



U.S. Consumer Trends, Challenges and Outlook

The Case for Caution

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A Presentation for the Federation of Tax Administrators

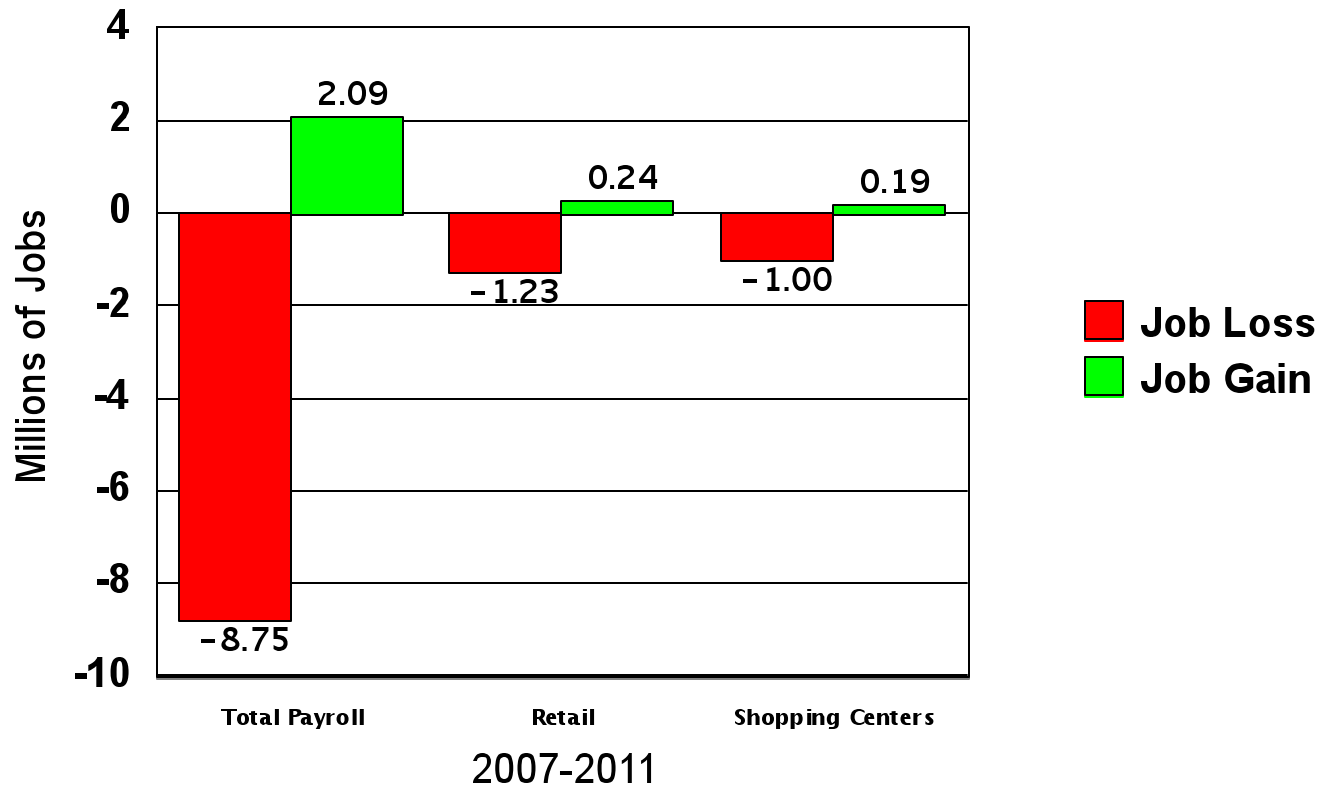
October 17, 2011

Highlights

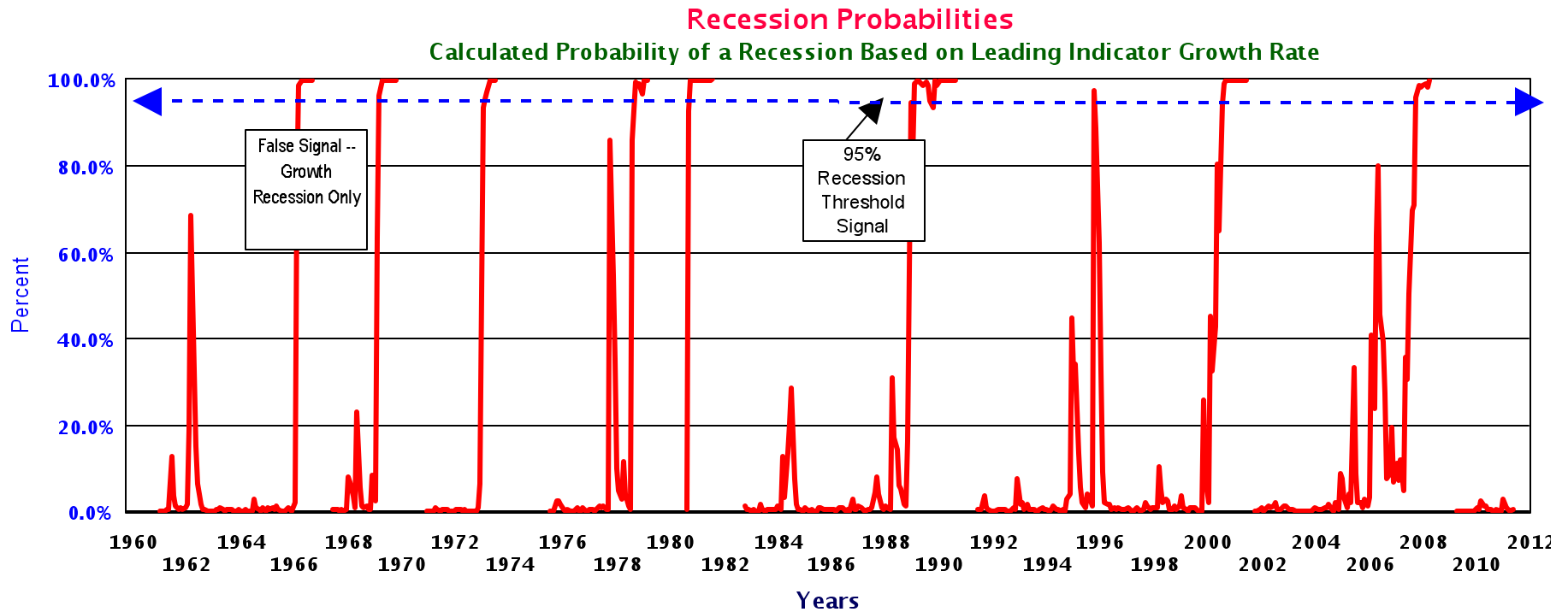
- **Economic outlook subdued, but recession risk low.**
- **Some “softer patches” develop in regional economic conditions.**
- **Also, macro headwinds stronger as inventory accumulation subsides.**
- **Trends in spending – largely steady for now.**
- **Retail margins mixed, but some deterioration.**
- **Price pressures build.**
- **“Leading indicators” weaken.**
- **Holiday sales forecast: *Slow and steady, but scary (that is, riskier than last year).***

Only 24% of Recession’s Drop in Employment Has been Made Up During Recovery—Less So for Retail (19.8%) and Shopping-Center Industry (18.5%)

U.S. Employment Recovery

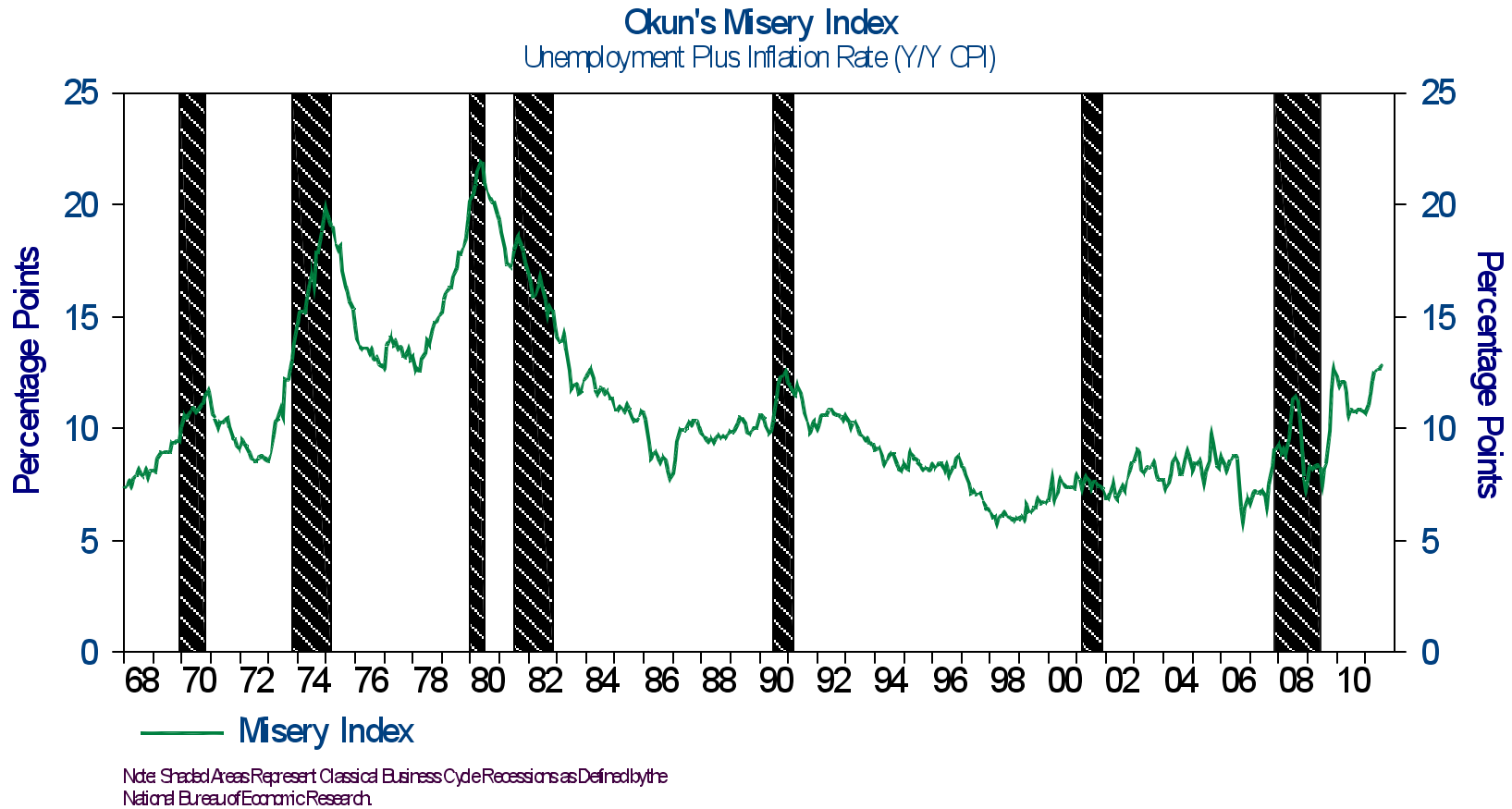


Calculated Probability of Recession Low



Very Low Risk of Recession in Near Term (next 3-6 months)

American Public May Not Remember Tougher Times—But they Existed



1968-2011 Average = 10.7 pp.
HIGH = 21.9 pp. (May 1980) LOW = 5.7 pp. (April 1998)

U.S. Economic Outlook—Slow Growth Persists

U.S. Economic Outlook - 2011-2013								
Economic Measure	2006	2007	2008	2009	2010	2011	2012	2013
Nominal GDP	13377.2	14028.7	14291.6	13938.9	14526.6	15119.8	15881.2	16551.4
% Change	6.0	4.9	1.9	-2.5	4.2	4.1	5.0	4.2
GDP Deflator	103.2	106.2	108.6	109.7	111.0	113.4	116.2	119.1
% Change	3.2	2.9	2.2	1.0	1.1	2.2	2.4	2.6
Real GDP	12958.5	13206.4	13161.9	12703.1	13088.0	13330.8	13671.7	13893.5
% Change	2.7	1.9	-0.3	-3.5	3.0	1.9	2.6	1.6
Real Consumer Spending	9054.5	9262.9	9211.7	9037.5	9220.9	9418.5	9632.7	9843.3
% Change	2.9	2.3	-0.6	-1.9	2.0	2.1	2.3	2.2
Aftertax Economic Profits	1135.0	1065.2	939.4	1024.1	1389.1	1497.0	1588.7	1628.1
% Change	8.8	-6.2	-11.8	9.0	35.6	7.8	6.1	2.5
% Change from Prior Year								
Pretax Corporate Profits	1608.3	1510.7	1248.4	1362.0	1800.1	1928.2	2046.3	2097.1
% Change from Prior Year	10.5	-6.1	-17.4	9.1	32.2	7.1	6.1	2.5
Unemployment Rate	4.6	4.6	5.8	9.3	9.6	9.0	8.3	7.7
Payroll Employment	136092	137587	136778	130789	129822	131102	132809	134324
Difference at Monthly Rate	176	99	-235	-470	59	122	158	105
Industrial Production	97.4	100.0	96.3	85.5	90.1	93.3	95.4	96.4
% Change	2.2	2.7	-3.7	-11.2	5.3	3.6	2.2	0.7
Housing Starts (thous.)	1812	1342	900	554	585	614	933	1382
% Change	-12.6	-25.9	-32.9	-38.4	5.6	4.9	52.1	10.8
Consumer Price Index	201.6	207.3	215.3	214.5	218.1	225.0	231.8	239.4
% Change	3.2	2.9	3.8	-0.3	1.6	3.2	3.0	3.6
% Change from Prior Year								
CPI Core	205.9	210.7	215.6	219.2	221.3	225.0	230.6	237.3
% Change	2.5	2.3	2.3	1.7	1.0	1.7	2.5	3.0
Federal Funds Rate	4.96	5.02	1.93	0.16	0.18	0.15	0.4	2.3
3-Mo. T-Bill	4.73	4.35	1.37	0.15	0.14	0.11	0.4	2.1
AAA Corporate Bond Yield	5.6	5.6	5.6	5.3	4.9	4.7	3.9	4.4
BAA Corporate Bond Yield	6.5	6.5	7.4	7.3	6.0	5.6	4.8	5.2
Ten-Year Govt Note	4.8	4.6	3.7	3.3	3.2	2.8	2.5	3.3

Source: ICS Research (Projections).

