



To: US Retail Partners
From: Darrell Rigby and Kris Miller

Preliminary sales results for the 2008 holiday season are in, and the news is even worse than expected. Retail sales for November and December dropped 4.4% versus 2007, well below forecasts. This figure is based on preliminary US Census Bureau estimates for November GAFO sales growth of -4.3% and December GAFS sales growth of -4.6% versus the same months last year.¹ This is the bleakest holiday performance in 40 years of collecting data and the first time that growth has been negative during the holidays.

With the 2008 holiday season over, we turn our attention to the new year. We close our final newsletter of the season with a brief discussion of what to expect in 2009. We also offer suggestions on some of the priorities retailers should consider as they head into what is sure to be a difficult year . . . or more.

Retail holiday sales fell for the first time in 40 years

Most forecasts predicted flat or slightly positive holiday sales. But preliminary US Census Bureau data indicate that sales growth in November and December fell significantly short of those predictions, down 4.4% over 2007, almost 9 percentage points below the 1998–2007 average sales growth of 4.4%.² This marks the first time we've seen negative growth over a holiday season in 40 years of tracking holiday sales (*Chart 1*). Worse yet, weak holiday sales in 2008 were driven largely by heavy discounting, which means they likely came with significantly lower margins.

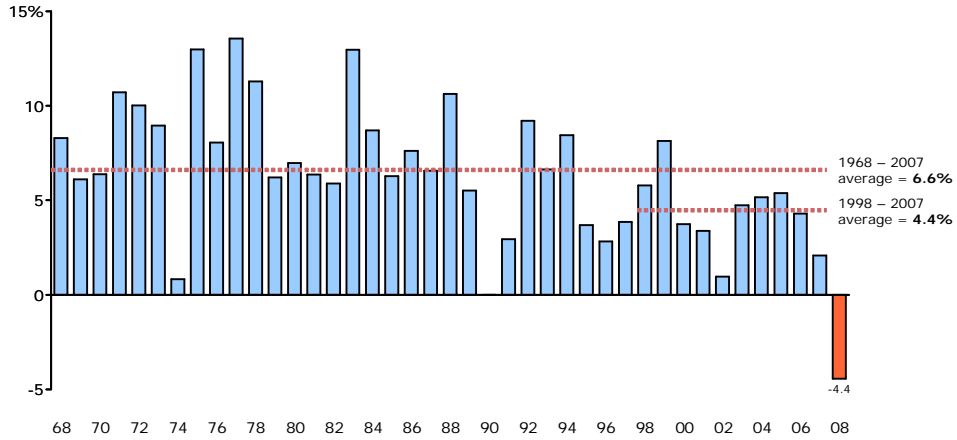
Following dismal November GAFO sales growth of -4.3% versus November 2007, December GAFS sales growth came in at an even lower -4.6%, the worst monthly performance on record. And it was the fourth consecutive month of negative growth, a trend never before observed. Full-year GAFO sales growth in 2008 was just 0.4%, the lowest annual rate in the last 40 years and well below the 10-year average of 5.0% (*Chart 2*).

¹ See Chart A in the Appendix for definitions of GAFS, GAFO and other sales measures.

² The 2008 sales figure is based on the Census Bureau's advance numbers for December GAFS sales and preliminary November GAFO sales. (Preliminary December GAFO sales data are not released until February.)

Chart 1:

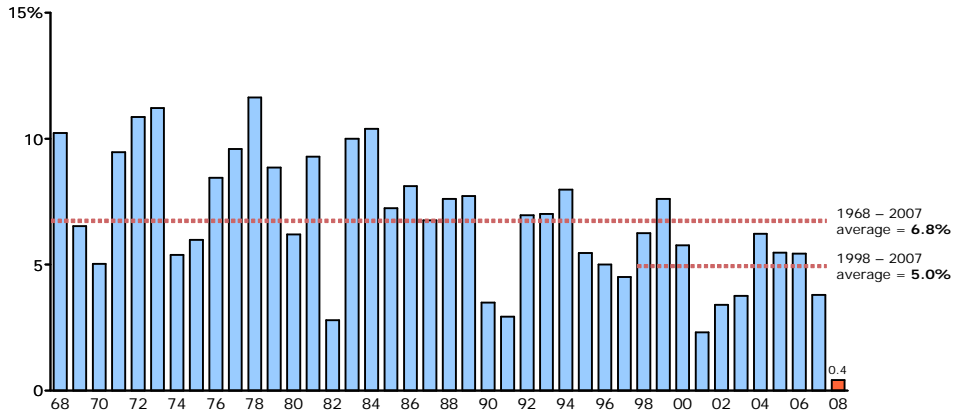
**Holiday GAFO sales growth,
1968-2008**



Note: *Holiday* is defined as November and December; 08 growth rate calculated with November GAFO and December GAFS for both years; 1968-1978 growth rates shown are for GAF excluding miscellaneous shopping goods stores; 1979-1992 growth rates shown are for GAF; 1993-2007 growth rates shown are for GAFO; 2008 growth rate shown is for November GAFO and December GAFS; average difference between Nov-Dec growth rate for GAF and GAF excluding miscellaneous shopping goods is 0.6 percentage points; average difference between GAF and GAFO is 0.4 percentage points
Source: US Census Bureau

Chart 2:

