

Bulletin

U.S. Data

Advance October 2008 Retail Sales • Released November 14, 2008

NEED VS. WANT PRODUCTS DOMINATE CONSUMER BEHAVIOR

Consumer confidence dropped sharply from 60 points in September to 38, reflecting the current volatility and pessimism.

All Stores sales dropped -3.3% in October. The hardest-hit sector was Motor Vehicle and Parts Dealers whose sales declined further this month by -23.3%.

Categories highly dependent on consumer financing saw big declines in sales. Of these, Furniture and Home Furnishing Stores decreased by -13.2%. News of Circuit City's impending bankruptcy foreshadowed deteriorating sales in the Electronics and Appliance Stores, which was down -5.7% for the month. As consumer shopping behaviors shift from credit to debit card use, consumers are estimated to purchase 13% more on debit cards. These decreases in consumer financing and usage can continue to affect retail sales and expectations.

Retailers selling 'want' products weathered a gloomy month. Sporting Goods, Hobby, Book and Music Stores dipped by -3.4% in October with year-to-date sales growth remaining weak at 2.2%. Music stores may account for a significant portion of the declining sales as the industry continues to struggle with a morphing sector. Wal-Mart's plans, to cut prices on "Top 25" tunes

by 22%, further points to changes in the music industry, as retailers strive to remain profitable.

Clothing and Accessories Stores grew 0.6% year-to-date, but was down for the month by -3.0%. GAP reported -16% and Limited Brands announced -9% declines in monthly same-store sales.

General Merchandise Stores were up 3.5% in October with Walmart reporting a 2.4% growth in sales. As shoppers head to discount retailers, Department Stores felt the punch as their sales dropped -5.3% for the month. This was clearly reflected in the same-store, monthly sales for Macy's and Nordstrom's which declined by -6.3% and -5.8% respectively.

As consumers continue to smart-shop and focus on need-purchases, retailers like Aldi's are the clear winners. Overall Food and Beverage Stores experienced a 6.7% growth in sales while Grocery Store sales were up, 6.4%. Health and Personal Care Stores also rose, by 4.2% for the month. McDonald's Corp. reported 5.3% growth in October for its U.S. locations.

This trend continued overall as Food Services and Drinking Places fared well; sales grew 5.3% in October.

In the wake of multiple bankruptcies and government indecision on bailouts, consumers have been seeking bargains, limiting credit use and tightening their belts. Despite this downward spiral, consumer behavior will be ambiguous at best into the coming months. Retailers will need to take strategic steps to counter the 'gloom and doom' scenarios projected throughout Wall Street, election platforms, and the media.

This special edition of the National Retail Bulletin includes a supplement to help retailers regain their ground and stay successful, into the holiday season and beyond.

**RELEASE DATE OF THE NEXT
NATIONAL RETAIL BULLETIN:**
December 12, 2008

Please note:

The J.C. Williams Group National Retail Bulletin compares the latest monthly release of "raw" (i.e., unadjusted for seasonality, holiday, and trading day) retail sales figures to those in the *same calendar month of the previous year*. The U.S. Census Bureau also reports seasonally adjusted sales that are compared to the *previous month within the current calendar year* to measure change in Gross Domestic Product (GDP). Although other sources use seasonally adjusted figures, J.C. Williams Group believes that using raw figures and making comparisons to the previous year's performance more accurately reflects the seasonality of the retail industry, and therefore, are more useful in analysis. Definitions can be found on the U.S. Census Website: www.census.gov.

RETAIL SUCCESS IN TOUGH TIMES

NRB SUPPLEMENT

U.S. DATA - RELEASED NOVEMBER 14, 2008

RETAIL SUCCESS IN TOUGH TIMES

You would have to be living on a desert island to not have read about the challenging economy and consumers' reaction to it. In this special issue of the National Retail Bulletin, we would like to add our voices to the many that you may have already heard first to bring some reality to the retail picture including the data that was just released today and second to present some of the thinking and actions that we believe will help retailers achieve success in tough times.