The Difference of a Few Months Makes ...



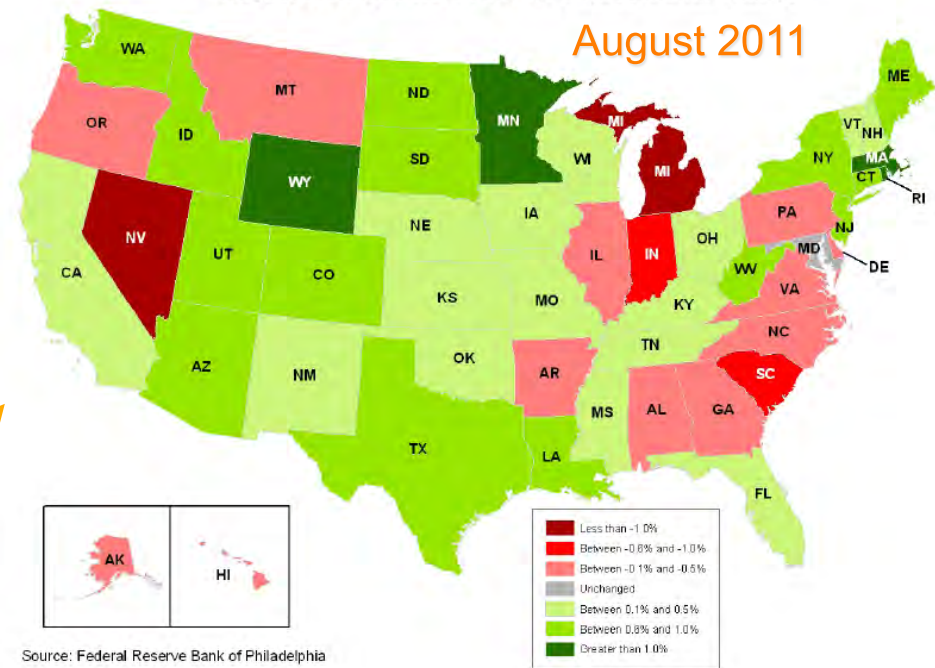
The changing breadth of the recovery.

The economic recovery continues, however, the intensity of the state gains has moderated. More weakness in Southeast and Great Lake states in July 2011 versus May 2011.



August State Coincident Indexes: Three-Month Change

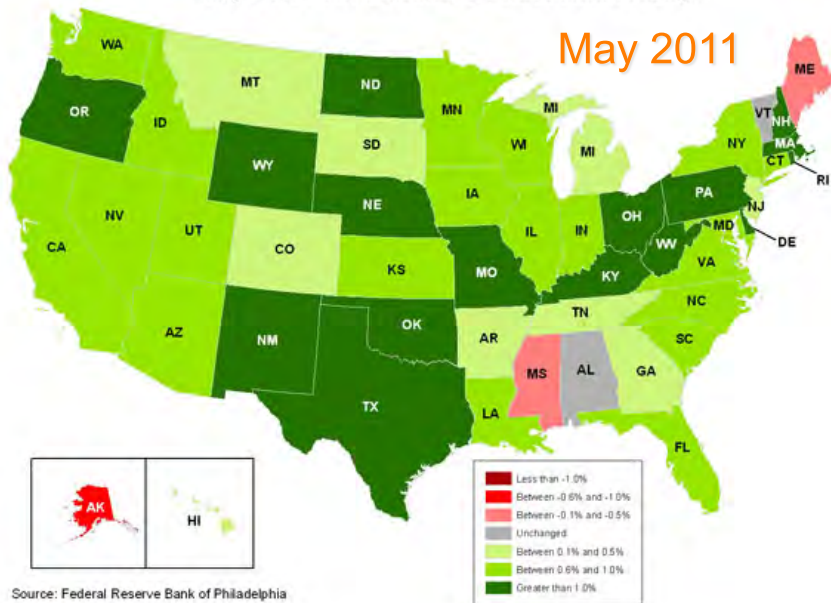
August 2011



Source: Federal Reserve Bank of Philadelphia

May State Coincident Indexes: Three-Month Change

May 2011



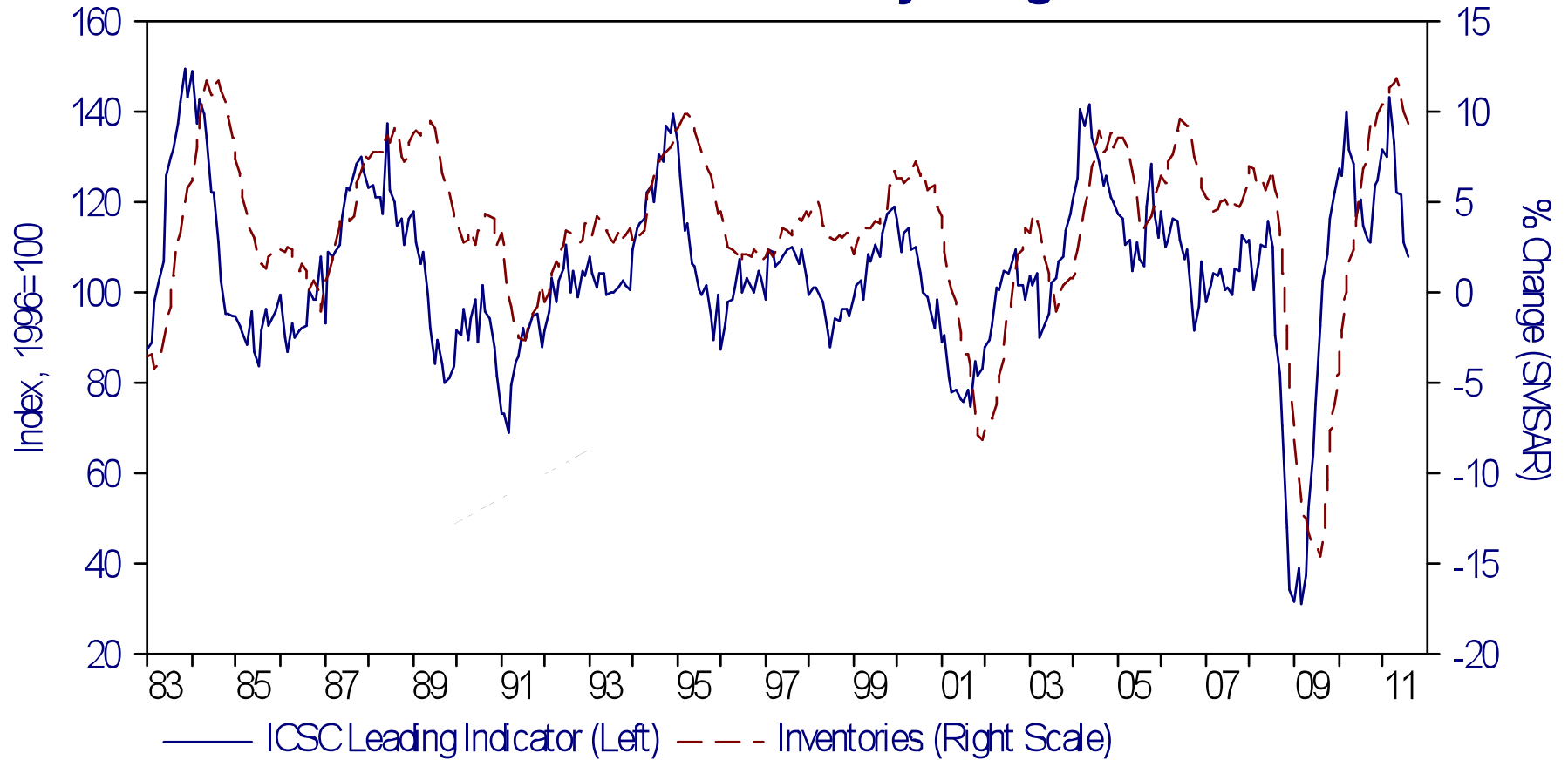
Source: Federal Reserve Bank of Philadelphia

State Coincident Indexes

The Federal Reserve Bank of Philadelphia produces a monthly coincident index for each of the 50 states. The coincident indexes combine four state-level indicators to summarize current economic conditions in a single statistic using a dynamic factor model. The four state-level variables in each coincident index are nonfarm payroll employment, average hours worked in manufacturing, the unemployment rate, and wage and salary disbursements deflated by the consumer price index (U.S. city average). The trend for each state's index is set to the trend of its gross domestic product (GDP), so long-term growth in the state's index matches long-term growth in its GDP.