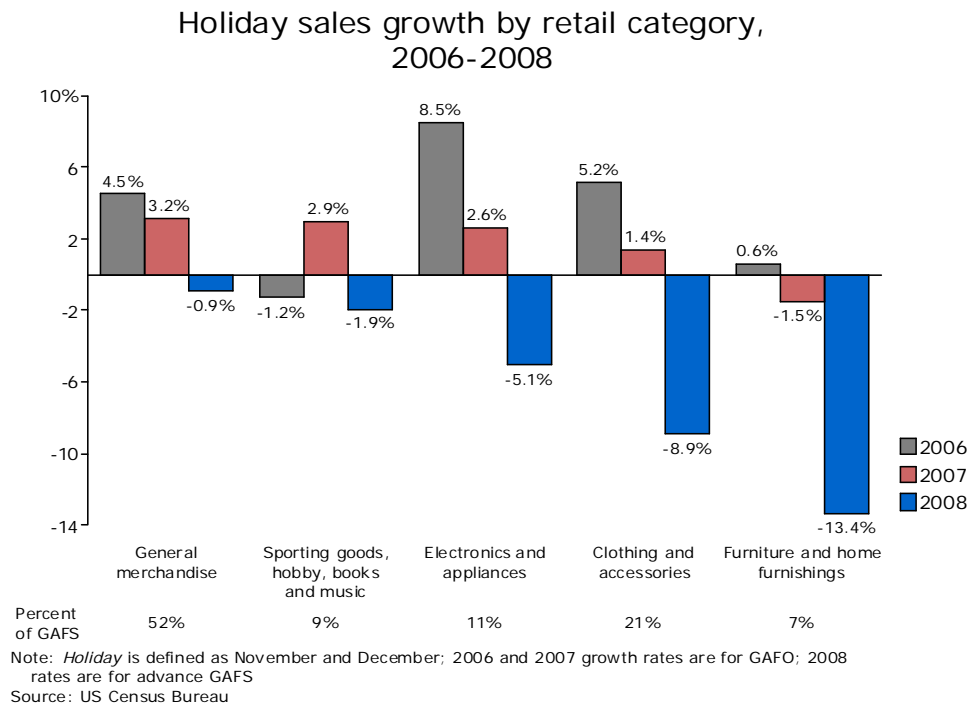
**Annual GAFO sales growth,
1968-2008**



Note: 1968-1978 annual growth rates shown are for GAF excluding miscellaneous shopping goods stores; 1979-1992 growth rates shown are for GAF; 1993-2007 growth rates shown are for GAFO; 2008 growth rate shown is for January-November GAFO and December GAFS
Source: US Census Bureau

The general merchandise segment, which accounts for half of GAFO sales, experienced the strongest performance in November and December but still came in negative, falling 0.9% versus 2007 (*Chart 3*). That drop would have been substantially larger if not for the positive influence of Wal-Mart and other discounters and warehouse clubs that benefited from increased bargain hunting among shoppers. Excluding the general merchandise segment, retail sales would have declined 7.7%.³

Chart 3:



Sporting goods, hobby, books and music saw the second best results in November and December, falling just 1.9% year over year. This was the only sector with positive growth in December, but its 6.0% drop in November lowered total holiday growth below zero.

Electronics and appliances, which outperformed all other sectors last holiday season and saw consistently positive growth through July 2008, fell 5.1% year over year this holiday season. A few must-have items, like the Nintendo Wii and Apple iPhone, were difficult to keep in stock but were not enough to boost the category’s results.

Clothing and clothing accessories dropped 8.9% versus last year. Holiday growth in this segment has been consistently slowing from its peak growth rate of 7.1% in 2005, and it turned negative this season.

The worst-performing category this year was again furniture and home furnishings: Year-over-year sales dropped 13.4% in this category in November and December, a reflection of ongoing difficulties in the housing market.

³ YOY change in GAFO excluding general merchandise over combined November and December.

Retail's weak finish to 2008 won't be bolstered by gift card redemptions in early 2009. Annual sales of the popular cards fell by an estimated 13% in 2008, from \$70 billion to \$61 billion, according to a recent report by TowerGroup. Retailers rely on gift cards for postholiday purchases that historically exceed the value of gift cards by 25% to 35%. Clearly they won't be earning as many of these bonus bucks this year. Deep price cuts convinced shoppers to choose heavily discounted merchandise over gift cards this holiday season. Also a factor in lower gift card sales: Retailer bankruptcies left some consumers concerned about losing the value of the cards entirely.

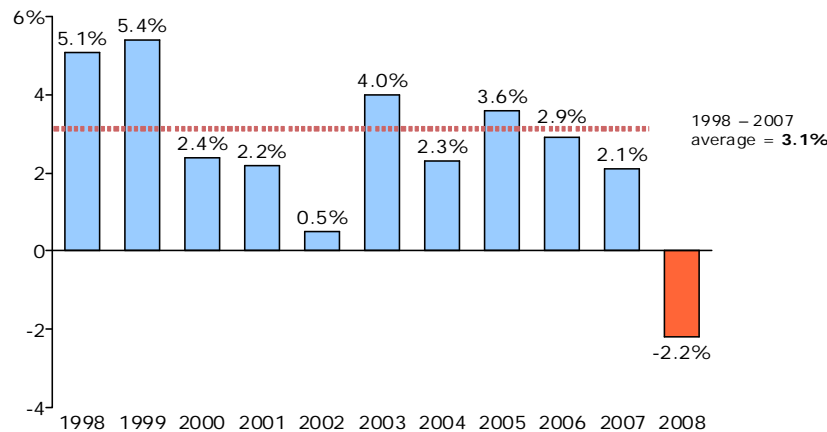
Same-store sales tumbled for most retailers over the holidays

Same-store sales for the 2008 holiday season were down 2.2% (*Chart 4*). Historically, same-store sales growth has been approximately 1.5 to 2.0 percentage points below total sales growth. The fact they were higher than total sales this holiday season suggests that new stores contributed far less, and increased closures of existing stores further depressed this figure.

The 2.2% same-store sales growth was both the lowest holiday growth rate and the first instance of negative growth over a holiday season since the data were first tracked by the International Council of Shopping Centers (ICSC) in 1969. The ICSC initially forecast holiday same-stores sales growth of 1.0%. But after observing the bleak November results – when same store sales fell by 2.7%, the sharpest drop in recorded history – the organization revised its forecast downward to –1.0%. Even that revised forecast proved too optimistic when December's results – a drop of 1.7% – turned out to be only slightly better than November's. The decrease in December is particularly notable because it was off of an already weak base: Sales in December 2007 grew just 0.7% over 2006.

