

Bulletin

September 2008 Retail Sales • Released November 25, 2008

CONSUMERS PURSUE VALUE IN SEPTEMBER

Consumer confidence held steady in September with a nominal increase to 87.5 points, and although the positive results may not hold, they provide insight into consumers' changing priorities.

September showed that consumers had money to spend; however, they are tightening their belts and spending at retailers where they feel they get the greatest value for their money. The increased pursuit of value in combination with aggressive promotions and discounts has benefited General Merchandise Stores, who saw a healthy 6.5% increase for the month.

General Merchandisers such as Sears Canada, whose cost cutting and reduction of prices contributed to a Q3 revenue increase of 5.5%, and Wal-Mart, whose performance in Canada has clearly been positive as they continue their aggressive Superstore expansion, were clear winners.

The -1.4% decline in Clothing and Accessories may be indicative of a value conscious consumer shifting their purchases to General Merchandising Stores. As a result, high-end clothing stores have suffered.

Sporting Goods, Hobby, Music, and Book Stores may have also felt the effects, achieving only a soft 0.2% growth.

Other winners include Furniture, Home Furnishings and Electronics Stores, who had a notable 5.8% increase. This increase was primarily driven by the Computer, Software, Home Electronics, and Appliance Stores, whose product offerings may have been attractive to the back-to-school market.

As spending becomes tighter, retailers dealing with consumer staples are also likely to benefit. Pharmacies and Personal Care Stores improved by 4.2%, while the sub-categories Supermarkets and Convenience and Specialty Food Stores also saw modest increases of 1.4% and 1.7% respectively.

In stark contrast to the U.S., the Automotive category saw a 10.5% increase from a bump in sales, which may be attributed to an increased demand for fuel-efficient vehicles given the high price of gasoline.

Despite being bombarded with bleak economic outlooks and negative news, retailers that we have spoken to indicated retail sales are holding up. As competition gets fiercer and consumer priorities change, this special edition of the *National Retail Bulletin* includes a supplement to help retailers retain their ground and stay successful into the holiday season and beyond.

RELEASE DATE OF THE NEXT NATIONAL RETAIL BULLETIN
December 18, 2008

Please note:

The J.C. Williams Group National Retail Bulletin compares the latest monthly release of "raw" (i.e., unadjusted for seasonality) retail sales figures to those in the *same calendar month of the previous year*. Statistics Canada 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.

RETAIL SUCCESS IN TOUGH TIMES

NRB SUPPLEMENT

CANADIAN DATA – RELEASED NOVEMBER 25, 2008

RETAIL SUCCESS IN TOUGH TIMES

Those of you who get the U.S. version of the National Retail Bulletin will be familiar with this supplement, as we included a similar one in our release this month. The purpose of this supplement is to help readers distinguish between reality and all the hype that is going on right now. It seems that the news media and stock market analysts are vying for the most incendiary headlines. We at the National Retail Bulletin would like to bring some rational thinking to the debate that is going on.

The most important thing to note for retailers operating in Canada is that there are distinct differences between the Canadian and U.S. retail environments. While we do not have the October retail numbers for Canada, and will not for another month, our sources within the retail community tell us that retail sales outside the auto sector have not declined dramatically and, in some cases, are showing healthy growth. Our concern now is that retailers may start acting like sales are going to nosedive, creating the very situation that they are worried about by cutting back on inventories and staff. We would like to start with the numbers that were released today.

THE FACTS AND OUTLOOK

September 2008 retail sales grew above those of September 2007 by 5.6%, but non-automotive sales posted an increase of 3.2% coming below the year-to-date growth of 4.1%. Sales momentum has gradually decelerated over the year. In the first quarter, total sales grew at 6.0% over Q1 2007, with non-automotive sales growing at 4.6%. Most categories grew by more than 4% except for Clothing and

Accessories stores and leisure products (sporting goods, hobby etc.), which have had a challenging 2008.