THE FACTS AND OUTLOOK

This month retail sales dropped below those of November 2007 by 3.3% and have been getting progressively worse over the year. In the first quarter, total sales grew at 3.8% over Q1 2007 with GAFO growing at 2.8%, and Food Stores increasing by 6.5%. Drug stores, consumer electronics retailers, and sporting goods/hobby/books all gained over 4% from the year before.

This month, we can look at the revised third quarter numbers as well as the October advance release. These Q3 numbers show that retail sales grew at 2.5% over last year with food and drug stores as well as consumer electronics all performing relatively well compared to the first quarter. However, the discretionary purchases in categories like sporting goods/hobby/books were eroding. October they dropped below last year's sales.

It is important to remember that not all commodities are affected in the same way. For example, general merchandise and food are holding up, while automotive and home/furniture are getting hit. It is also clear that some retailers like Wal-Mart are doing very well in this climate, others are suffering badly. Each retailer must look at their business model carefully to really assess what the challenges are now and what they will be over the next year.

Another key element to consider is consumer confidence which has dropped dramatically since July 2007 when it was above 110 and now stands at 38. While this measure is obviously affected by real issues such as job losses and decreases in the stock market, even consumers who are in good shape are concerned about debt and spending money. This has led to a new thriftiness that is shaping customers' shopping behavior.

RETAILER'S RESPONSE

In these times, retailers can either shape their future or let the events push them into a place that they do not want to be. It is clear that all businesses will be looking carefully at all spending and cutting back where they can save the most without affecting their core business. Smart retailers will not risk abandoning a previously successful strategy because of the need to make short term cuts. Here is our roadmap to navigating these challenging times.

THE CUSTOMER

The North American consumer is very nervous right now. Just look at consumer confidence. However different consumers will react differently so make sure you know your customers' key concerns. What are they thinking? How can you make their lives easier? If you take the position of the customer advocate, helping them to deal with their fears, you will win out over your competitors.

THE STORE

Stores are retailers' most visible presence, so making the most of these assets is critical. Smart retailers will be editing tactics by region and store to maximize customer satisfaction and success. Implement in-store tactics for increasing traffic, increasing sales per customer and creating loyalty. The GAP has cut television spend but will concentrate on in-store marketing. Stores like Coach and Borders are implementing creative displays to put shoppers in the holiday mood.

VALUE

All customers, not just the ones that are cash strapped, will be looking for value. This does not mean cutting prices. Think about what worked in the past. Stores like TJX and Kmart are bringing

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back layaways so that customers can get what they want but not use their credit cards. Another “blast from the past” are coupons. Customers will be looking for coupons from retailers as well as from suppliers. Be ready.

Providing value can also mean helping customers meet their goals. Use the “gifts under” strategy to give customers the best options with the least amount of effort. Another great program has been implemented by the grocery chain Stop & Shop, who are providing lessons to their customers on how to shop for bargains as well as putting together inexpensive menu suggestions. Customers will also be looking for store brands that are priced lower so they can get the products they want but save money. Are yours front and center?

Another important tool for retailers this Christmas will be gift cards. Recent research shows that more than 85% of consumers want to receive gift cards but less than half of consumers plan to give gift cards because they feel that it is an impersonal gift. Smart retailers will find ways to make the gift card more attractive because they know that they will not only get the sale from the giver but the recipient will likely add to the face value of the card when they redeem it.

ONLINE

Non-travel sales online grew 21% last year and are expected to slow down but grow between 6% and 10% over the holiday period. Clearly this is an area that requires special attention. While there may be areas that can be cut in your direct sales division, tread carefully. While there may be some inefficiencies in online divisions, the real savings could come from moving from old media e.g., newspapers, flyers, and catalogs to new media. Shoppers will be using the internet this season to get information and to shop before they head into stores as well as buying directly from sites. Immediate tactics that smart online retailers will be using are couponing and free shipping. Couponing can be used for both online purchases and to bring customers into the store. Free shipping is a cost of entry for the holiday season even if it requires a minimum purchase because your competitors will be doing it and the customer wants it.

In the new year, direct retailers should be looking at their business from end to end including strategy, organizational design, sales model, cross channel assets, and operations. This area of the business still presents the best opportunity to grow sales.