Chart 4:

Year-over-year same-store holiday sales growth, 1998-2008



Source: ICSC

Although the overall picture was bleak, warehouse clubs and discounters continued to show positive same-store sales growth throughout December, up 1.6% and 0.4% respectively. All other retail sectors saw negative comparable-store sales growth for the month (*Chart 5*).

Chart 5:

December same-store sales growth by retail category, 2006-2008



Note: Warehouse clubs same-store sales growth rate excludes the effects of fuel prices in 2008 but not in 2006 and 2007
Source: ICSC

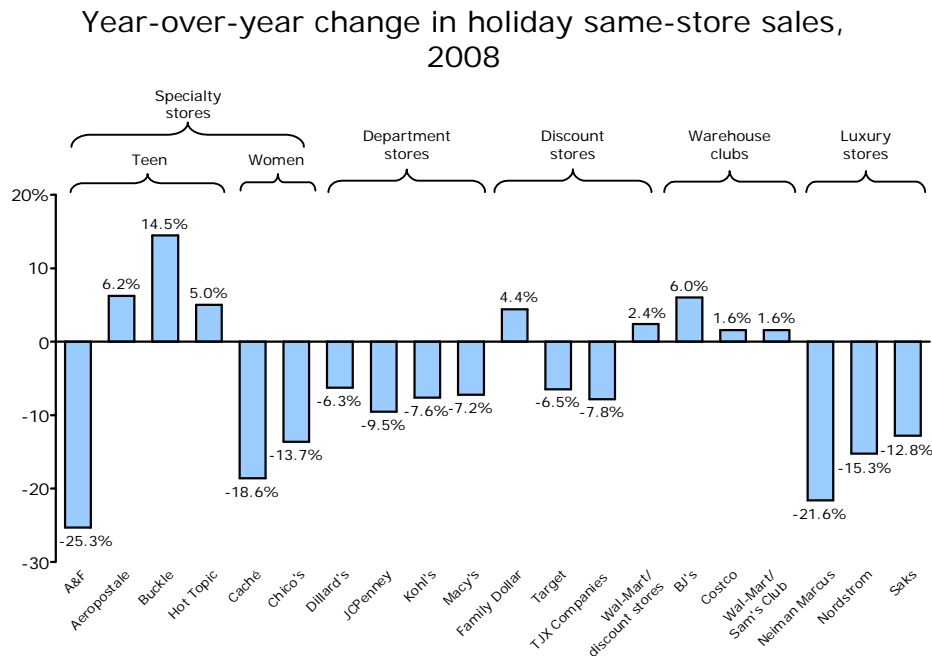
Warehouse clubs like BJ’s and Costco saw same-store sales grow through the holiday months as budget-conscious consumers turned to them for bulk buys and big discounts. Excluding the impact of fuel, BJ’s achieved November and December combined same-store sales growth of 6.0%, while Costco saw 1.6% growth (*Chart 6*). Among discount stores, Wal-Mart continued to post positive growth with a rate of 2.4% over the holiday season. But the top performer in the discounter category was Family Dollar, which achieved same-store sales growth of 4.4% in November and December, and raised its fiscal-year earnings guidance 11% last week.

Even within sectors with weak aggregate results, there were some “winners” this season. Although specialty apparel struggled significantly overall, falling 10.4% in November and 10.7% in December, some chains targeting teens realized strong sales growth during those difficult months. Buckle and Aeropostale, for example, who tend to be more price-competitive and more promotional than other retailers in the segment, enjoyed holiday same-store sales growth of 14.5% and 6.2% respectively (*see Chart 6*). But their higher-priced competitor, Abercrombie & Fitch, refused to match heavy discounts and saw same-store sales go down 25.3% across the holiday period.

Same-store sales in department stores in December were down 6.8%. December’s top performer was November’s weakest: Kohl’s saw same-store sales fall just 1.4% in December after tumbling 17.5% the previous month. Other department stores had higher YOY sales growth in December than November, in part due to Thanksgiving falling one week later this year, but all ended the holiday season down markedly. At

Dillard's and JC Penney, for example, same-store sales growth through the November-December period fell 6.3% and 9.5% respectively.

Chart 6:



Note: Figures represent average of November and December same-store sales growth weighted by individual stores' total monthly sales; Nordstrom includes full-line stores only; warehouse clubs exclude the effects of fuel prices
Source: Financo; ICSC

Luxury stores took the hardest hit in December, with same-store sales down 17.4%. Aggressive discounting by Saks helped the company's sales in November somewhat but may have cost it sales in December. The chain saw close to a 20% drop in December, yielding a 12.8% decrease in same-store sales across the two months. The results in this category show not only that the high-end marketplace is not insulated from recession, but also that it is among the more vulnerable sectors in this economic downturn.

Online sales set new records this season . . . mostly negative ones

Even online sales suffered this season. According to comScore, e-commerce spending fell 3% this season, to \$25.5 billion.⁴ This staggering drop represents the first period of negative growth since comScore began tracking online sales in 2001 (*Chart 7*).

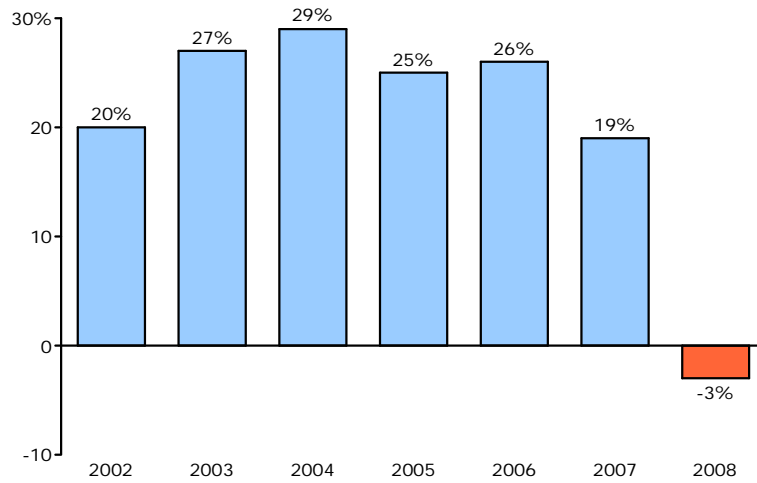
In hindsight, the holiday sales downturn was foreshadowed by declining monthly online sales growth. Beginning in May 2008, online sales growth slowed every month (*Chart 8*). Of course, there were moments when sales gave hope: Cyber Monday (on December 1) alone had sales of \$846 million, the second highest online shopping day of

⁴ *Holiday* includes e-commerce sales from November 1 through December 23, 2008, which are compared to the corresponding shopping days in 2007.

all time, up 15% from 2007. But the rest of the season fell short, with sales dropping 3% in November and again in December.

