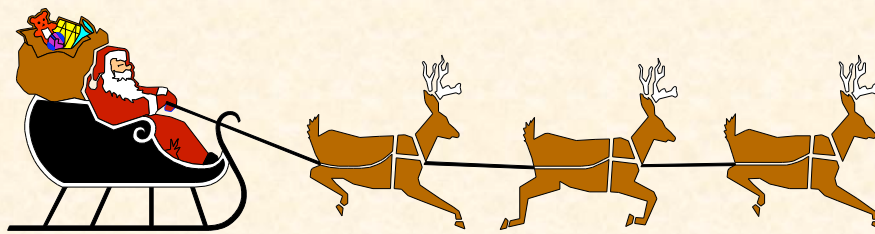
The Diderot Effect Still Exists

Home Demand as a Trigger for the Diderot Effect
Nine-Month Lead Time





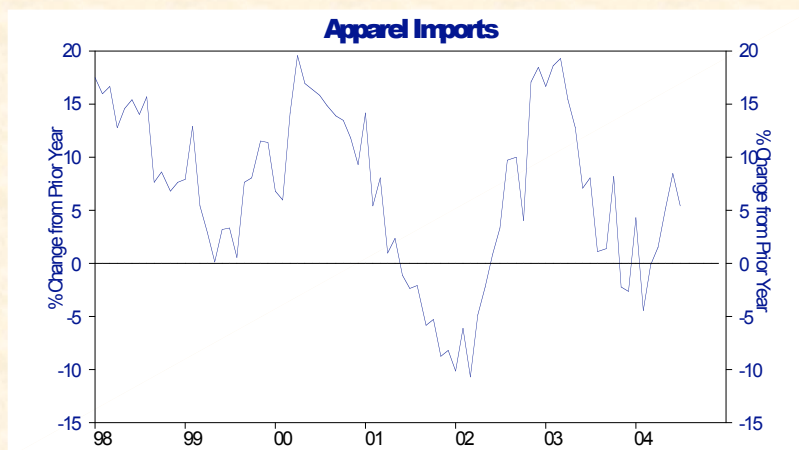
Holiday Sales Outlook and Beyond



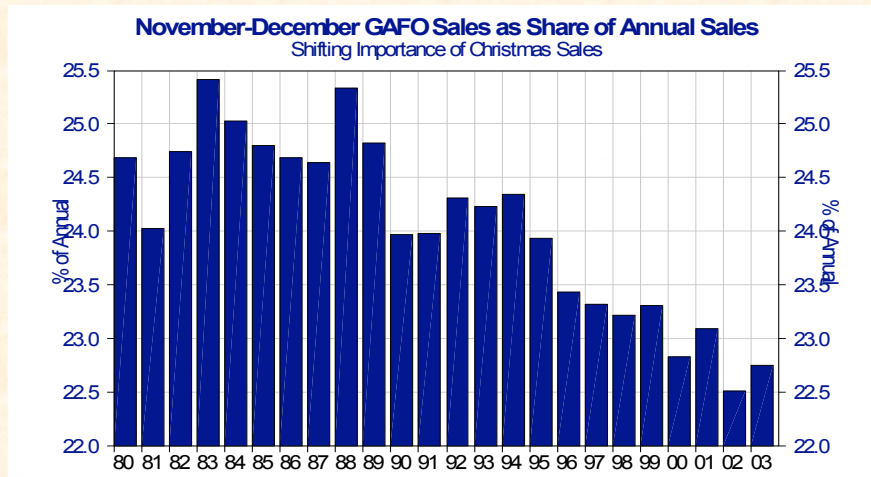
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Stocking Those Racks and Shelves

Can The Ordering Flow of Apparel Tell Us About Retailers' Holiday Expectations?



Changing Importance of Christmas Sales



2004 Christmas Sales Expectations



Table 1
U.S. Chain Store Holiday Sales
(Year/Year Percentage Change)

Year	Nov.	Dec.	Average	Inflation	Real Spending
1990	1.3	2.7	2.0	3.4	-1.4
1991	2.4	2.6	2.5	4.1	-1.6
1992	3.8	7.4	5.6	2.6	3.0
1993	3.1	4.2	3.6	1.6	2.0
1994	3.6	4.1	3.8	1.4	2.4
1995	2.6	1.6	2.1	1.7	0.4
1996	2.9	3.4	3.1	1.0	2.1
1997	4.1	4.9	4.5	0.4	4.1
1998	4.5	5.7	5.1	1.2	3.9
1999	4.1	6.7	5.4	0.2	5.2
2000	4.0	0.7	2.4	0.6	1.8
2001	2.1	2.2	2.2	-0.3	2.5
2002	0.0	1.0	0.5	-1.5	2.0
2003	3.7	4.3	4.0	-2.5	6.5
2004 est.	---	---	3-to-4%	-1.1	4-to-5%

NOTE: Sales are based on the monthly ICSC Chain Store Sales Index, which is a composite of chain store sales on a comparable store basis. Inflation is based on the Consumer Price Index for commodities less food and energy or December-over-December percentage change basis, except for 2004 which is based for July 2004.

Sources: International Council of Shopping Centers; U.S. Bureau of Labor Statistics.



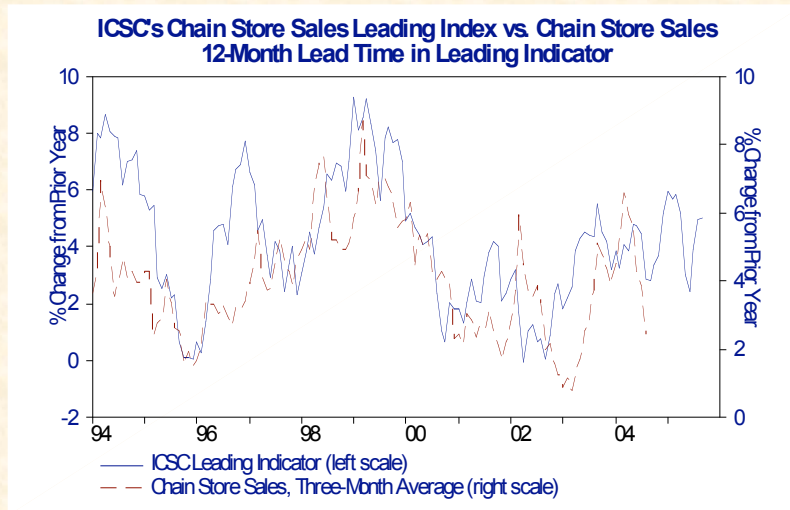
Table 2
Tracking GAFO Holiday Sales
(Year/Year Percentage Change)
(Based on NOT Seasonally Adjusted Data)

Year	November	December	Nov-Dec
1993	7.8%	5.8%	6.6%
1994	8.7%	8.2%	8.4%
1995	5.6%	2.3%	3.6%
1996	3.0%	2.6%	2.7%
1997	3.8%	4.0%	3.9%
1998	5.7%	6.4%	6.1%
1999	6.8%	9.4%	8.4%
2000	6.8%	1.9%	3.8%
2001	3.9%	3.5%	3.7%
2002	1.6%	0.7%	1.1%
2003	4.0%	5.4%	4.8%
2004 est.	5.5%	4.5%	5.0%

Sources: U.S. Department of Commerce; ICSC Research.

Looking Ahead: What's In Store For Sales?

Leading Indicator Suggests a Roller Coaster over the Next Year—But Reasonably Healthy Trend



Thank You