Macroeconomic Trends and Signals

ICSC's Leading Indicator of Inventories vs. Business Inventory Change

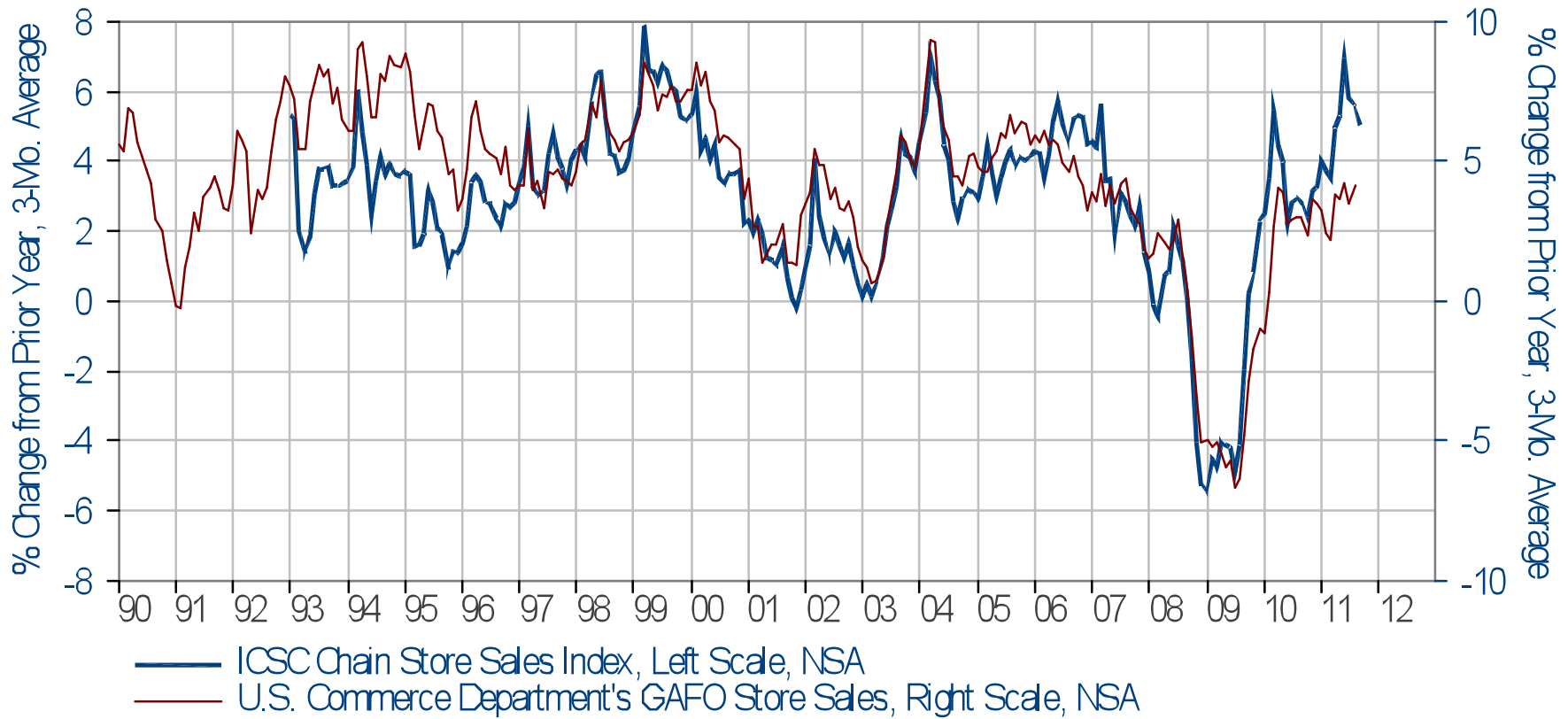


Three Measures of Retail Spending

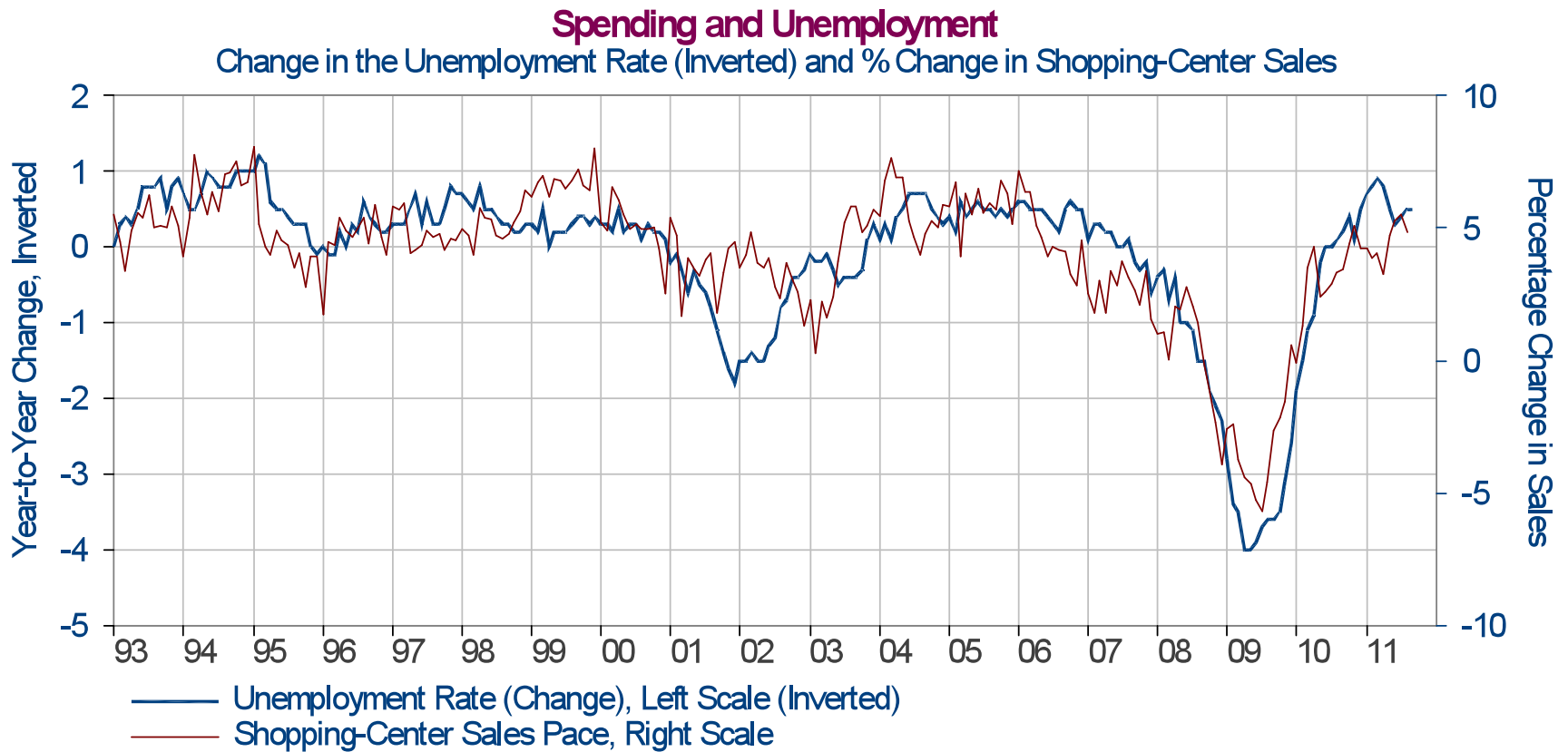
Retail Sales Growth Rate Trends



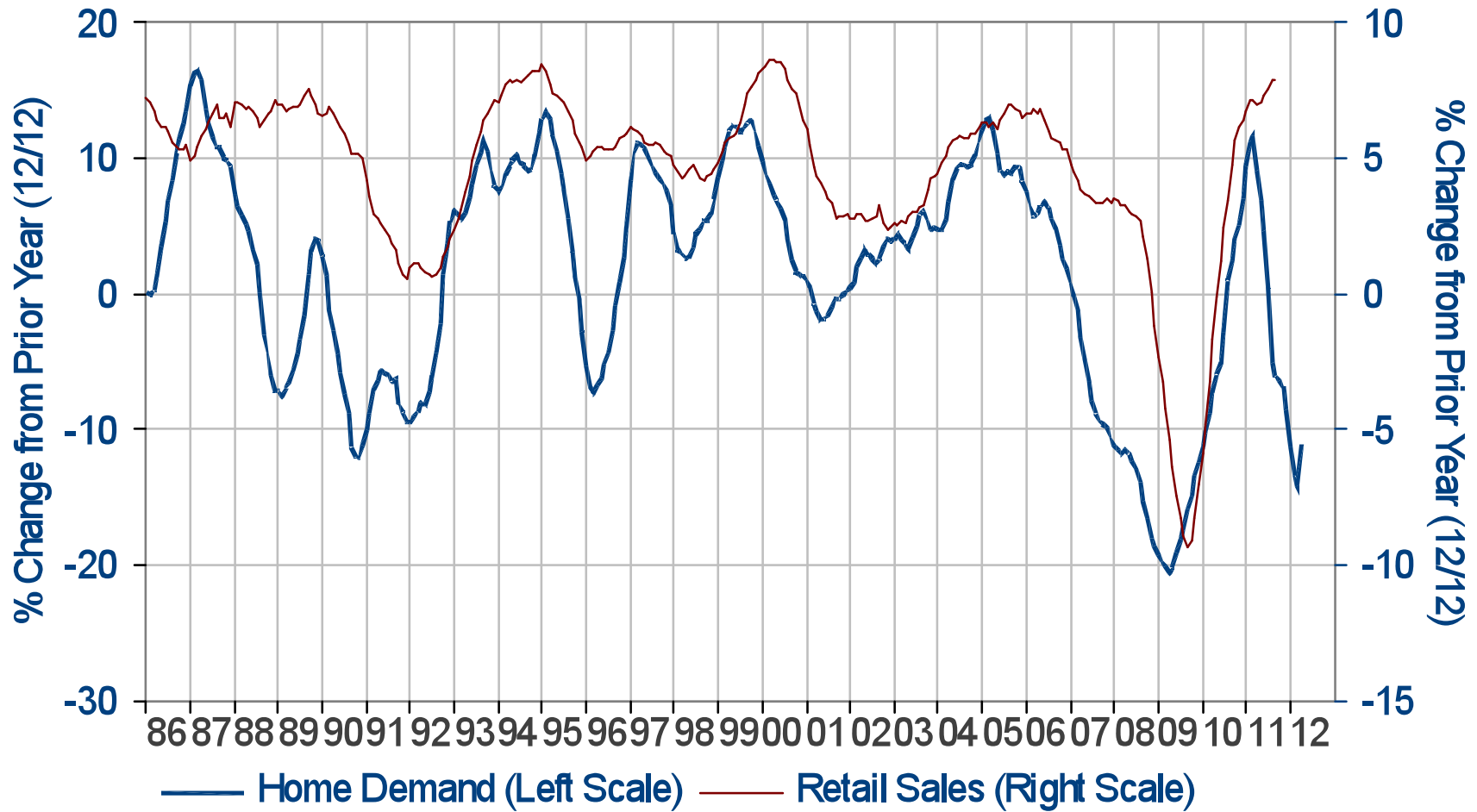
Comparison of Growth in Chain Store & GAFO Store Sales



Changes in Unemployment Track Spending Growth

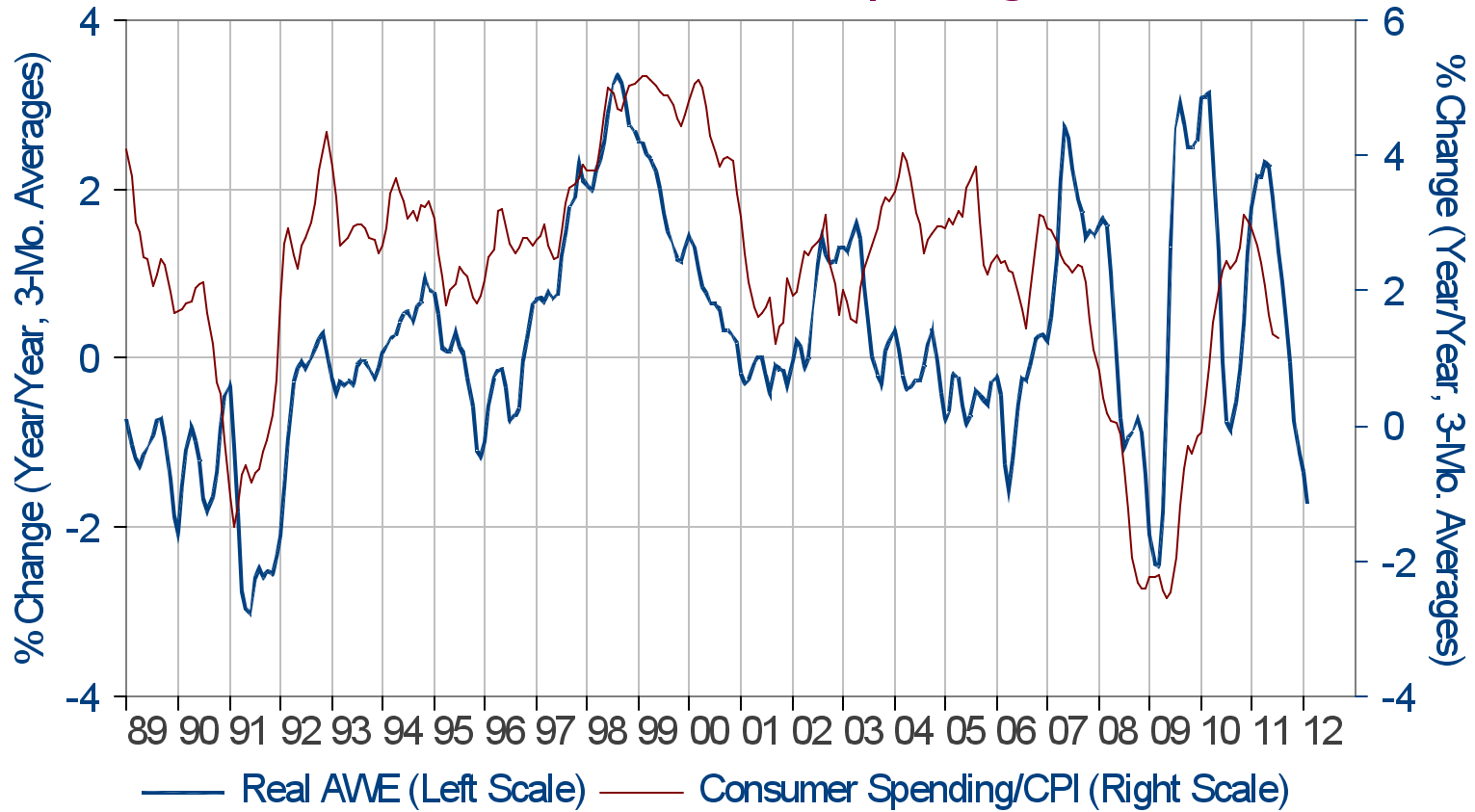


Home Demand as a Trigger for the Diderot Effect Nine-Month Lead Time

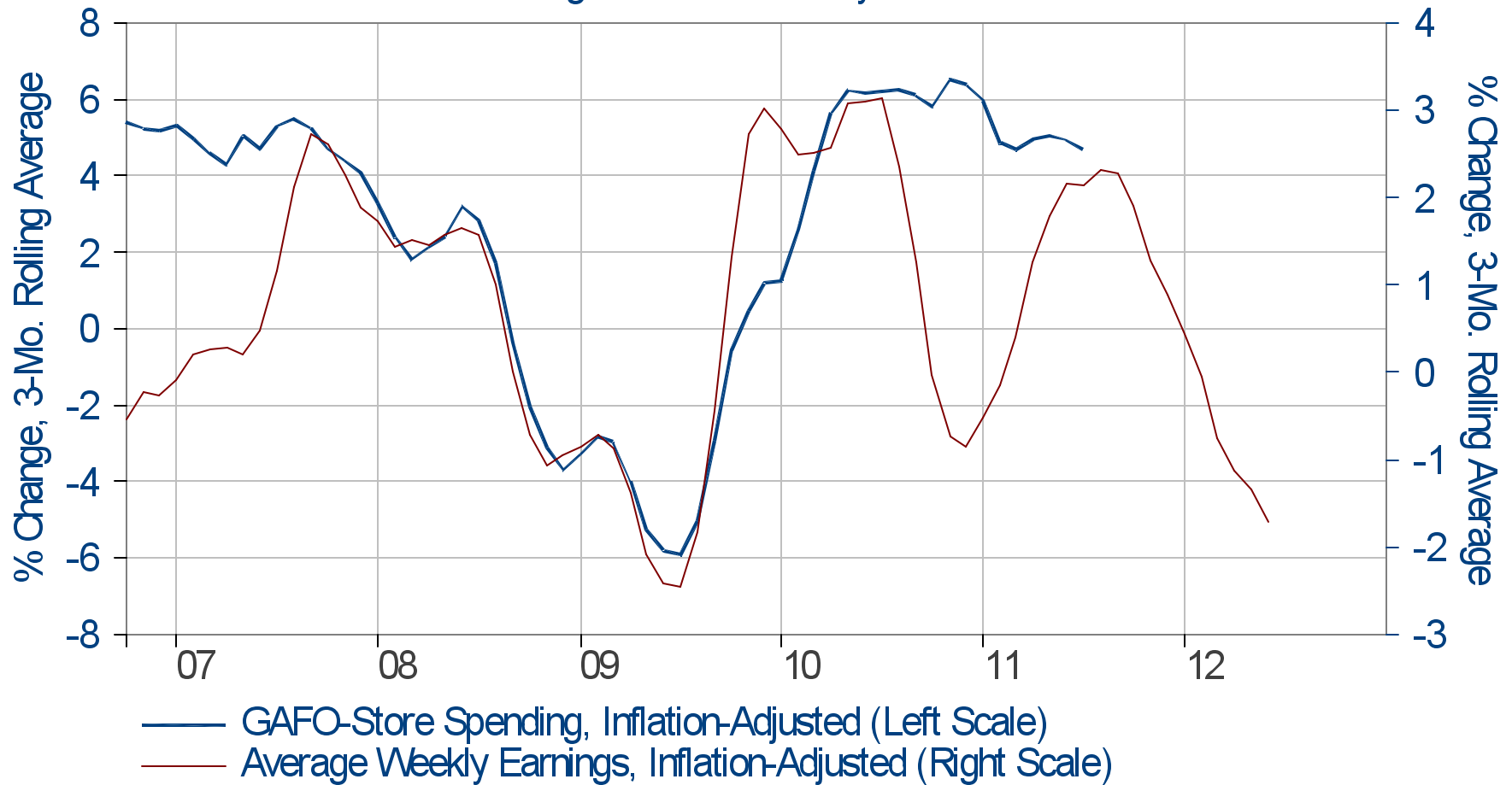


Leading and Fundamental Indicators ...