Chart 7:

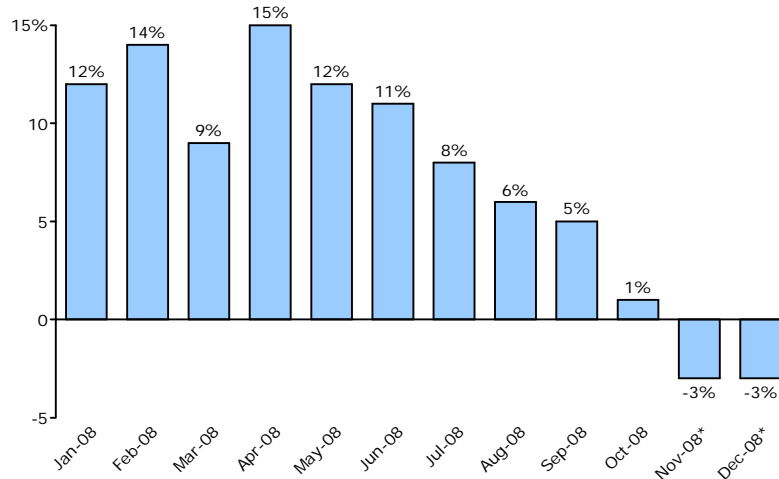
November and December online sales growth, 2002-2008



Note: The 2002-2006 data are for November 1 through December 31; the 2007 data are for November 1 through December 27; the 2008 data are for November 1 through December 23; excludes travel, auctions and large corporate purchases
Source: comScore

Chart 8:

Year-over-year online sales growth, 2008



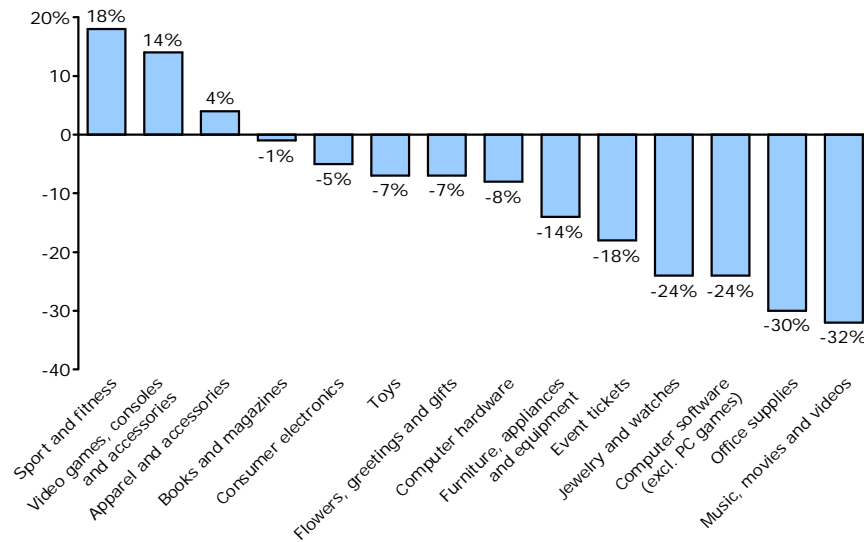
*comScore adjusts November and December data to incorporate yearly differences in the number of shopping days between Thanksgiving and Christmas
Note: Excludes travel, auctions, autos and large corporate purchases
Source: comScore

Despite weak overall growth, a number of e-tailers showed positive results over the holiday season. Amazon.com reported the holiday was its strongest ever, with more than 6.3 million items ordered on December 15, the company's peak day. That translates into a record-breaking 72.9 items ordered per second, surpassing Amazon.com's 2007 high of 62.5 items ordered per second. Furthermore, both Amazon.com and Apple enjoyed significantly increased traffic on their sites, up 7% and 19% respectively.

Three product categories had positive growth in December according to comScore (*Chart 9*). Sport and fitness increased 18% as consumers continued to be more health conscious and make larger fitness purchases online. Video games, consoles and accessories were up 14%, driven by continued demand for the Nintendo Wii, the Xbox 360, and the PlayStation 3. And apparel and accessories sales rose 4%, fueled by aggressive discounts and promotions.

Chart 9:

December online sales growth by category, 2008



Source: comScore

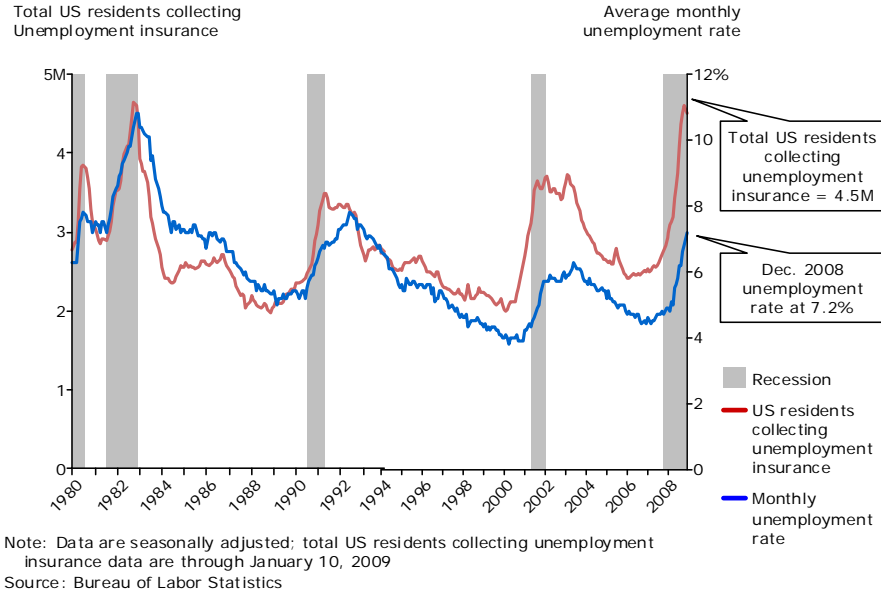
The dismal economy has paralyzed consumers