This month, we can see that the General Merchandise category, which includes the discounters, the department stores and stores like Costco, are all experiencing increased growth. While this is similar to the U.S., other Canadian trends are very different. While there is the theory that we will follow the U.S. trends in six months, it is important to make sure that we do not assume that they are the same now.

No one is saying that retailers should not be concerned but it is critical to look at the fact that not all commodities are affected in the same way. For example, general merchandise and pharmacy sales are holding up, while clothing and accessories are getting hit. It is also clear that some retailers like Wal-Mart are doing very well in this climate, others are suffering. 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 October of last year when it was above 100 and now stands at 71. While this measure is obviously affected by real issues such as job losses which have not hit the levels seen in the U.S. and decreases in the stock market, even consumers who are in good shape are being bombarded by negative stories.

Unlike American consumers, some Canadians are actually talking about spending more money this Christmas than last. A recently released survey by Deloitte suggests that more than half of Canadians are planning to spend the same or more this Christmas while 40% are planning to spend less. In another study released by Maritz, the research company suggests that Canadians plan to spend 14% less this Christmas than last year. These opposing results suggest that Canadian consumers are conflicted about their shopping and will likely only really know when they actually start spending.

These studies stand in stark contrast to U.S. surveys that consistently suggest much higher numbers of customers cutting back. This does not mean that it should be business as usual for retailers, as we can see a new thriftiness that is shaping customers' shopping behaviour on both sides of the border. Excessive spending is out and frugality is in.

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 to make sure this is done wisely. This is not the time to risk abandoning a previously successful strategy because of the perceived need to make short term cuts. Here is our roadmap to grab the opportunities that are still out there.

Bulletin

THE CUSTOMER

The Canadian consumer is very nervous right now and waiting to see what will happen here. 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. GAP has cut television spend but will concentrate on in-store marketing. Stores like Coach and Holt Renfrew are implementing creative displays to put shoppers in the holiday mood.

VALUE

As part of this new thriftiness, all customers will be looking for value. This does not mean cutting prices. Think about what worked in the past. U.S. stores like T.J.Maxx and Kmart are bringing back layaways so that customers can get what they want but not use their credit cards. Another "blast from the past" is 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 U.S. 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 centre?

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 them 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

Recently released data from Statistics Canada shows that online sales grew by 61% between 2005 and 2007 to a total of \$12.8 billion. While the magnitude of those gains is unlikely to be repeated this year, we are expecting double digit increases in 2008. Clearly this is an area that requires special attention. Shoppers will be using the internet this season to get information, to research before they head into stores, and to buy directly from sites. Immediate tactics that smart on-line 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 2009, direct and multi-channel retailers should be looking at their business from end to end including strategy, organizational design, sales model, cross channel assets, and operations. Those areas of the business present the best opportunity for higher sales growth.

THE CONTRADICTION

The best retailers will react to these consumer attitude changes by controlling costs while reinvesting in building the business and the brand. They will see the opportunities to grab market share by growing when their competitors are frozen by fear.

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

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

Retail Sales by Store Category

Sales for the Month of September	2008	2007	2008/2007
All Stores	35,826,591	33,916,462	5.6%
Automotive	12,499,829	11,314,929	10.5%
All Stores Less Automotive	23,326,762	22,601,533	3.2%
Food and Beverage Stores	7,733,817	7,681,207	0.7%
Pharmacies and Personal Care Stores	2,407,080	2,310,954	4.2%
All Stores Less Automotive, Food, Pharmacies	13,185,865	12,609,372	4.6%
General Merchandise Stores	4,100,639	3,848,796	6.5%
Furniture, Home Furnishings and Electronics Stores	2,668,485	2,521,764	5.8%
Furniture and Home Furnishings Stores	1,431,212	1,379,610	3.7%
Computer, Software, Home Electronics, and Appliance Stores	1,237,273	1,142,154	8.3%
Clothing and Accessories Stores	1,996,180	2,024,545	-1.4%
Clothing Stores	1,549,347	1,575,747	-1.7%
Shoes, Clothing Accessories, and Jewellery Stores	446,833	448,798	-0.4%
Sporting Goods, Hobby, Music, and Book Stores	902,791	901,186	0.2%
Building and Outdoor Home Supplies Stores	2,559,719	2,390,919	7.1%
Miscellaneous Store Retailers	958,050	922,163	3.9%