Real Average Weekly Earnings (Shifted 6-Months Ahead) vs. Real Consumer Spending



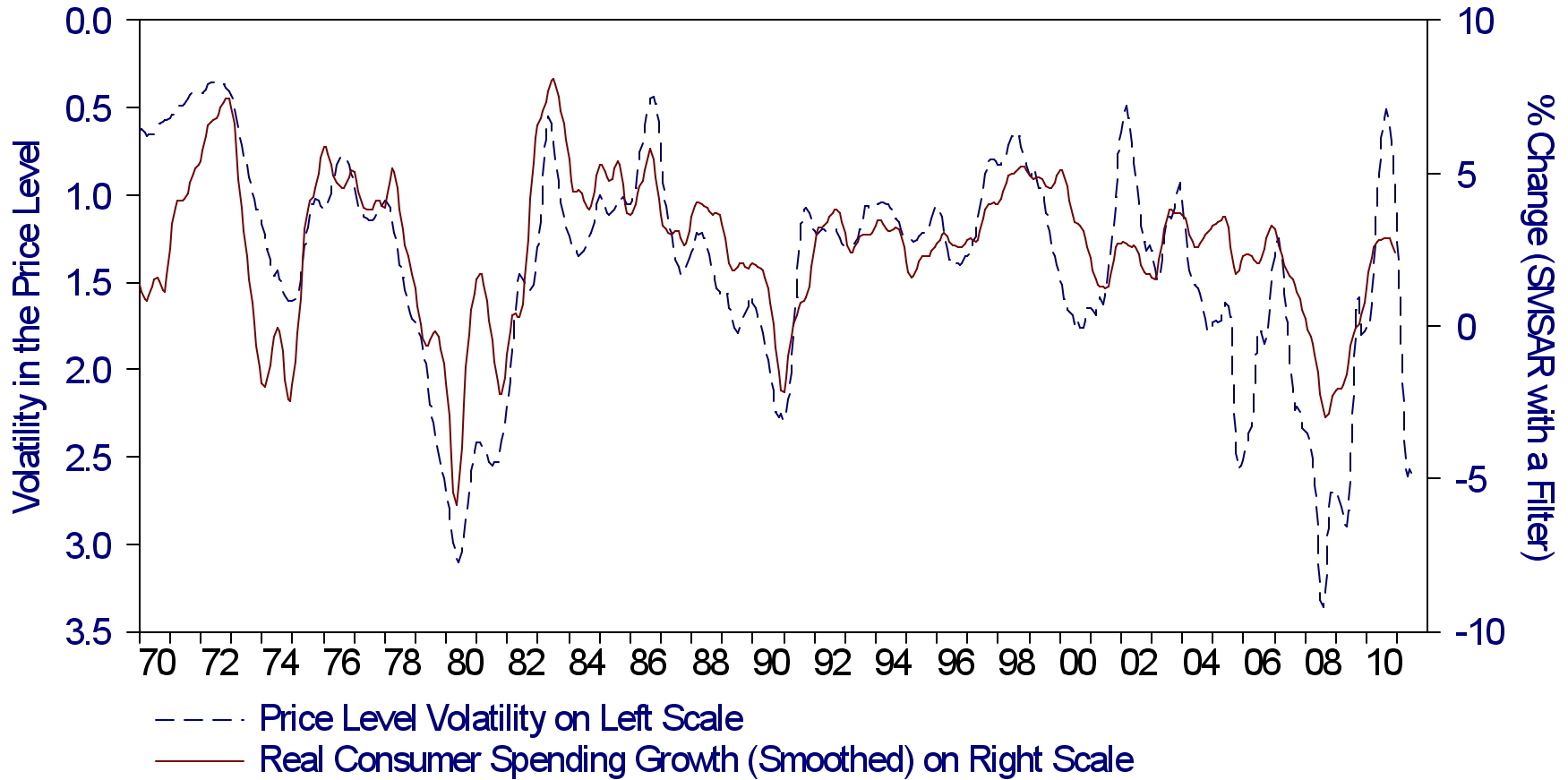
Real GAFO-Store Sales Growth vs. Real Average Weekly Earnings Earnings Shifted Ahead By 10 Months



Coincidence or Precursor?

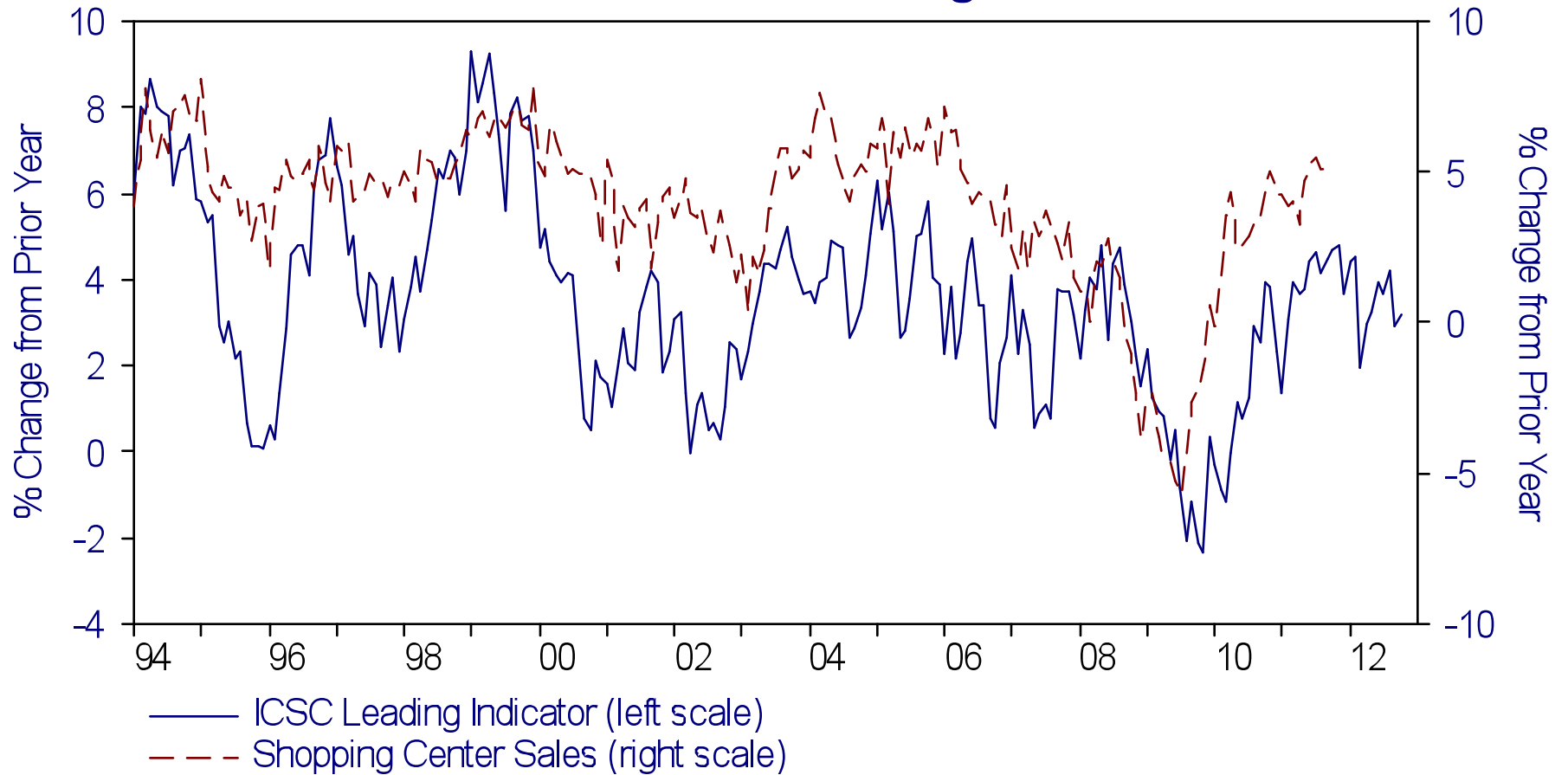
The Katona Effect and U.S. Consumer Spending

Volatility in the Consumer Price Level Inverted



Leading Indicator Portends Slower Spending Growth Ahead

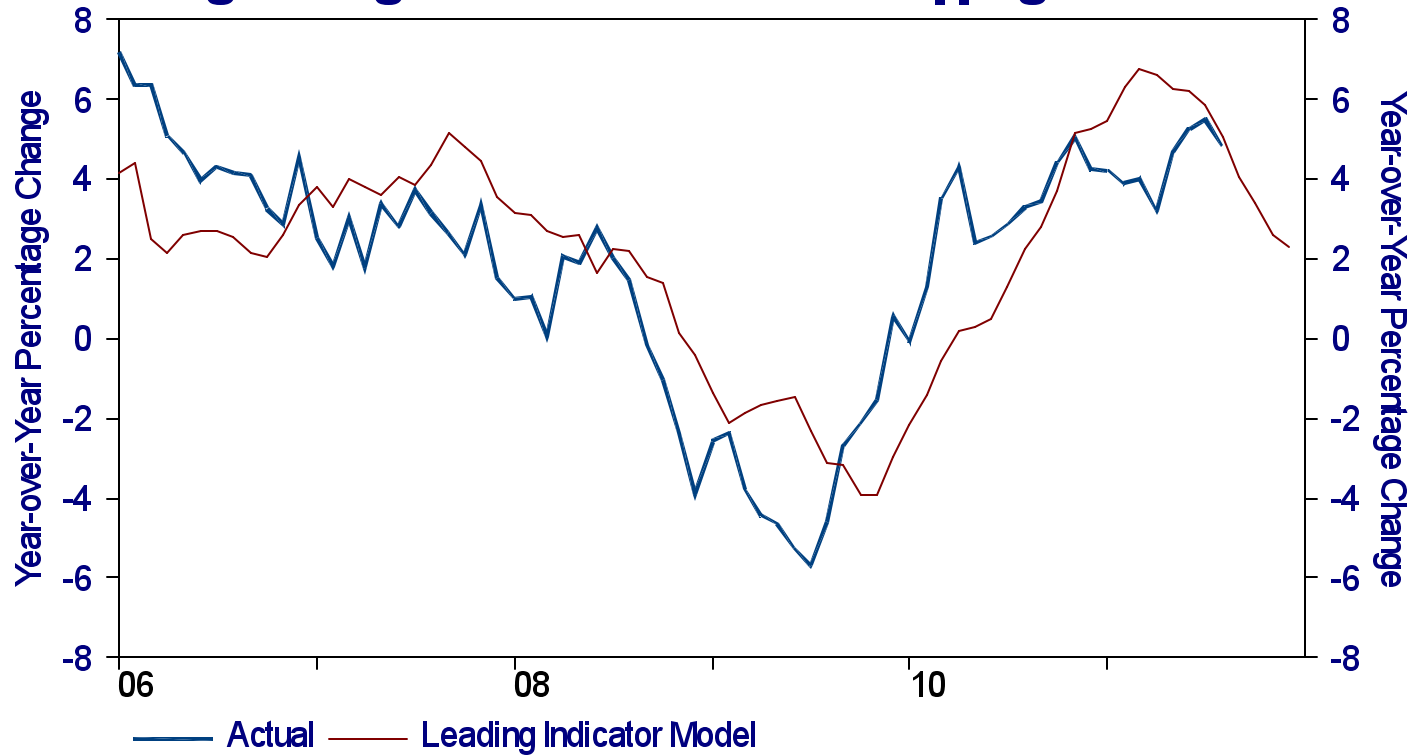
ICSC's Chain Store Sales Leading Index vs. Shopping Center-Inclined Store Sales 12-Month Lead Time in Leading Indicator