Deteriorating macroeconomic news continues to make headlines.⁵ Unemployment reached a 16-year high of 7.2% in December. A total of 2.6 million jobs were lost in 2008, the most in any year since World War II. And though jobless claims in the first two weeks of January were down from record highs in December, more US residents are collecting unemployment insurance than at any point in the last 25 years (*Chart 10*).

⁵ See the macroeconomic supplement for a complete set of macroeconomic data.

Chart 10:

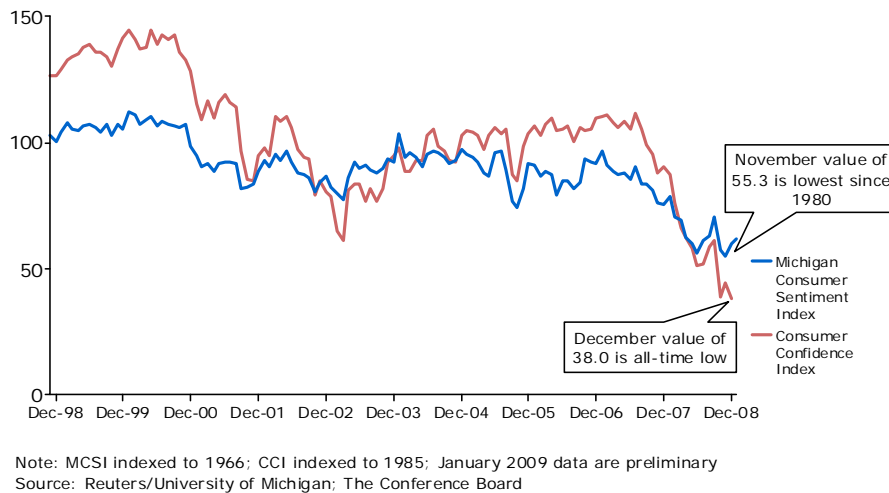
Unemployment rate and total US residents collecting unemployment insurance, 1980-2008



Unemployment has reduced personal income, which has continued to fall since the start of the recession. And while the consumer price index, food and beverage index, energy indices and gas prices have all dropped sharply from recent highs, lower prices are not doing much to improve consumers' outlook or reenergize spending. Consumer confidence fell to a record low of 38.0 in December, sliding below the previous record (38.8) set in October (*Chart 11*).

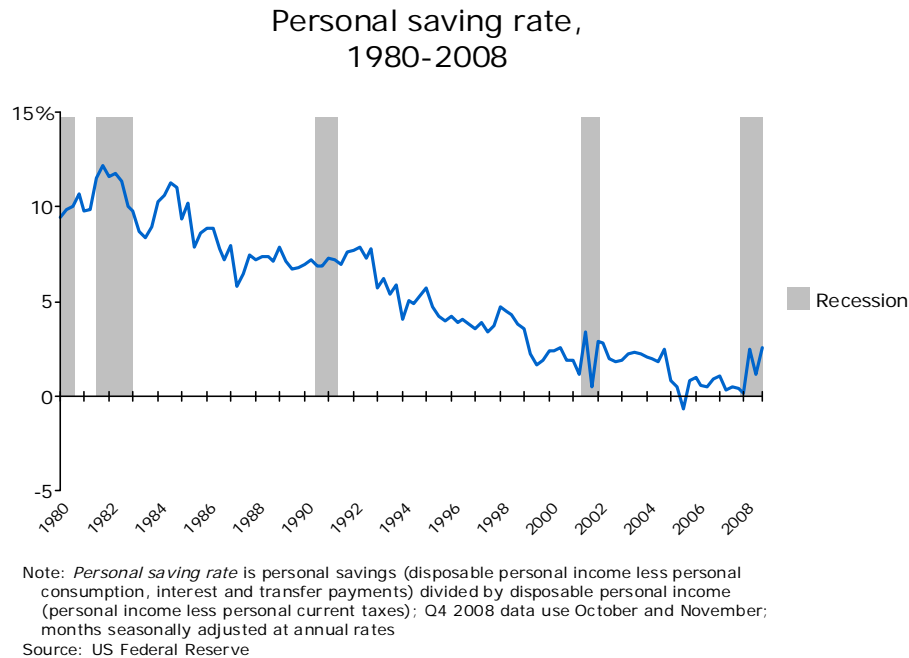
Chart 11:

Michigan Consumer Sentiment Index and Consumer Confidence Index, 1998-2009



All this has led frightened consumers to change one longstanding behavior: After moving downward for more than 20 years, the personal saving rate is up a bit. It reached 2.8% in November (*Chart 12*), which translates to an increase of almost \$300 billion of savings from January to November of 2008.

Chart 12:



Consumers may not be coming back anytime soon

This recession has impacted consumers more severely than other downturns in recent history. Consumers' income statements have been hit hard: Discretionary income and spending power have both dropped dramatically as unemployment continues to climb and banks continue to restrict credit and lending. Consumers' balance sheets also have been devastated by sharp declines in the value of home equity and other investments.