THE CONTRADICTION

The best retailers will react to these tough times by controlling and cutting costs while reinvesting in building the business and the brand. They will see the opportunities to grab market share by growing when their competitors cannot.

RETAILER CHECKLIST

- RECOGNIZE VALUE IS MORE THAN PRICE**
- FINE-TUNE TACTICS BY REGION AND STORE**
- SAVE TIME AND REDUCE CONFUSION FOR CONSUMERS**
- EXTEND RETAIL HOURS**
- PROMOTE GIFT CARDS**
- EXTEND SALES AND PROMOTIONS**
- ENSURE YOUR STAFF IS IN-TUNE WITH THE BRAND AND STORE STRATEGY**
- UNDERSTAND YOUR CONSUMERS' CONCERNS DURING THE STATE OF THIS ECONOMY**

IF YOU WANT TO DISCUSS HOW THESE STRATEGIES APPLY SPECIFICALLY TO YOU CALL US: 312.673.1254 OR 416.921.4181

Retail Sales by Store Category

Sales for the Month of October	2008	2007	2008/2007
All Stores	360,037	372,495	-3.3%
Motor Vehicle and Parts Dealers	57,785	75,367	-23.3%
Gasoline Stations	39,155	38,757	1.0%
Food and Beverage Stores	49,858	46,742	6.7%
Grocery Stores	44,528	41,844	6.4%
Health and Personal Care Stores	20,985	20,131	4.2%
Building Material and Garden Equipment Stores	28,297	28,862	-2.0%
General Merchandise Stores	47,724	46,110	3.5%
Department Stores (excluding leased departments)	15,528	16,400	-5.3%
Clothing and Accessories Stores	17,371	17,913	-3.0%
Furniture, Home Furnishings, Electronics and Appliance Stores	16,390	18,164	-9.8%
Furniture and Home Furnishing Stores	8,491	9,787	-13.2%
Electronics and Appliance Stores	7,899	8,377	-5.7%
Sporting Goods, Hobby, Book and Music Stores	6,296	6,518	-3.4%
Miscellaneous Store Retailers	10,209	10,129	0.8%
Nonstore Retailers	26,600	26,407	0.7%
Food Services and Drinking Places	39,367	37,395	5.3%

Year to Date Sales Ending October	2008	2007	2008/2007
All Stores	3,740,829	3,671,371	1.9%
Motor Vehicle and Parts Dealers	704,289	781,201	-9.8%
Gasoline Stations	435,601	367,743	18.5%
Food and Beverage Stores	487,764	460,139	6.0%
Grocery Stores	438,126	412,755	6.1%
Health and Personal Care Stores	203,764	195,988	4.0%
Building Material and Garden Equipment Stores	280,096	286,518	-2.2%
General Merchandise Stores	471,255	450,924	4.5%
Department Stores (excluding leased departments)	153,424	159,227	-3.6%
Clothing and Accessories Stores	173,548	172,528	0.6%
Furniture, Home Furnishings, Electronics and Appliance Stores	176,405	181,720	-2.9%
Furniture and Home Furnishing Stores	89,997	96,748	-7.0%
Electronics and Appliance Stores	86,408	84,972	1.7%
Sporting Goods, Hobby, Book and Music Stores	68,744	67,291	2.2%
Miscellaneous Store Retailers	98,157	97,172	1.0%
Nonstore Retailers	256,567	242,134	6.0%
Food Services and Drinking Places	384,639	368,013	4.5%