Simple Statistical Model Based on Leading Indicators

Model-Based Sales Projection

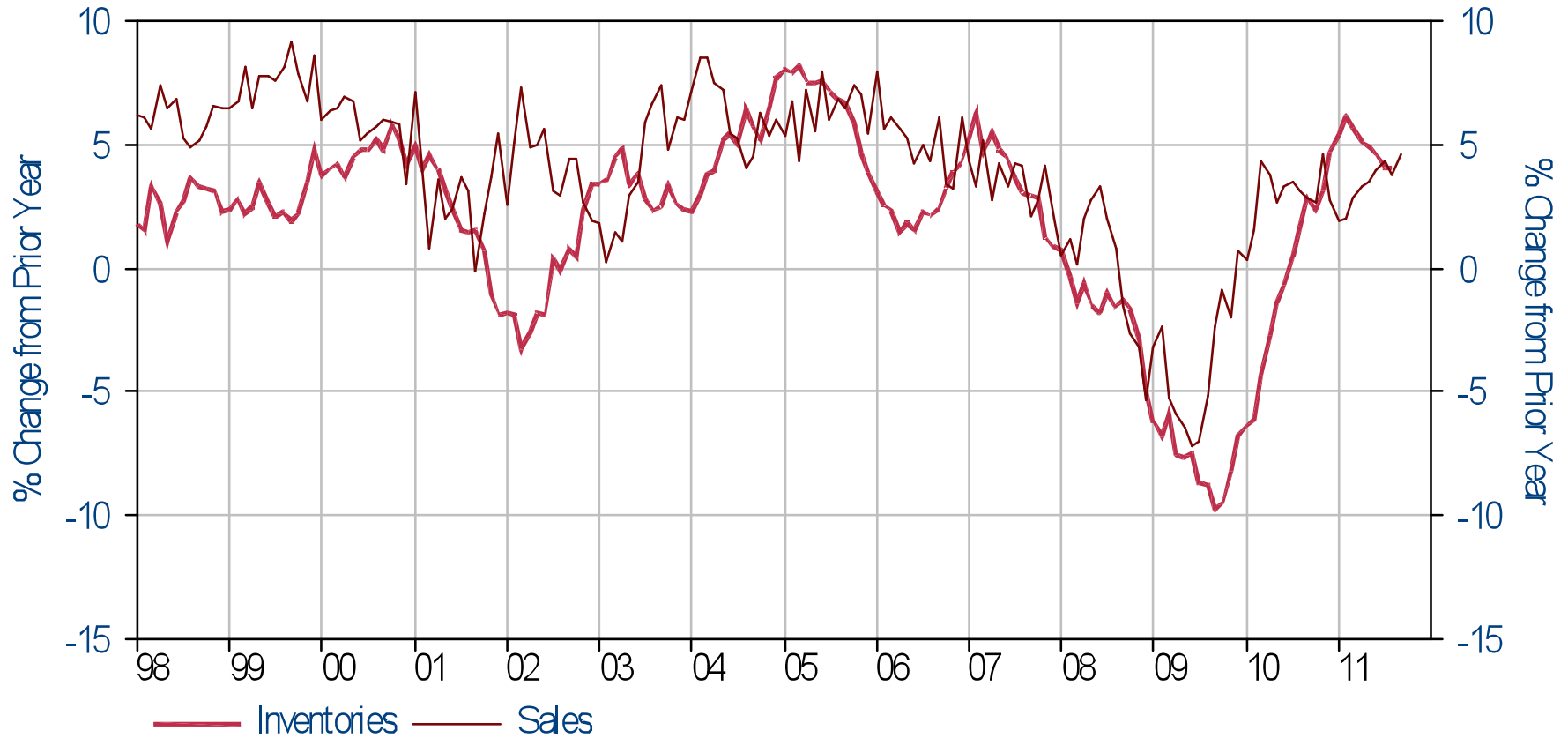
Using Leading Indicators to Forecast Shopping-Center Sales



Leading Indicator Model = $0.09675 * pchya(mwliit77.6) + 0.26726 * pchya(mwliit77.12) - 0.87178 * diffya(ructt.6) - 2.09003 * std12(custsa0.6) + 6.10370$

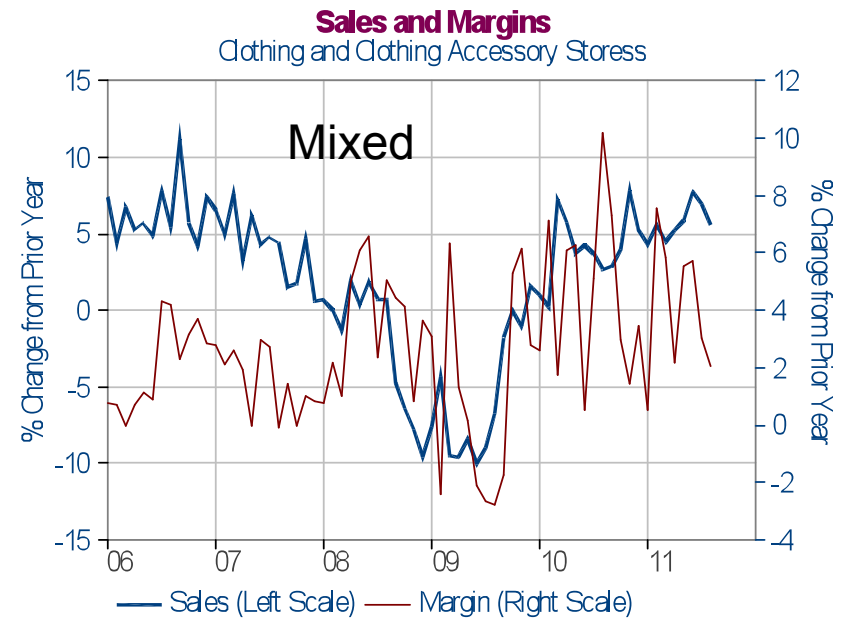
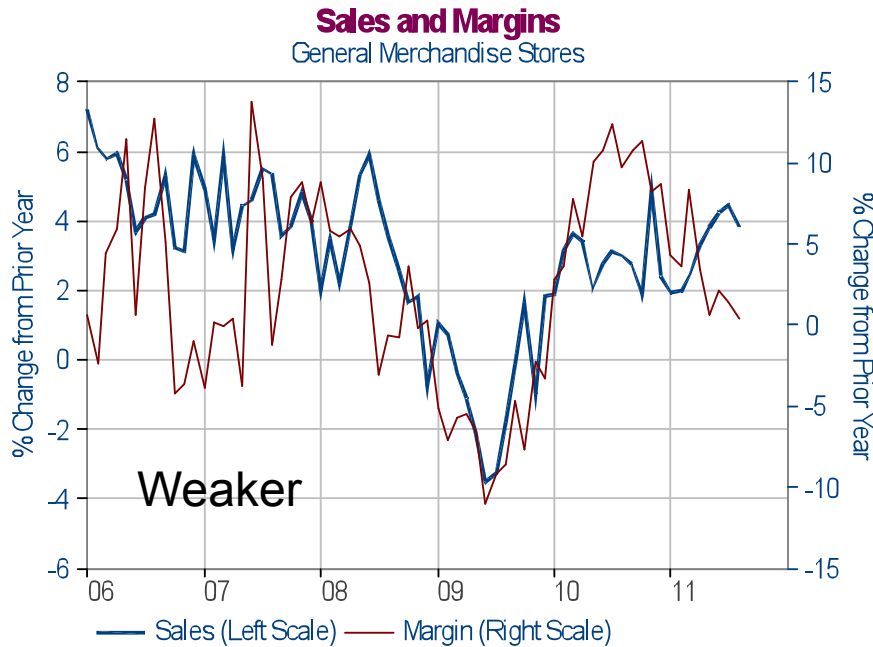
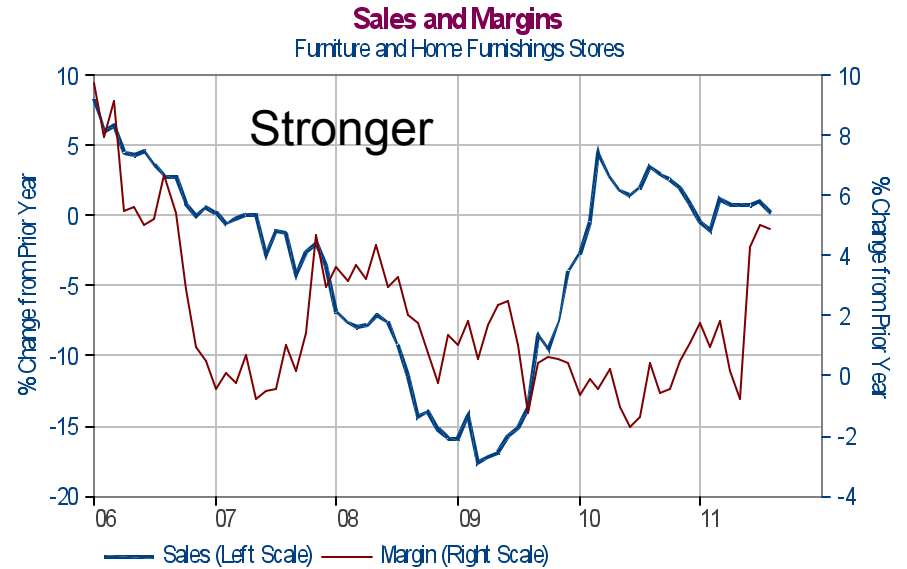
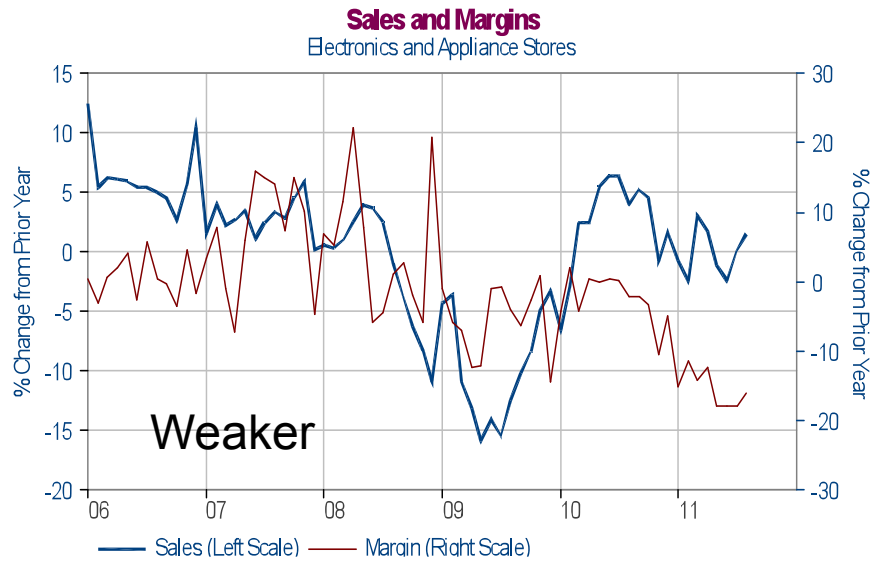
Retail Inventory Changes