Year to Date Sales Ending September	2008	2007	2008/2007
All Stores	317,264,186	302,985,332	4.7%
Automotive	115,019,953	108,689,635	5.8%
All Stores Less Automotive	202,244,233	194,295,697	4.1%
Food and Beverage Stores	70,144,321	67,847,838	3.4%
Pharmacies and Personal Care Stores	21,385,902	20,611,782	3.8%
All Stores Less Automotive, Food, Pharmacies	110,714,010	105,836,077	4.6%
General Merchandise Stores	35,840,551	33,682,147	6.4%
Furniture, Home Furnishings and Electronics Stores	22,098,428	20,862,787	5.9%
Furniture and Home Furnishings Stores	12,047,271	11,579,721	4.0%
Computer, Software, Home Electronics, and Appliance Stores	10,051,157	9,283,066	8.3%
Clothing and Accessories Stores	16,504,711	16,273,042	1.4%
Clothing Stores	12,705,880	12,491,864	1.7%
Shoes, Clothing Accessories, and Jewellery Stores	3,798,831	3,781,178	0.5%
Sporting Goods, Hobby, Music, and Book Stores	7,472,752	7,229,667	3.4%
Building and Outdoor Home Supplies Stores	20,777,121	20,048,656	3.6%
Miscellaneous Store Retailers	8,020,446	7,739,781	3.6%

ALL DOLLAR VALUES EXPRESSED IN THOUSANDS OF CANADIAN DOLLARS; UNADJUSTED FIGURES; SOURCE: STATISTICS CANADA

17 Dundonald Street, 3rd Floor, Toronto, ON M4Y 1K3 Tel: (416) 921-4181 Fax: (416) 921-4184 Website: www.jcwg.com

Montreal Office: 780 Main Road, Montreal, Quebec J0P 1H0. Tel: (450) 458-2870 Fax: (450) 458-2905

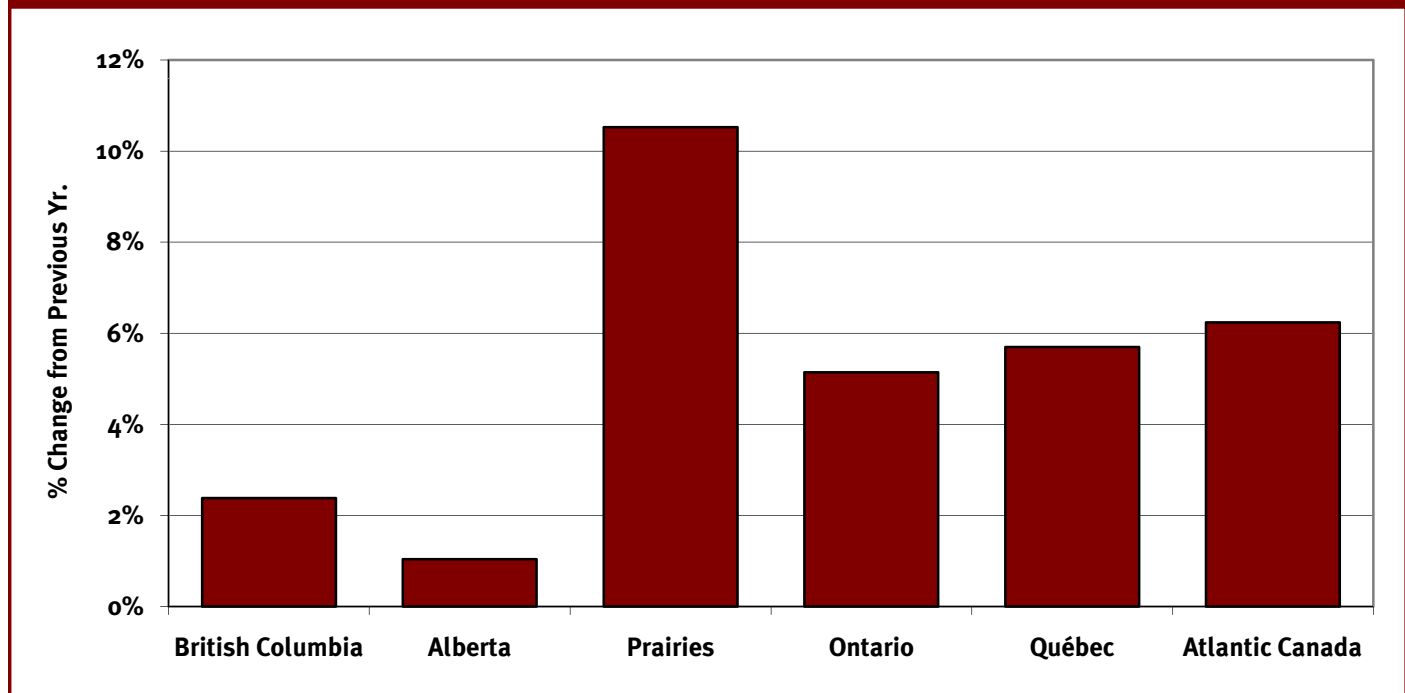
Chicago Office: 350 West Hubbard Street, Suite 240, Chicago, IL 60610 Tel: (312) 673-1254 Fax: (312) 822-9162