The emotional impact of these losses can be greater than the financial impact. And adding to the unprecedented volatility and uncertainty confronting consumers today is the barrage of deals and promotions from retailers over the last few months. This combination of factors has driven consumers to dramatically alter their shopping mindset:

- *Do I really need it?* More than ever, consumers are asking themselves if each purchase is truly a necessity. They are still buying items they need, and they still feel comfortable spending on cosmetics or gourmet chocolates or other small indulgences. But they are shopping more consciously, particularly when considering discretionary items, carefully evaluating options and making deliberate decisions about whether to purchase and at what price point. And we know they are cutting their spending. Witness the fact that the personal saving

rate has climbed to almost 3% (*see Chart 12*). Some economists expect the saving rate to range from 3% to 5% during 2009; Goldman Sachs believes it could go as high as 10%.

- *“Half off” is nothing special.* The proliferation of sale signs in stores throughout the holidays has conditioned consumers to expect extraordinary discounts. With many items reduced by 70% or more, shoppers are questioning what’s a good deal. Certainly paying full price seems unconscionable. In fact, many consumers now doubt the integrity of any initial price: “If stores discounted it 60% before, they can do it anytime they want to.” Retailers like J.Crew and bebe are reacting to this by reducing the price of some new spring merchandise. But not all retailers think price cutting is a good idea: Despite tumbling same-store sales, Abercrombie & Fitch is refusing to jump on the discount bandwagon.
- *Less is more.* The ostentatious spending that characterized the past few years is disappearing. Consumers are eliminating frivolous purchases, not only to save money, but also to avoid the scrutiny of others. The fashionista, always on top of the latest trends, is fast becoming a “recessionista,” looking for bargains, updating her wardrobe with accessories or shoes instead of new outfits, even borrowing from friends. One retailer that’s trying to capitalize on the new thrift is McDonald’s. In an effort to lure consumers away from Starbucks, the fast-food giant has mounted an ad campaign. One of its billboards, visible from Starbucks’ headquarters, simply reads: “Four bucks is dumb. Now serving espresso.”
- *Lock up those credit cards.* Charge now, pay later . . . no more. Consumers feel less comfortable funding their lifestyle with credit. A survey by *Consumer Reports* this showed that more than half of shoppers planned to rely less on credit this holiday season. Some retailers took immediate action: Sears and Kmart reintroduced layaway – a service first offered during the Great Depression – to support consumers’ shift to cash but still enable them to shop for more-expensive items. Teen apparel retailer, Buckle, has also started offering layaway to allow cash-strapped teens to hold the must-have clothing items that may otherwise be sold before they could afford them.

How long will these changes in mindset last? Some argue that they’re temporary, a short-term adjustment that will slowly disappear when the economy rebounds. But others insist that thrift is part of a fundamental shift – that consumers have learned from their overconsumption and that the frivolous spending of recent years is gone forever. Whichever is true, there are notable changes in consumer behavior taking place right now. We are seeing differences in where, why, how much and what people are buying.

- *Good-bye mall shopping sprees, hello big-box bargains.* Consumers are replacing frequent trips to the mall with targeted visits to one-stop locations. Retail foot traffic fell 15% year-over-year across November and December according to ShopperTrak. The luxury of daylong trips browsing stores at the mall has been replaced with the convenience and value of discounters and warehouse clubs.

- *Hunker down at home.* People are spending more time at home, cutting back on recreation and eating out. That's not bad news for retailers that stock affordable entertainment products. Consider the case of beverage alcohol. Diageo CEO Paul Walsh recently explained: "We are not seeing the middle classes move away from drink. The middle class is under pressure, but what we're seeing there is a migration from the on-premises [pubs and bars] to the off-premises." According to ACNielsen, sales of spirits in retail outlets were up 3.4% in the 52 weeks ending mid-November.
- *Pointless "premiumization" won't cut it.* The days of \$7 bottles of water may have ended for most consumers, but people are not eliminating all premium products. Consumers will still buy premium products – particularly tried-and-true brands – when the premium is earned. Brands that resonate with consumers and have established their worth, brands like Apple and Nike, will likely continue to be popular. But newer high-end brands, those that have yet to build a strong consumer franchise, may face insurmountable challenges. And when premium is not necessary, consumers are readily trading down for cheaper alternatives.

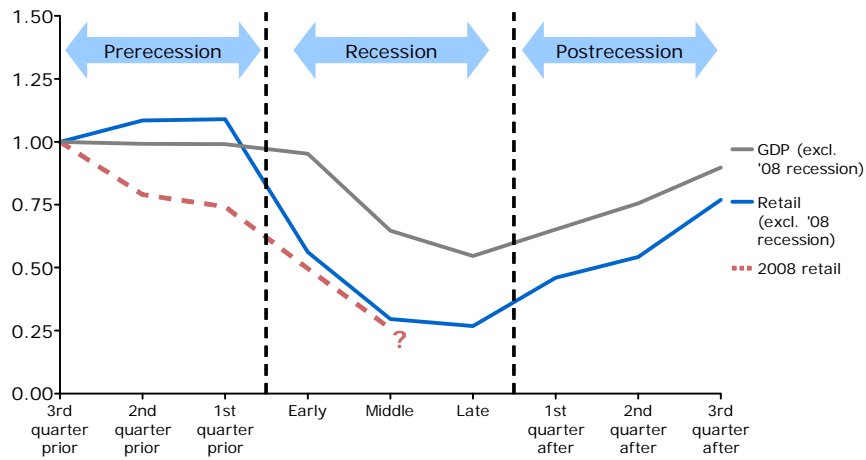
Retailers will continue to battle strong headwinds in 2009

General economic prospects for 2009, particularly the first half of the year, continue to look dreary. The most recent macroeconomic forecasts from the International Monetary Fund predict GDP will fall 0.7% in 2009, the lowest rate since 1982, when GDP fell 1.9%. Some economists do not believe the economy will begin to rebound and return to normal growth rates until late next year.

The prospects for retailers could be even grimmer: Retail recovery after a recession can be slow. Looking back at the last five recessions, retail growth in the three quarters following each recession lagged both prerecession retail levels and pre- and postrecession GDP levels (*Chart 13*). ICSC forecasts retail sales will be down 1.8% in 2009, with a 5% decline in the first half of the year and 2.7% increase for the second half of the year. TNS Retail Forward is more optimistic. It is forecasting 2% growth for retail in 2009 and closer to 4% in 2010.