Clothing, Electronics, Furniture & General Merchandise Retail Inventories

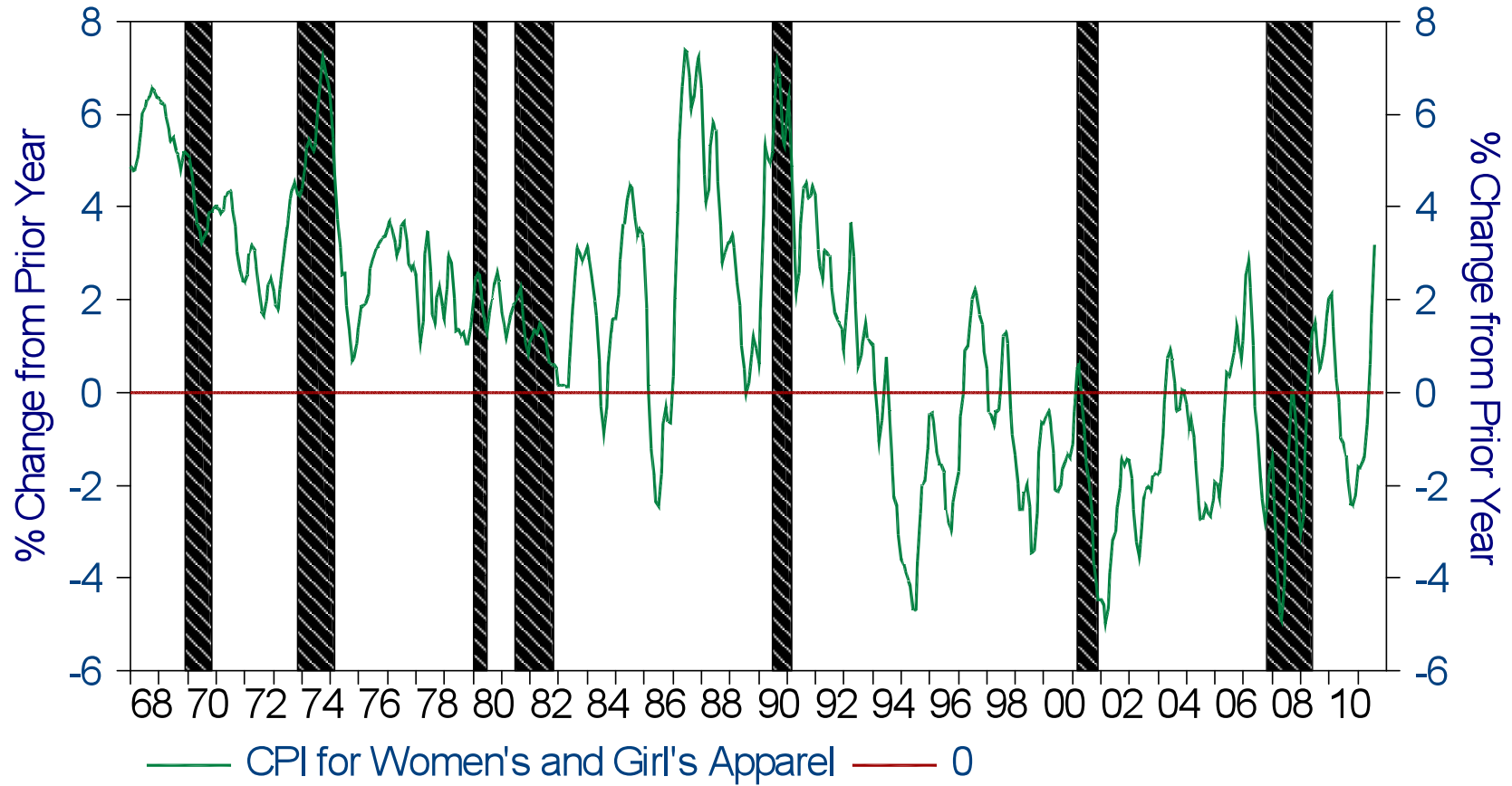


Retailer “Margins” and Prices – A Macro Perspective

International Council of Shopping Centers

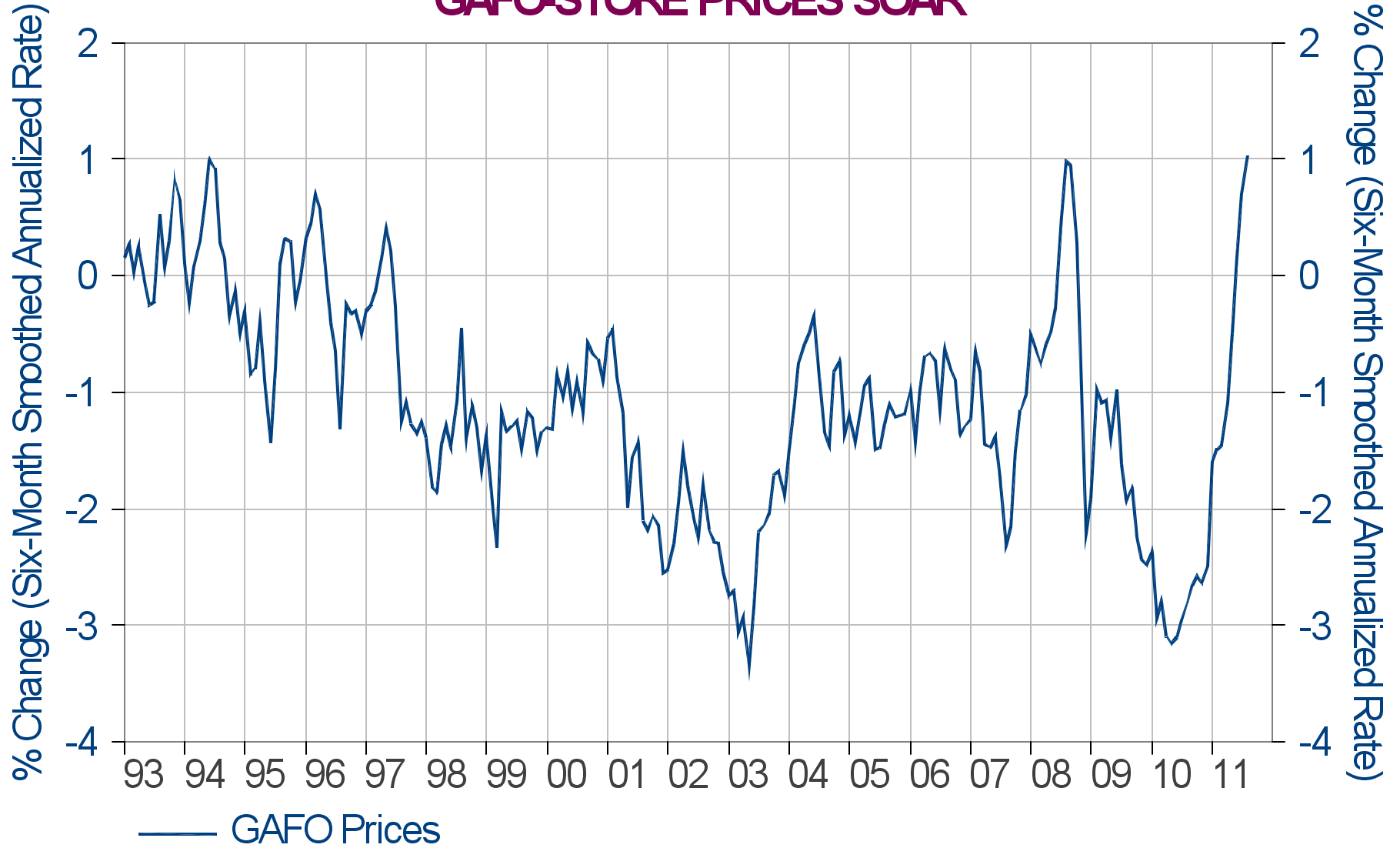


Women's and Girl's Apparel Consumer Prices Recovering Pricing Power



Note: Shaded Areas Represent Classical Business Cycle Recessions as Defined by the National Bureau of Economic Research.

GAFO-STORE PRICES SOAR



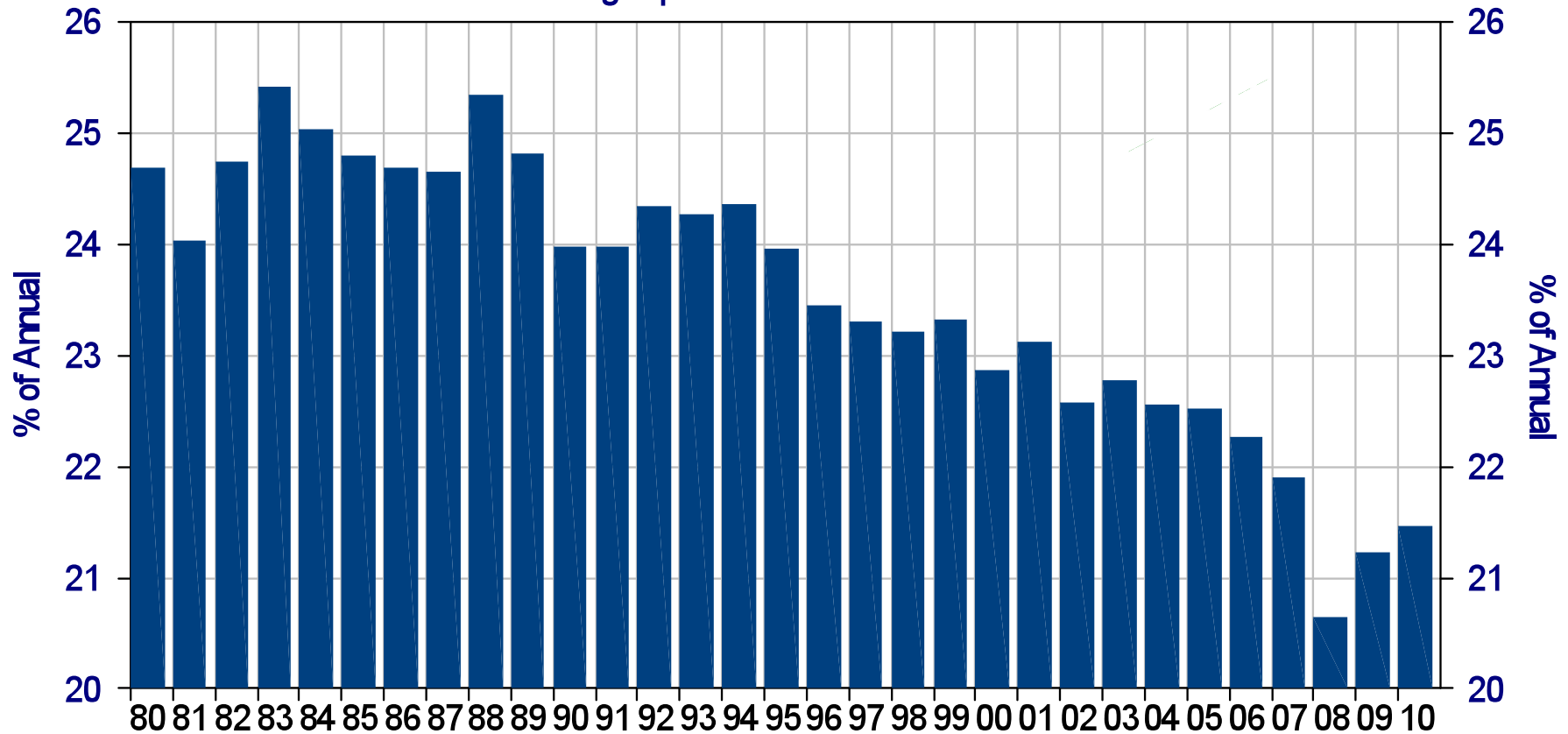


The Importance of Holiday Spending



Holiday Spending Importance Back on Track After Dipping in 2008

November-December GAFO Sales as Share of Annual Sales
Shifting Importance of Christmas Sales

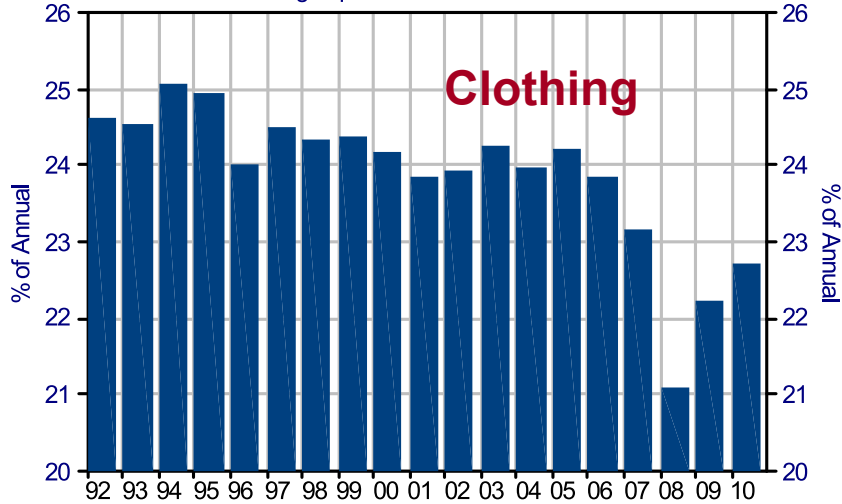


Steady to Lower Share Expected in 2011

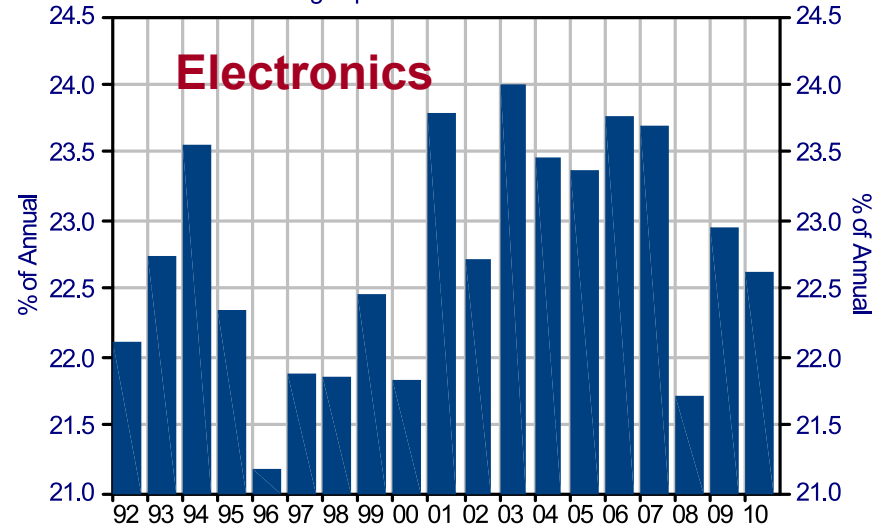


The November-December Spending Importance By Segment

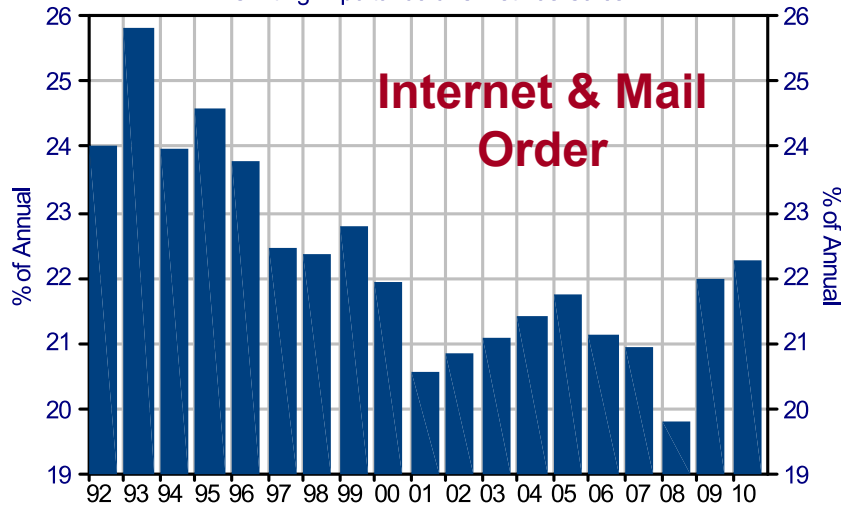
November-December Clothing & Accessory Sales as Share of Annual Sales
Shifting Importance of Christmas Sales