For more information, please contact John Archer or Maureen Atkinson at (416) 921-4181 or info@jcwg.com

Retail Trade, Canada, All Stores, by Region

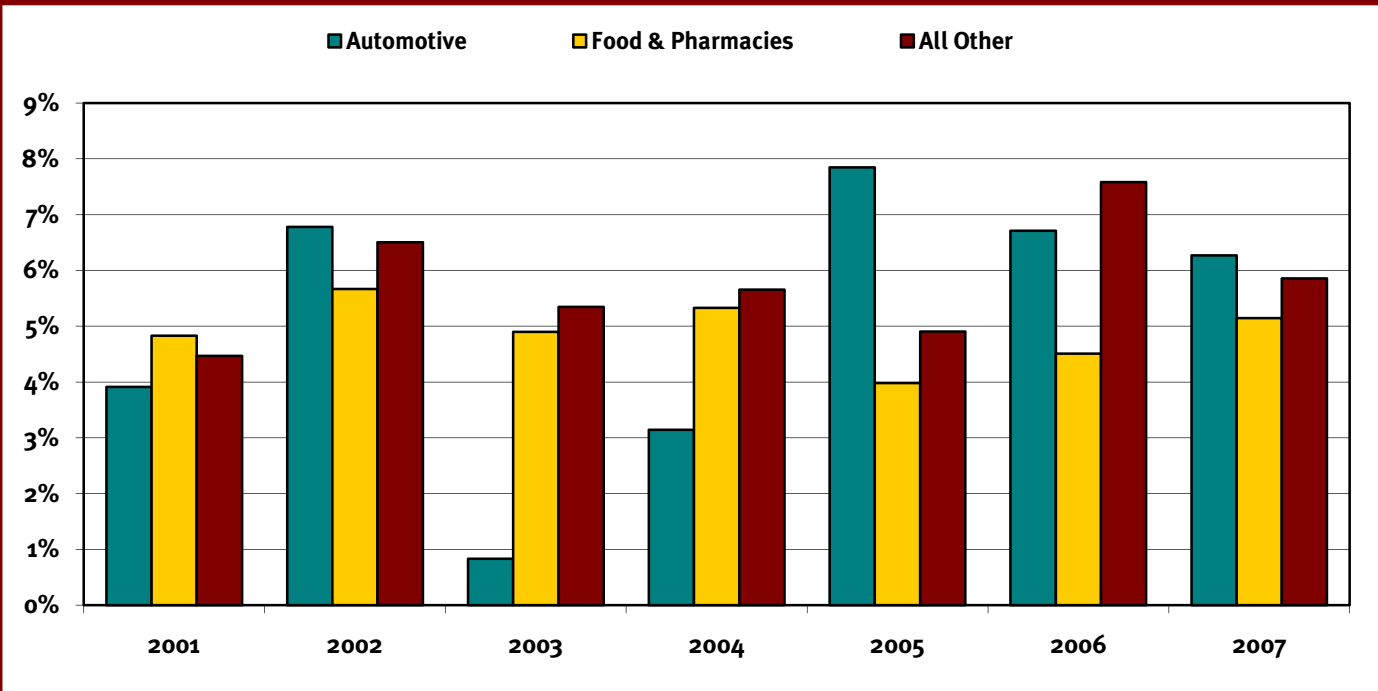
	Year-to-date 2008	Same period 2007	Change 2008/2007
British Columbia	42,463,372	41,475,715	2.4%
Alberta	45,725,345	45,255,668	1.0%
Prairies	21,747,684	19,676,368	10.5%
Ontario	112,262,263	106,773,727	5.1%
Québec	71,230,827	67,389,840	5.7%
Atlantic Canada	22,668,248	21,337,731	6.2%

