



Retail Real Estate Business Conditions

Vol. 3 No. 33

October 13, 2006

Economic Perspective The Unstoppable Consumer *Huge Pullback in Gasoline Prices and Spending*

Retail sales data are scrutinized to judge the health of the consumer and the strength of the economy. But not all that goes up is good news and not all that declines is bad news. Take, for example, the September U.S. retail sales report. A record 9.3% month-over-month plunge in gasoline service station sales revenue lopped off one percentage point from total retail sales growth for the month. As a result, total retail sales fell by 0.4% in September. However, excluding gasoline station revenue—which largely fell because of an estimated 9-10% drop in gasoline prices (seasonally adjusted)—sales rose by a very healthy 0.6%. Moreover, total retail sales excluding gasoline service station sales rose by 6.9% on a year-over-year basis—their largest increase since March 2006 (+7.4%—see accompanying table).

The September retail strength was heavily influenced by weather, which turned abnormally cool and triggered a hefty jump in seasonal apparel demand. Clothing and accessory stores and general merchandise retailers tended to benefit the most from this weather catalyst, which pushed month-over-month sales up by 3.0% for clothing stores—their largest gain since October 2005 (also 3.0%)—and general merchandise store sales leapt 1.1%—their strongest one-month showing since January 2006 (+1.9%). Moreover, the year-over-year increase in clothing store sales (+10.7%) was a record gain in the nearly 14-year history of that series.

Maybe, all of a sudden, a dark cloud has lifted for the upcoming holiday season. Declining gasoline prices are freeing up discretionary purchasing power for the consumer at a critical juncture in the selling season and, with it, lighting up consumer spirit as measured by consumer confidence surveys. Once again, it seems that the consumer is an unstoppable engine for economic activity.

U.S. RETAIL SALES History

Monthly % Change

| Category | Sep 2006 | Aug 2006 | Jul 2006 | Jun 2006 | May 2006 | Apr 2006 | Mar 2006 | Feb 2006 | Jan 2006 |
|---------------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|--------------|-------------|
| Total Sales & Food Services | -0.4% | 0.1% | 1.4% | -0.5% | 0.2% | 0.7% | 0.7% | -0.8% | 3.0% |
| Excluding Motor Vehicle & Parts | -0.5% | 0.2% | 0.7% | -0.0% | 0.8% | 0.7% | 0.6% | -0.2% | 2.7% |
| Excluding Gasoline Stations | 0.6% | 0.2% | 1.4% | -0.6% | -0.0% | 0.1% | 0.7% | -0.8% | 2.9% |
| Less Motor Vehicle and Gasoline | 0.8% | 0.4% | 0.6% | -0.1% | 0.6% | 0.1% | 0.6% | -0.1% | 2.5% |
| Total Retail Sales Less Food Services | -0.6% | -0.0% | 1.5% | -0.5% | 0.2% | 0.7% | 0.7% | -0.8% | 3.0% |
| Motor Vehicle | 0.0% | -0.4% | 4.1% | -2.4% | -2.1% | 0.4% | 1.3% | -3.1% | 4.1% |
| Furniture & Home Furnishings | 0.2% | -0.1% | -0.1% | 0.9% | 0.5% | 0.6% | 0.4% | -2.6% | 6.6% |
| Electronics & Appliances | 0.2% | 0.1% | 0.7% | -0.5% | 0.8% | 0.3% | -0.1% | -3.5% | 7.1% |
| Building Materials, Garden & Supply | 0.6% | 0.6% | 0.6% | -1.6% | -0.3% | -2.6% | 1.6% | -0.4% | 6.9% |
| Food and Beverage | -0.3% | 0.4% | 0.3% | 0.7% | 0.5% | 0.7% | -0.2% | 0.9% | 0.2% |
| Health & Personal Care | 0.2% | 1.1% | 0.2% | 0.7% | 1.4% | 0.4% | 0.5% | 0.5% | 0.7% |
| Gasoline Service Stations | -9.3% | -1.3% | 1.5% | 0.1% | 2.0% | 5.7% | 0.4% | -1.3% | 4.5% |
| Clothing and Accessory Stores | 3.0% | -0.2% | 1.2% | 0.5% | 0.7% | 0.5% | 0.5% | -1.1% | 2.6% |
| Sporting Good, Hobby, Book & Music | 1.1% | -0.2% | -0.5% | 0.3% | -1.2% | 1.7% | 1.0% | -0.1% | 3.8% |
| General Merchandise | 1.1% | 0.5% | 0.5% | 0.1% | 0.2% | 0.6% | -0.1% | -0.2% | 1.9% |
| Miscellaneous Stores | 0.8% | -0.1% | -0.3% | -0.1% | 0.4% | 0.5% | 0.3% | 0.3% | 5.0% |
| Nonstore Retailers | 1.1% | -0.2% | 2.0% | -0.7% | 3.6% | -0.3% | 1.6% | 3.3% | -2.0% |
| Food Services | 1.0% | 1.2% | 0.6% | -0.4% | 0.4% | 0.1% | 1.1% | -1.4% | 3.2% |
| Addenda: | | | | | | | | | |
| GAFO | NA | 0.2% | 0.6% | 0.3% | 0.3% | 0.6% | 0.2% | -0.9% | 3.1% |
| GAFS | 1.3% | 0.2% | 0.5% | 0.2% | 0.3% | 0.6% | 0.2% | -1.0% | 3.2% |
| Shopping Center Inclined | 0.7% | 0.4% | 0.5% | 0.1% | 0.3% | 0.1% | 0.4% | -0.2% | 2.8% |
| NRF-concept Industry Sales | 0.7% | 0.4% | 0.4% | 0.1% | 0.3% | 0.1% | 0.4% | -0.2% | 2.9% |