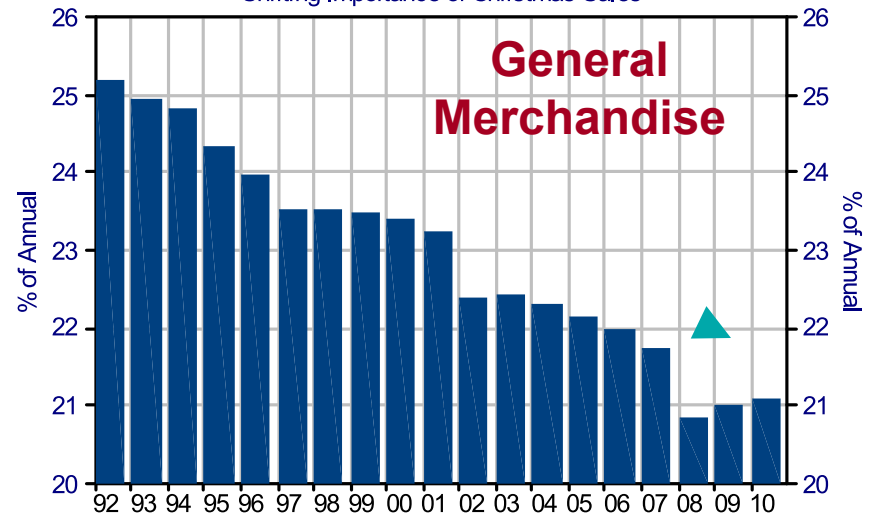
November-December Electronics & Appliance Store Sales as Share of Annual Sales
Shifting Importance of Christmas Sales



November-December Internet & Mail Order Sales as Share of Annual Sales
Shifting Importance of Christmas Sales



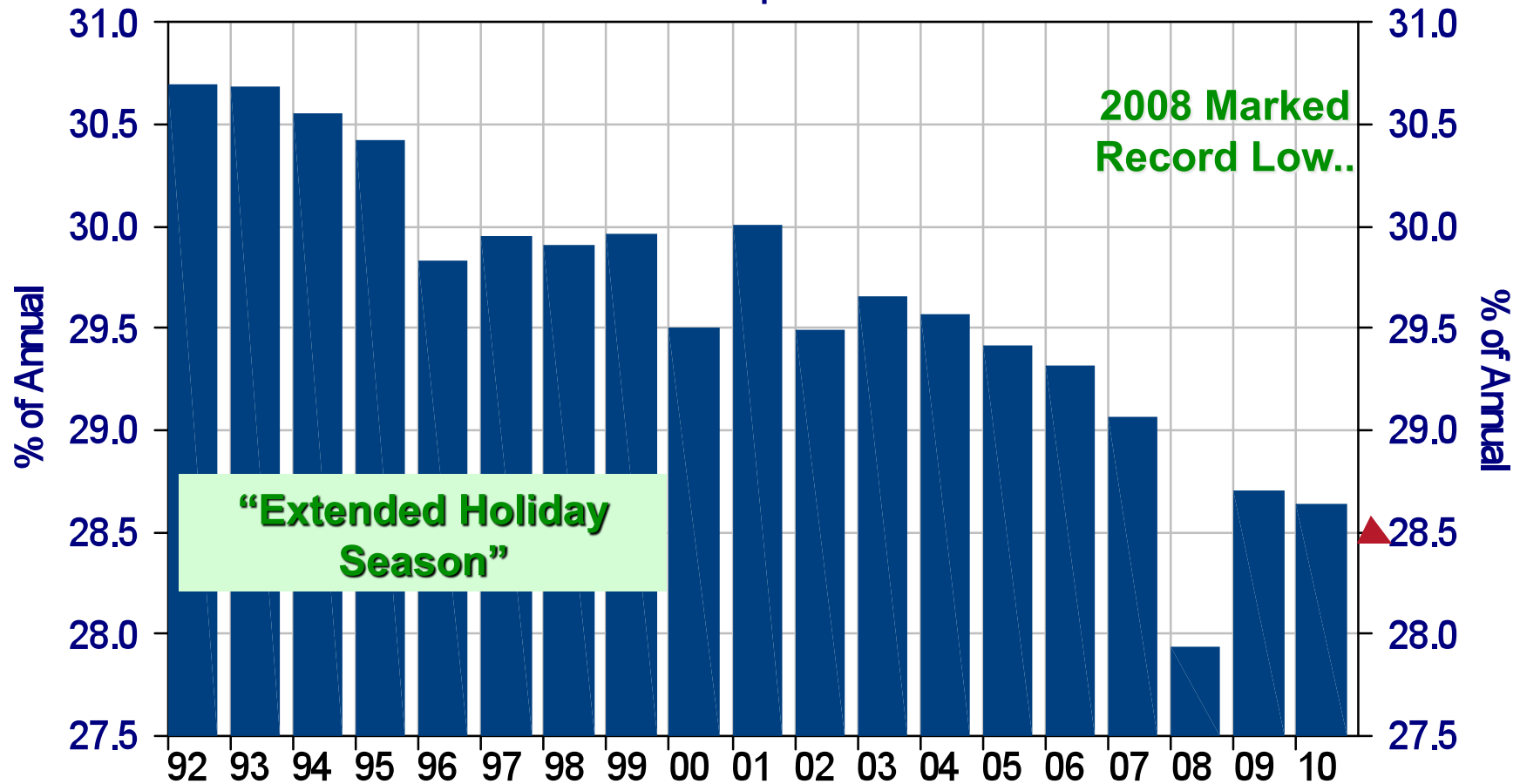
November-December General Merchandise Sales as Share of Annual Sales
Shifting Importance of Christmas Sales





Holiday Gift Card Usage Stabilizing Impact

November-December-January GAFO Sales as Share of Annual Sales
Gift Card Redemption Helps to Drive Sales in January,
But Still Season's Importance Diminishes

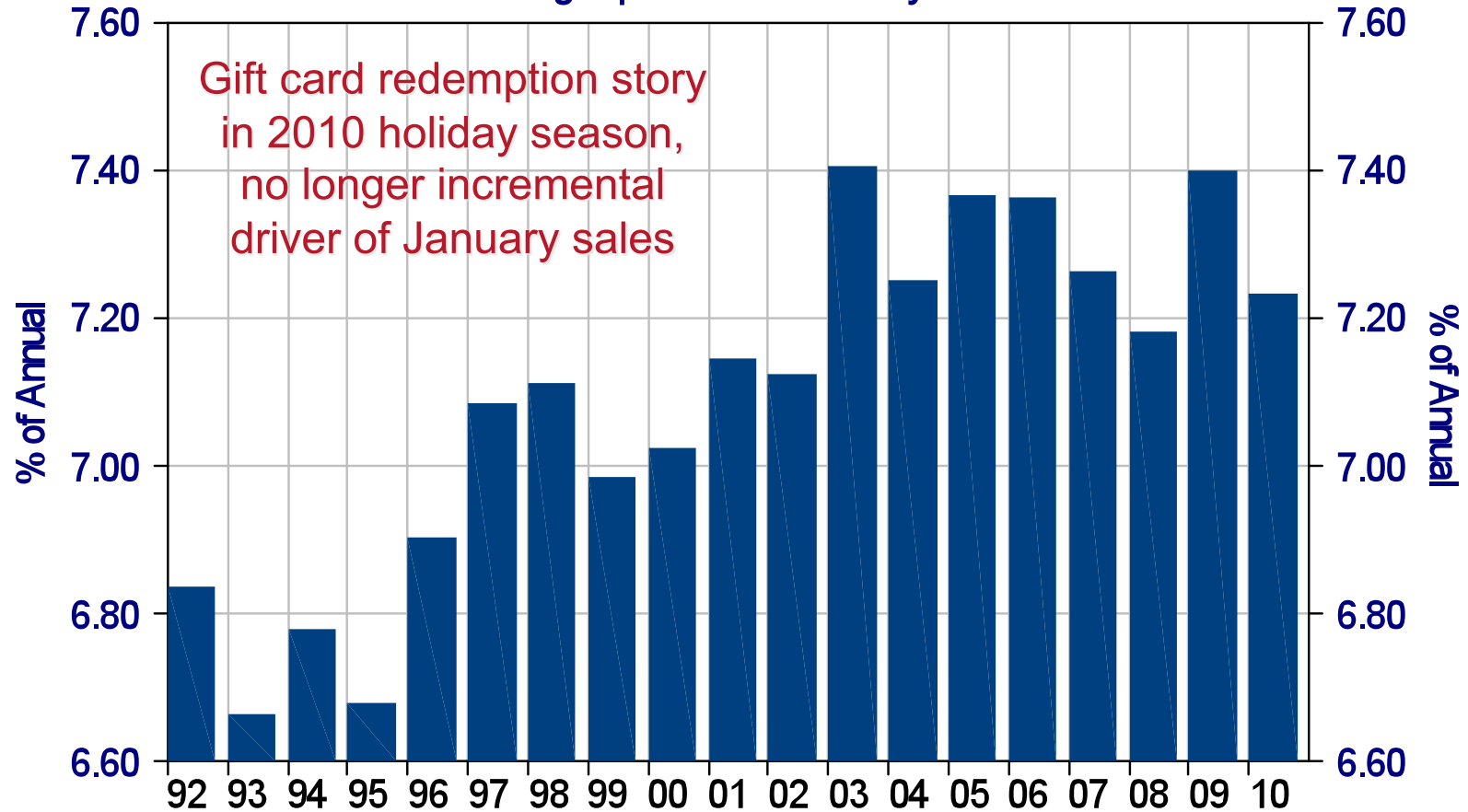


Gift Card Impact Likely to Be Steady in 2010



Focus: January Spending

January GAFO Sales as Share of Annual Sales
Shifting Importance of January Sales

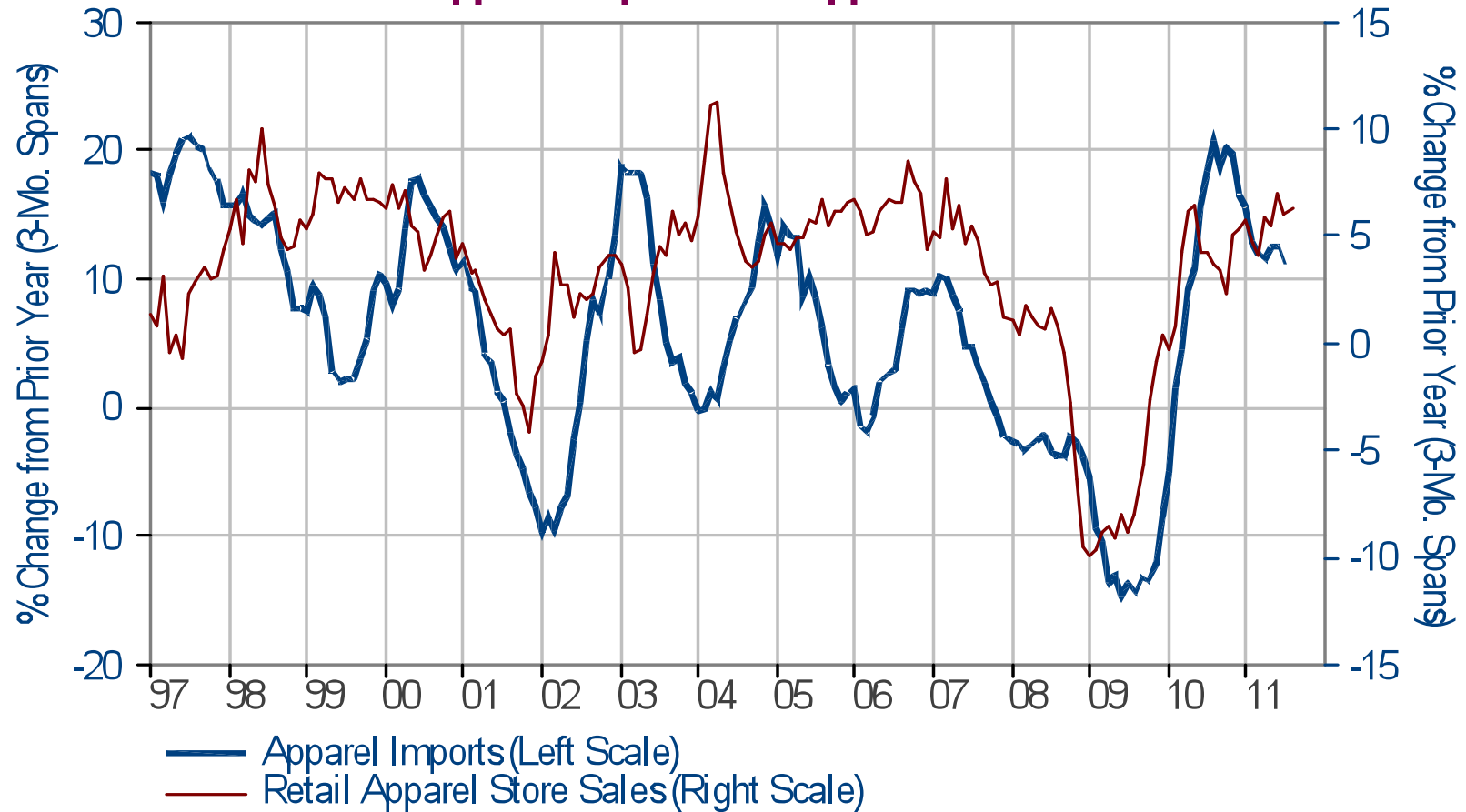


Note: Share of Fiscal Year (Feb-Jan) Sales

Retailer “Revealed Preferences”