**Percentage Change in Retail Trade, All Stores, By Region
Year-to-date Compared to Same Period Last Year**

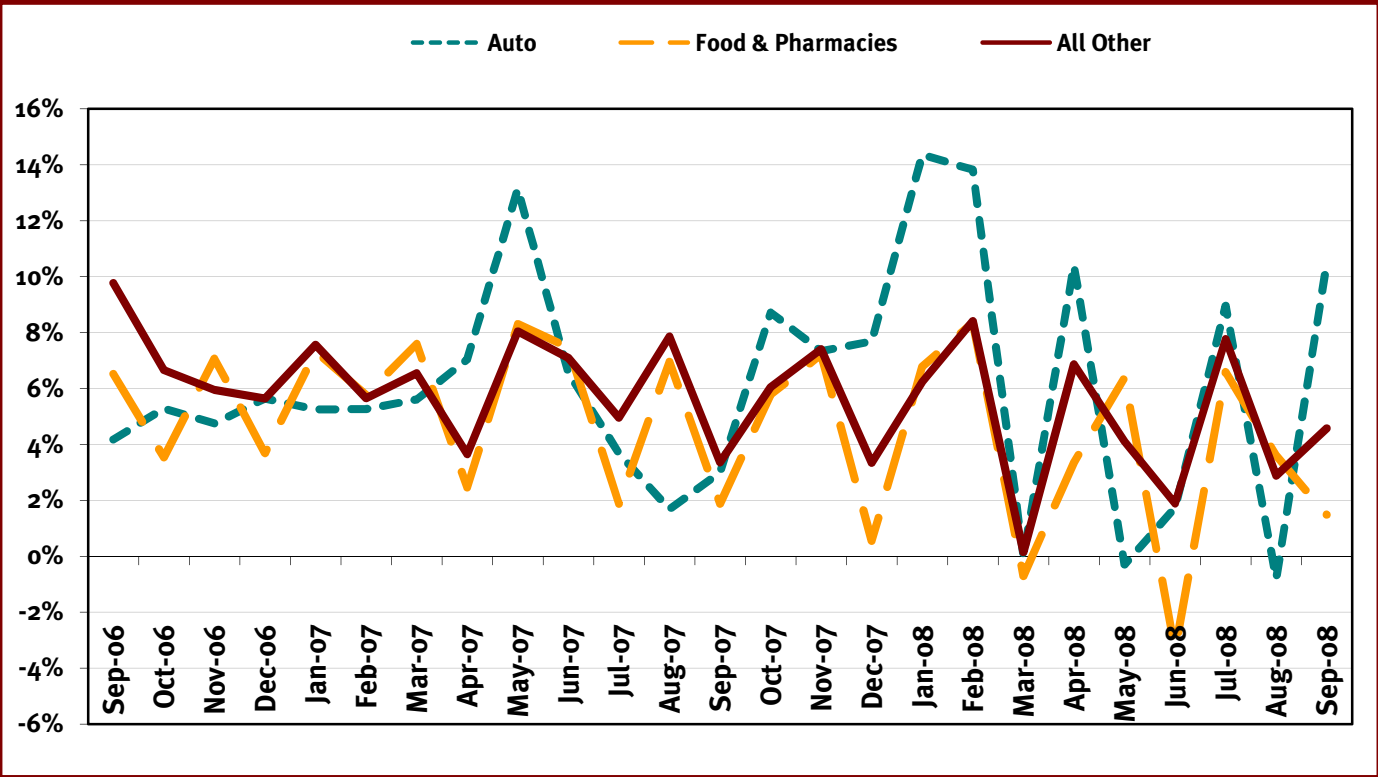


For more detailed information on retail sales, please contact J.C. Williams Group

Canadian Retail Sales by Major Product Category, Year Over Year