Chart 13:

Indexed growth rates of GDP and retail through recessions, 1973-2008



Note: GDP and retail data for each recession are indexed to three quarters before the start of the recession; data are based on year-over-year growth of unadjusted nominal data; data include 1973-1975, 1980, 1981-1982, 1990-1991, 2001, and 2007-2008 recessions; the middle recession period for the 2008 retail line includes the second through fourth quarters of 2008
Source: US Bureau of Economic Analysis; US Census Bureau

The current recession is consumer-led and consequently the decline has been steeper and deeper for retail than the last several downturns (*see Chart 13*). And recovery from this recession may be even more difficult for retail given two structural changes taking place:

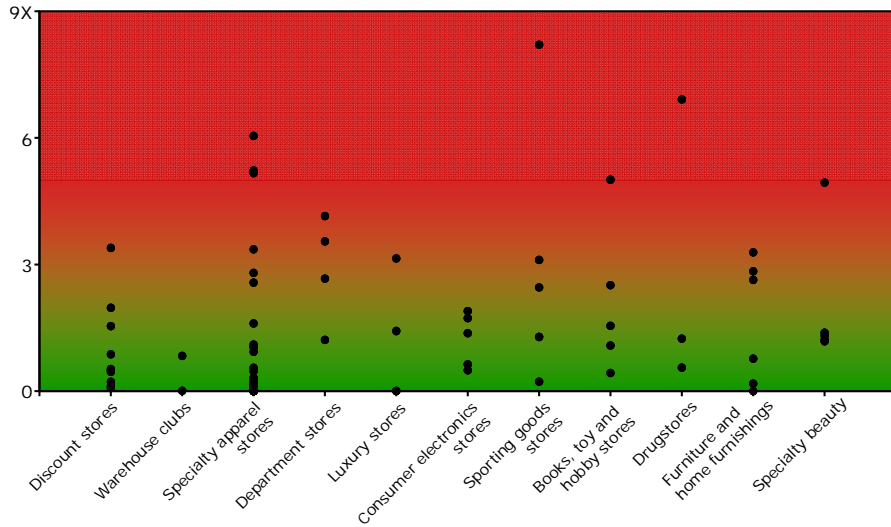
- More retailer bankruptcies are likely as players continue to face a difficult retail environment and tenuous financial positions. In 2008, 28 major retailers filed bankruptcy, 400% more than filed in 2007. And 2009 is likely to be even worse: In the first two weeks of 2009, 6 more major retailers have already filed Chapter 11 and Circuit City has just announced its plans to liquidate. With the large (and growing) number of at-risk retailers (*Chart 14*), store closings are likely to continue to climb. The ICSC estimates that 148,000 stores shut their doors during 2008, the highest number since the 2001 recession; and it predicts another 73,000 closings in the first half of 2009.
- With all the store closings, mall vacancy rates also will go up. According to real estate research firm Reis, Inc., the regional mall vacancy rate increased to 7.1% in the fourth quarter of 2008 from 5.8% in the fourth quarter of 2007. Neighborhood and community centers are expected to reach 9.9% vacancy in 2009, continuing the upward trend from 2007 and 2008 (*Chart 15*).

The ripple effects of store closings and increases in mall vacancies are potentially enormous. More store closings may reduce foot traffic to co-located stores, putting further pressure on sales and earnings. On the positive side, surviving retailers now have additional leverage to renegotiate their leases to reduce costs. However, the

combination of those reductions with elevated vacancies may mean that mall owners will not be able to earn enough to remain open, forcing additional closings.

Chart 14:

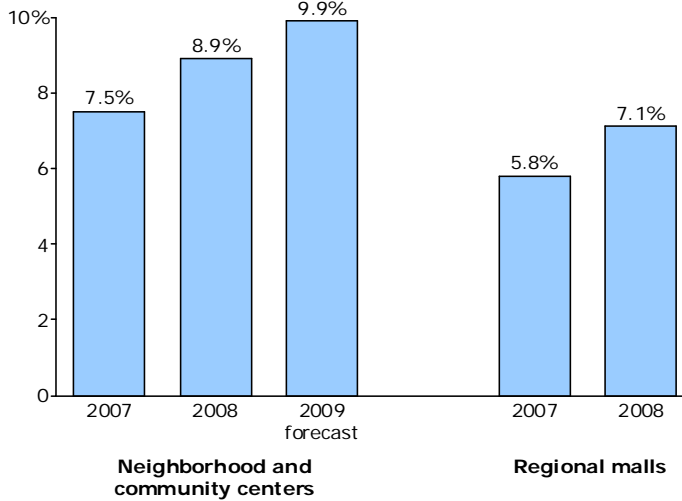
Ratio of total debt to next-twelve-months EBITDA



Note: EBITDA is earnings before interest, taxes, depreciation and amortization; EBITDA figures are post rent expenses; debt has not been adjusted for lease obligations; EBITDA estimate accessed via Capital IQ on January 12, 2009; total debt as of last reported quarter
Source: Capital IQ

Chart 15:

Mall vacancy rates, 2007-2009



Note: *Neighborhood and community centers* are defined as 30,000 to 150,000 square feet with one or two anchor stores, serving a community within 3 to 6 miles; *regional malls* are defined as 400,000 to 800,000 square feet with two or more anchor stores, serving a community within 5 to 15 miles; the data for 2007 and 2008 are for the fourth quarter; the 2009 forecast was released by Reis, Inc. in November 2008
Source: Reis, Inc.; ICSC

Key retail imperatives to survive and thrive in 2009

With depressed sales expected to continue, retailers must remain focused on surviving the recession and keeping their businesses from falling into financial hardship. And for those that best weather the storm, these difficult times may present unique opportunities to thrive and capture share when the market rebounds. The following four imperatives for retailers lay out a high-level roadmap of critical actions for the year.