Retailers' "Revealed Preferences"

Apparel Imports and Apparel Sales



2011 Holiday Sales Forecast



"Traditional" Holiday Season Spending Trends

Billions of Dollars, November-December Periods, Not Seasonally Adjusted

2011-2010 Trend Growth

Category	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011 Forecast	
GAFO Store Sales	\$204.3	\$206.3	\$215.8	\$226.8	\$239.2	\$247.8	\$251.7	\$236.3	\$233.4	\$242.9	\$250.2	<- 2.1%
% Change	3.4	1.0	4.6	5.1	5.5	3.6	1.6	-6.1	-1.3	4.1	3.0	
Electronics & Appliances	19.1	19.1	20.8	22.2	23.7	25.6	26.3	23.6	22.6	22.7	23.6	
% Change	6.3	-0.3	9.4	6.4	6.9	8.1	2.5	-10.0	-4.5	0.7	4.0	
Appliances, T.V. & camera	15.2	15.3	16.7	18.2	19.4	21.0	21.4	19.2	18.4	18.0	—	
% Change	7.1	0.4	9.4	8.8	6.5	8.3	2.1	-10.4	-4.4	-1.9	—	
Computer & software stores	3.4	3.2	3.5	3.7	4.0	4.5	4.6	4.5	4.6	5.1	—	
% Change	0.1	-3.8	8.4	5.5	7.2	14.1	1.5	-1.5	0.4	11.2	—	
Clothing and Accessory Stores	40.0	41.3	43.4	45.7	48.8	50.9	51.3	45.6	45.6	48.6	51.0	
% Change	-1.7	3.5	5.0	5.3	6.7	4.4	0.8	-11.2	-0.1	6.7	5.0	
Men's clothing stores	2.0	1.9	2.0	2.1	2.1	2.1	2.0	1.8	1.6	1.8	—	
% Change	-12.0	-4.1	4.8	5.0	-0.6	3.3	-4.2	-13.3	-7.7	8.4	—	
Women's clothing stores	6.7	6.7	7.3	7.5	8.1	8.4	8.5	7.4	7.4	7.8	—	
% Change	-0.7	0.9	8.2	3.8	7.3	3.3	2.2	-13.3	-0.4	6.2	—	
Shoe stores	4.4	4.4	4.5	4.6	5.1	5.3	5.2	4.9	4.9	5.2	—	
% Change	0.7	-0.2	2.7	1.7	11.7	3.2	-0.3	-7.2	0.0	7.2	—	
Sporting Goods, Hobby, Book & Music	19.2	18.9	18.8	19.0	19.5	19.2	19.5	18.3	18.1	19.4	19.4	
% Change	4.7	-1.5	-0.4	1.3	2.5	-1.8	1.7	-5.8	-1.4	7.4	0.0	
General Merchandise	99.5	100.1	105.2	111.0	117.1	122.0	125.8	124.3	124.2	128.5	131.8	
% Change	5.0	0.6	5.1	5.5	5.5	4.1	3.2	-1.3	-0.0	3.5	2.5	
Dept stores (ex. leased depts)	55.9	52.1	51.6	52.5	52.3	51.8	50.4	46.8	45.2	45.3	—	
% Change	-3.4	-6.7	-1.0	1.7	-0.5	-0.8	-2.7	-7.2	-3.5	0.4	—	
Other general merchandise stores	43.6	48.0	53.6	58.5	64.9	70.1	75.4	77.5	79.1	83.2	—	
% Change	18.2	10.0	11.7	9.2	10.9	8.1	7.5	2.7	2.1	5.2	—	
Warehouse clubs & superstores	35.8	40.2	45.0	49.6	55.6	60.5	65.7	68.0	68.8	72.2	—	
% Change	19.9	12.6	11.8	10.4	12.1	8.8	8.5	3.6	1.1	5.0	—	
All other general merchandise	7.8	7.7	8.6	8.8	9.2	9.6	9.7	9.4	10.3	11.0	—	
% Change	11.0	-1.7	11.3	2.8	4.7	4.4	1.0	-3.4	9.4	6.7	—	
Electronic shopping & mail-order	23.6	25.5	28.3	33.0	38.2	42.8	46.9	45.2	51.6	60.2	66.2	
% Change	-5.5	8.0	11.1	16.7	15.8	11.8	9.6	-3.5	14.0	16.8	10.0	
Shopping Center-Inclined Sales	353.2	357.7	375.0	397.0	419.1	431.8	439.4	420.9	418.3	439.3	448.8	<- 2.6
% Change	3.6	1.3	4.8	5.9	5.6	3.0	1.8	-4.2	-0.6	5.0	2.2	
Online & Mail-Orders/S-C Sales PLUS (% Share)	6.3	6.6	7.0	7.7	8.4	9.0	9.6	9.7	11.0	12.1	12.9	<-1.7
Chain Store Sales Index (% Change)	0.3	-0.3	4.1	2.5	4.0	4.4	1.1	-5.6	2.3	3.8	3.5	

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

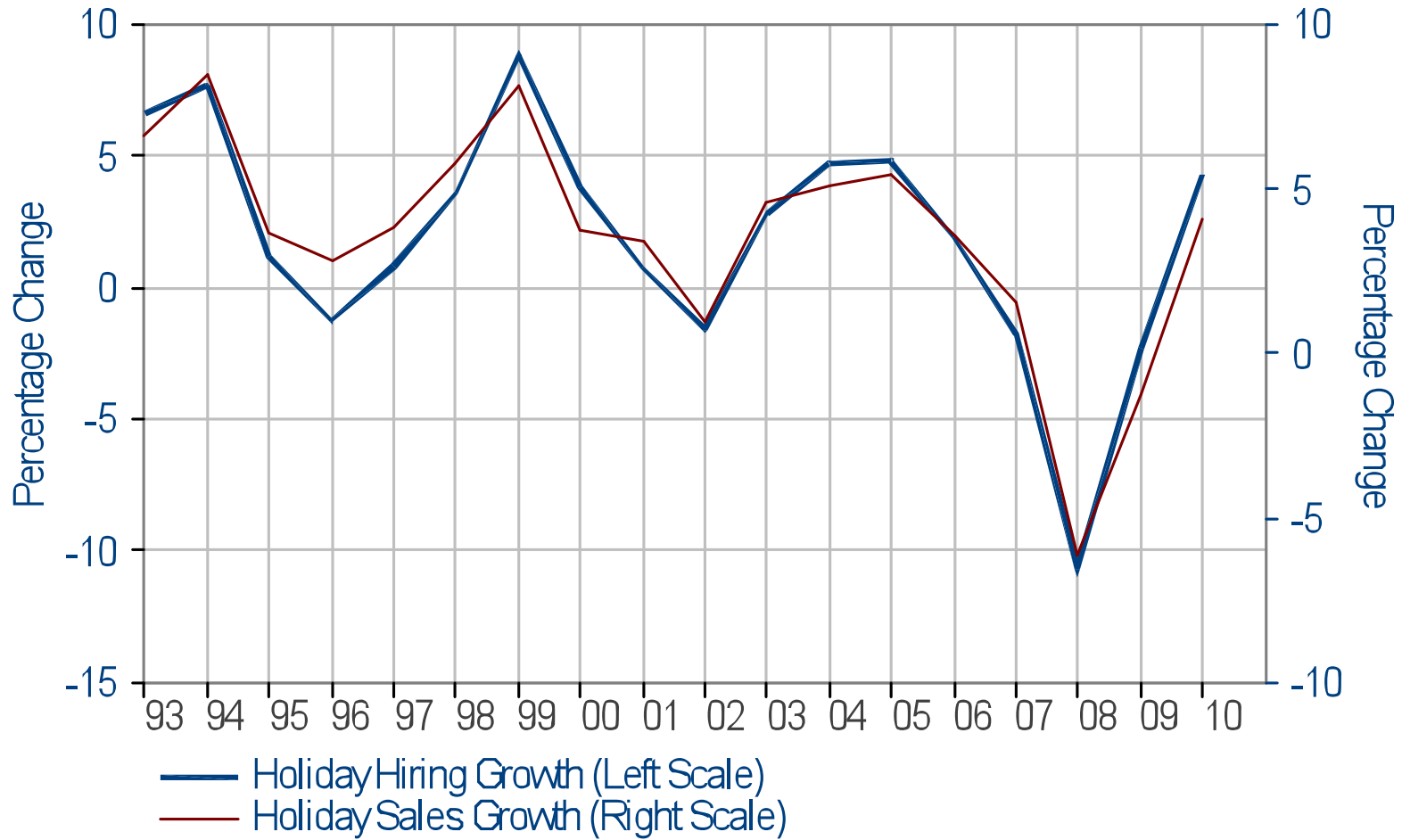


Holiday Chain Store Sales Projections By Segment

Traditional Holiday Period Chain Store Sales (Same-Store Basis)							
November-December Averages							
Segments	2011 Forecast	2010	2009	2008	2007	2006	2005
Total Industry Sales	35	38	23	-5.6	1.1	4.4	4.0
Apparel Specialty	2.5	3.6	1.2	-10.6	-1.8	-0.4	2.4
Department Stores	4.0	5.7	1.9	-9.5	-6.4	5.1	3.1
Luxury	7.5	6.7	9.0	-17.6	-1.7	9.7	6.0
Discounters	2.5	3.0	3.6	0.8	1.1	2.4	3.1
Wholesale Clubs	6.0	7.1	8.3	-2.5	5.8	4.4	6.7
Drug Stores	2.0	2.0	-1.0	2.0	2.6	7.9	5.8
Source: ICS C Research							

2011 Holiday Hiring Forecast

Holiday Hiring Highly Correlated With Sales Performance Based on GAFO Stores

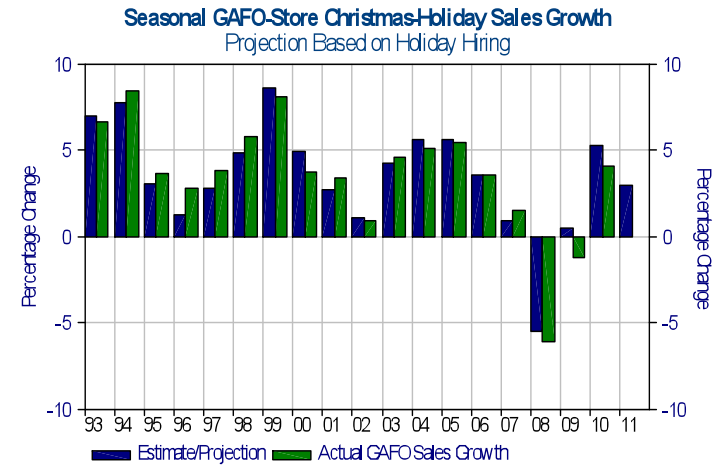




U.S. GAFO-Store Holiday Sales and Hiring and ICSC Forecasts for 2011 Season

Year	Nov-Dec Hiring (thousands)	Change from Prior Year	Nov-Dec Sales (thousands)	Change from Prior Year
1993	37,866	6.6%	\$ 138,712	6.6%
1994	40,765	7.7	150,420	8.4
1995	41,255	1.2	155,962	3.7
1996	40,732	-1.3	160,355	2.8
1997	41,063	0.8	166,546	3.9
1998	42,546	3.6	176,179	5.8
1999	46,304	8.8	190,513	8.1
2000	48,060	3.8	197,613	3.7
2001	48,427	0.8	204,292	3.4
2002	47,667	-1.6	206,252	1.0
2003	49,016	2.8	215,767	4.6
2004	51,327	4.7	226,832	5.1
2005	53,776	4.8	239,208	5.5
2006	54,807	1.9	247,845	3.6
2007	53,849	-1.7	251,710	1.6
2008	48,108	-10.7	236,340	-6.1
2009	46,993	-2.3	233,384	-1.3
2010	49,005	4.3	242,927	4.1
2011 F	49,533	1.1	250,186	3.0

The more hiring, the more sales and the less hiring, the less selling.



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



Some Takeaways...

- Retail spending is holding up for now
- Leading indicators are pointing toward slower spending pace for retail sector
- Retailers face different industry environment heading into 2011 holiday season than in 2010
- Retailers generally have more margin pressure heading into 2011 holiday season than in 2010
- ICSC Holiday Outlook – Still positive, though slower than first half pace



Thank You

LEVEL 3
seven bars | seven restaurants

LOCATED ON LEVEL THREE

Outback Capital The Trinity S&B 7-Eleven Sonosic

The advertisement sign is positioned on the left side of the image. It features a photograph of a restaurant interior and lists several brands: Outback, Capital, The Trinity, S&B, 7-Eleven, and Sonosic. The text "LEVEL 3" and "seven bars | seven restaurants" is prominently displayed at the top, and "LOCATED ON LEVEL THREE" is at the bottom.

ARB