Canadian Retail Sales by Major Product Category, From the Same Month a Year Earlier



Consumer Price Index

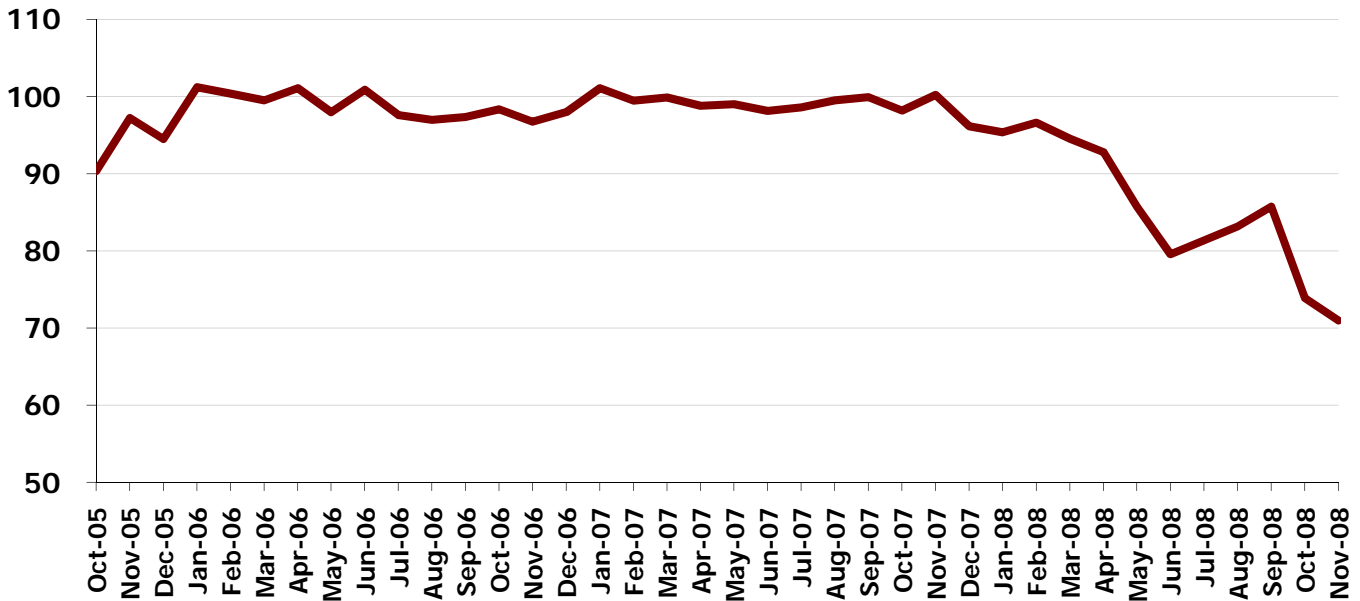
September 2008

vs.

September 2007

2.6%

Canadian Consumer Confidence Index (1985 = 100)



Canadian Consumer Expenditures Index (Q1 2003 = 100)