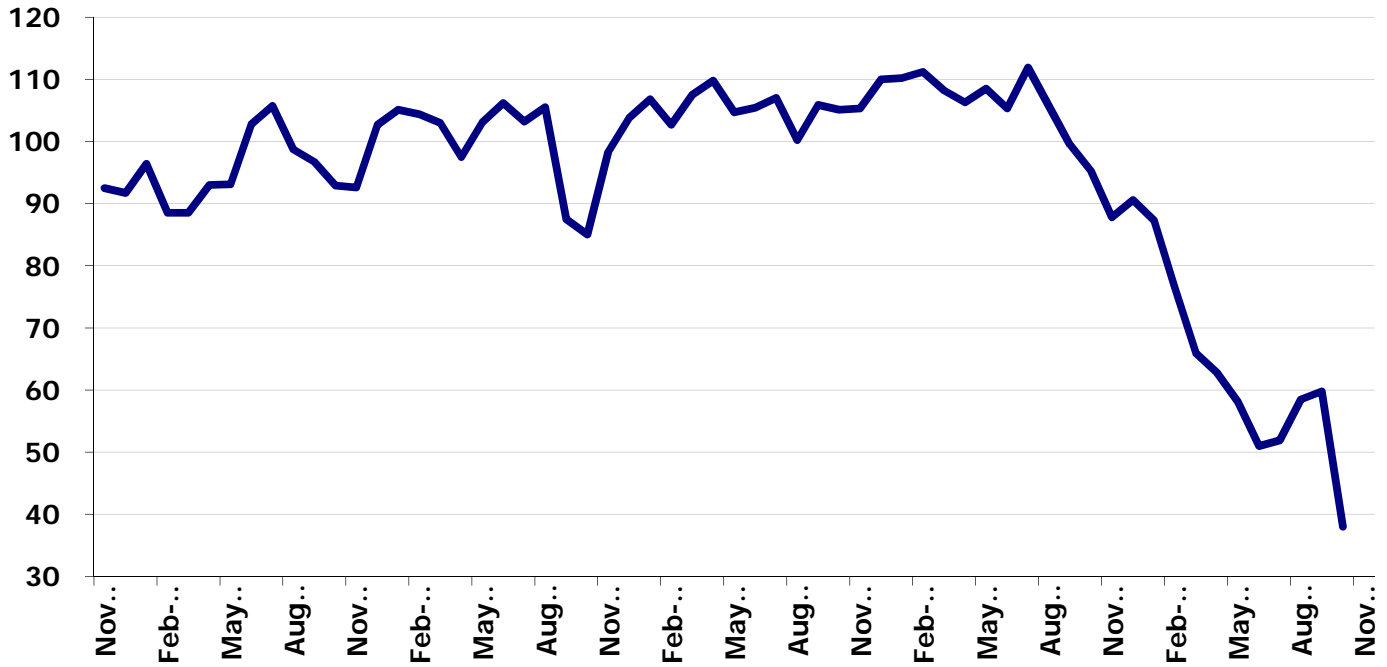
Source: US Census Bureau. All Values are expressed in millions of US dollars and are not seasonally adjusted

Retail Sales by Store Category

Revised Year to Date Sales Ending September	2008	2007	2008/2007
All Stores	3,380,792	3,298,876	2.5%
Motor Vehicle and Parts Dealers	646,504	705,834	-8.4%
Gasoline Stations	396,446	328,986	20.5%
Food and Beverage Stores	437,906	413,397	5.9%
Grocery Stores	393,598	370,911	6.1%
Beer, Wine and Liquor Stores	30,235	28,295	6.9%
Health and Personal Care Stores	182,779	175,857	3.9%
Pharmacies and Drug Stores	151,347	147,261	2.8%
Building Material and Garden Equipment Stores	251,799	257,656	-2.3%
Building Material and Supplies Stores	213,709	225,689	-5.3%
Hardware Stores	15,832	15,629	1.3%
GAFO (general merchandise, apparel, furniture, and other)	832,494	815,323	2.1%
General Merchandise Stores	423,531	404,814	4.6%
Department Stores (excluding leased departments)	137,896	142,827	-3.5%
<i>Discount Department Stores (excluding leased departments)</i>	86,972	88,700	-1.9%
<i>Conventional and National Dept. Stores (ex. Leased depts.)</i>	50,924	54,127	-5.9%
Warehouse Clubs and Superstores	253,983	231,813	9.6%
All Other General Merchandise Stores	31,652	30,174	4.9%
Clothing and Accessories Stores	156,177	154,615	1.0%
Men's Clothing Stores	7,215	7,200	0.2%
Women's Clothing Stores	28,312	28,470	-0.6%
Family Clothing Stores	58,924	58,690	0.4%
Shoe Stores	19,682	19,270	2.1%
Jewellery Stores	19,717	19,300	2.2%
Furniture, Home Furnishings, Electronics and Appliance Stores	160,015	163,556	-2.2%
Furniture Stores	44,488	46,900	-5.1%
Home Furnishing Stores	37,018	40,061	-7.6%
Household Appliance Stores	12,961	13,223	-2.0%
Radio, TV and Other Electronics Stores	47,688	45,269	5.3%
Computer and Software Stores	15,263	15,655	-2.5%
Sporting Goods, Hobby, Book and Music Stores	62,448	60,773	2.8%
Sporting Goods Stores	27,875	26,724	4.3%
Book Stores	11,153	10,170	9.7%
Miscellaneous Store Retailers	87,948	87,043	1.0%
Nonstore Retailers	229,967	215,727	6.6%
Electronic Shopping and Mail-Order Houses	156,396	149,103	4.9%
Fuel Dealers	39,577	32,014	23.6%
Food Services and Drinking Places	345,272	330,618	4.4%