Imperative 1: Safeguard sales by staying close to your best customers.

Staying focused on customers isn't new advice, but as consumers pull back on discretionary spending, it's more critical than ever. Retailers must identify and target their most profitable customers – with efforts going beyond traditional quantitative surveys – and focus on getting them to buy and increasing their loyalty. Key here is striking the right balance between identifying price points that appeal to customers and maintaining brand equity. To retain customers who are trading down, Nordstrom is expanding its product portfolio to include lower-priced items, choosing not to rely on heavy discounting. Saks is taking a different approach: eliminating like items and weak vendors. According to president and chief merchandising officer Ron Frasch, "Those brands that are nice to have can't exist in the new environment. Each brand must lend both financial and strategic [value] to the company."

Some widespread changes may be appropriate; in other cases, specific modifications – to a single store or group of stores – may be necessary. Macy's localization strategy, called "My Macy's," is intended to adapt stores to local tastes. Store managers are given more decision-making authority about store operations, and input on improvements is solicited from sales associates and customers. According to Macy's CEO Terry Lundgren, the investment has already begun reaping dividends: "Of our top 15 best-performing geographic markets in December, 13 were My Macy's pilot districts."

Innovation is oftentimes a retailer's lifeblood. Keeping the shopping experience fresh and exciting should be a priority, even in the face of a liquidity crisis. Positive shopping experiences increase customers' loyalty; and a retailer that keeps customers happy during difficult times is more likely to retain those customers when the economy rebounds. Apple, for example, has made a number of changes to maintain an enjoyable in-store experience: Employees have wireless point-of-sale devices to simplify the checkout process; they're now wearing red shirts to make it easier for customers to identify them; and support staff are being trained to offer technical support through the "Genius Bar" and in-store training sessions.

Imperative 2: Get lean and mean with costs.

During a strong economy, costs have a tendency to go up, often beyond what's necessary. In a weak economy, managing costs aggressively, particularly in noncustomer-facing areas, and clearly defining spending priorities are essential first steps for retailers. One example: In October, Walgreens announced its Rewiring for Growth initiative. The plan targets \$1 billion in savings annually by cutting noncustomer-facing expenses and slowing store expansion.

The recession also offers a “once-in-a-lifetime” opportunity to dramatically restructure businesses. In a boom economy, announcing store closings, a divestiture or some other major change can lead to market scrutiny. In a troubled economy – with bankruptcies, turmoil in the stock market, unemployment woes and the like – few are likely to question even a large-scale restructuring. Retailers have a rare chance to do what they think is best for the business, such as closing underperforming stores and divesting themselves of noncore assets, without drawing unwanted attention.

Imperative 3: Cash is king – respect it.

With the economy so uncertain, it is difficult to justify major cash outlays. Even retailers that do not anticipate a liquidity problem are cutting back on capital expenditures to preserve cash for unanticipated needs. For example, Wal-Mart has announced plans to reduce new-store openings, focusing instead on less costly remodels of its existing stores to help bolster same-store sales.

Cash can also be preserved by better managing inventory. First, deciding how much inventory is enough to meet consumer demand without risking out-of-stocks or excessive markdowns is perhaps one of the most difficult decisions retailers are making today. In making this decision, retailers should be more aggressive in working with key supply-chain vendors to build more collaborative relationships. By exploring new arrangements – among them, reorders and changes to orders throughout the season, shortened cycle times and the option to test products in just a few stores or online before making chainwide commitments – retailers may be able to decrease or postpone cash outlays while also avoiding costly inventory missteps.

Imperative 4: Plan like your life depends on it. (It might.)

For retailers in strong strategic and financial positions, the downturn may offer options that don't exist in better economic times. Looking internally, retailers can strengthen their own organization by selectively poaching talent from struggling competitors. And externally, retailers may expand into new segments or invest in markets defended by weak competitors to gain share. For instance, Kohl's is poised to emerge from the recession stronger by seizing the opportunity to expand by acquiring Mervyns stores.

With all of this in mind, retailers also must develop a series of forecasts looking at least two years out and account for various downside and upside scenarios. The downside view – which will assume a much deeper and longer recession and sales declines than some economists predict – is a frightening notion but must be factored into planning. The upside view begins to prepare for the rebound as the economy pulls out of the recession, being mindful to find ways to continue to innovate. Clear and actionable contingency plans are critical for retailers to be able to react quickly to today's volatile environment.

Don't give up: The economy will eventually rebound

We are in the middle of a deep and likely prolonged recession. To survive, retailers must recognize the severity of the economic situation and act accordingly. It is important to remember, however, that this downturn is part of a cycle. The recession won't last forever, and neither will consumers' current commitment to make do with less. After a period of austerity, many consumers are going to want to indulge themselves in some manner, and that means they are going to start shopping again. Retailers must figure out how to respond to today's thriftiness without confusing consumers when they are once again able or willing to spend more freely. What this ultimately means is that any changes retailers make should not jeopardize the company's long-term positioning.

In 2009, as always, there will be retail winners and losers. Who will come out on top? Likely those who are able to adapt to the current environment without overcorrecting. We will be back later this year to report on how retailers are faring.

Appendix

Chart A:

Definitions

| | GAFO | GAFS | GAF | General merchandise | Nonauto retail sales |
|---|------|------|-----|---------------------|----------------------|
| • General merchandise stores | ✓ | ✓ | ✓ | ✓ | ✓ |
| • Clothing and clothing accessories stores | ✓ | ✓ | ✓ | | ✓ |
| • Furniture and home furnishing stores | ✓ | ✓ | ✓ | | ✓ |
| • Electronics and appliances stores | ✓ | ✓ | | | ✓ |
| • Sporting goods, hobby, book and music stores | ✓ | ✓ | | | ✓ |
| • Office supplies, stationery and gift stores | ✓ | | | | ✓ |
| • All other retail trade sales not included in GAFO (excluding auto and auto parts) | | | | | ✓ |
| • Auto and auto parts sales | | | | | |

Source: US Census Bureau; analyst reports

Selected References

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