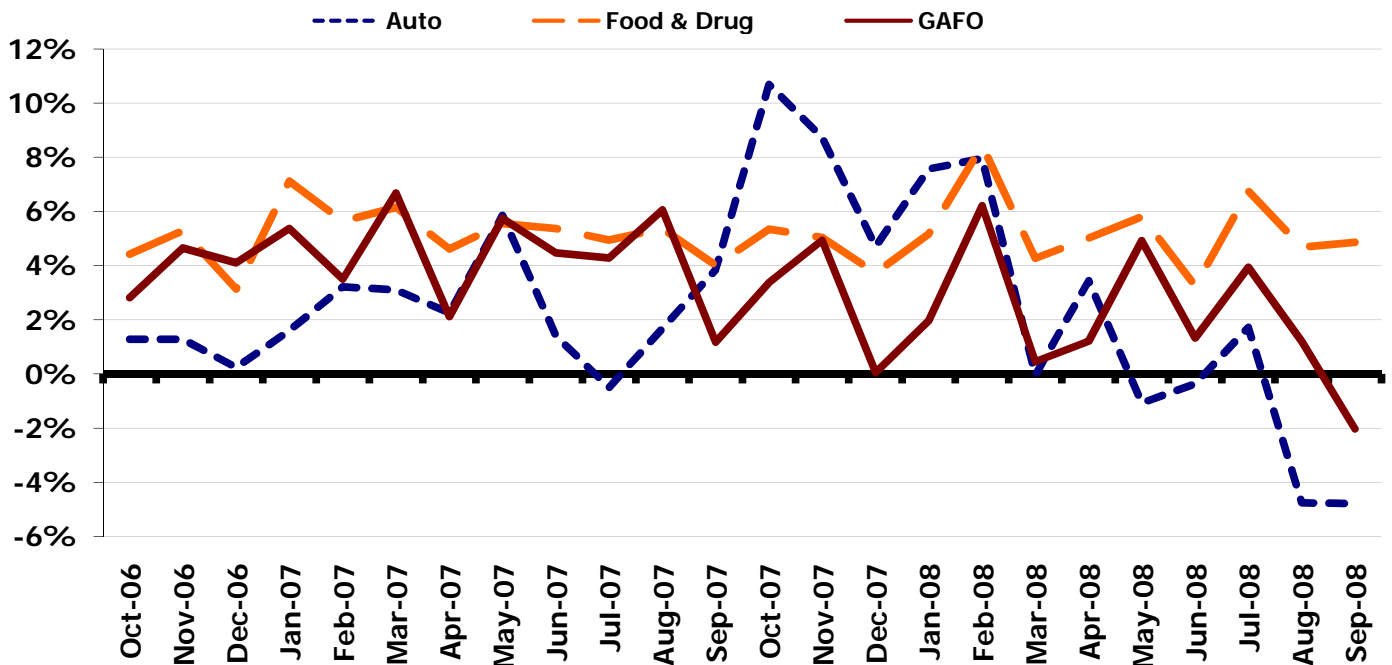
Source: US Census Bureau. All Values are expressed in millions of US dollars and are not seasonally adjusted

U.S. Consumer Confidence Index



Source: U.S. Conference Board

U.S. Monthly Retail Sales by Major Category Percentage Change from Same Month, Previous Year



Source: U.S. Census Bureau