Year/Year % Change (Seasonally Adjusted)

| | | | | | | | | | |
|--|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Total Retail Sales & Food Services | 5.5% | 6.4% | 4.8% | 5.3% | 7.6% | 7.0% | 8.0% | 7.4% | 9.4% |
| Excluding Motor Vehicle | 5.5% | 7.5% | 8.6% | 8.3% | 9.5% | 8.6% | 9.5% | 9.3% | 10.5% |
| Excluding Gasoline Stations | 6.9% | 6.0% | 3.5% | 3.9% | 6.2% | 5.8% | 7.4% | 6.4% | 8.2% |
| Less Motor Vehicle and Gasoline | 7.3% | 7.1% | 7.4% | 6.9% | 7.9% | 7.2% | 9.0% | 8.1% | 9.1% |
| Motor Vehicle | 5.6% | 2.2% | -7.8% | -5.2% | 1.0% | 1.2% | 2.7% | 0.9% | 5.5% |
| Furniture & Home Furnishings | 4.5% | 7.0% | 8.5% | 8.8% | 9.2% | 9.2% | 9.7% | 8.9% | 11.5% |
| Electronics & Appliances | 4.5% | 5.4% | 5.7% | 4.9% | 6.7% | 5.2% | 5.2% | 4.5% | 11.1% |
| Building Materials, Garden & Supply | 8.3% | 9.2% | 9.2% | 8.5% | 11.1% | 12.2% | 17.9% | 17.3% | 17.2% |
| Food and Beverage | 4.1% | 5.3% | 5.4% | 5.5% | 4.9% | 4.6% | 4.9% | 5.4% | 4.6% |
| Health & Personal Care | 7.3% | 8.6% | 7.5% | 8.3% | 7.3% | 6.4% | 7.3% | 6.0% | 6.3% |
| Gasoline Service Stations | -6.3% | 10.3% | 17.5% | 19.0% | 21.8% | 19.5% | 13.9% | 18.2% | 22.2% |
| Clothing and Accessory Stores | 10.7% | 6.6% | 8.3% | 5.5% | 6.6% | 4.6% | 7.5% | 4.0% | 8.4% |
| Sporting Good, Hobby, Book & Music | 8.2% | 4.6% | 5.7% | 7.9% | 6.0% | 8.3% | 7.0% | 6.6% | 8.2% |
| General Merchandise | 6.3% | 5.1% | 5.1% | 4.4% | 5.7% | 5.5% | 6.2% | 6.1% | 7.1% |
| Miscellaneous Stores | 6.5% | 7.1% | 6.6% | 6.9% | 7.8% | 9.1% | 9.2% | 9.0% | 10.3% |
| Nonstore Retailers | 12.9% | 11.4% | 15.0% | 12.5% | 16.6% | 10.9% | 14.8% | 13.7% | 10.1% |
| Food Services | 8.3% | 8.2% | 7.2% | 6.9% | 8.0% | 7.3% | 9.8% | 7.7% | 10.6% |
| Addenda: | | | | | | | | | |
| GAFO Store | NA | 5.7% | 6.3% | 5.4% | 6.3% | 5.9% | 6.7% | 5.9% | 8.3% |
| GAFS Store | 6.9% | 5.6% | 6.2% | 5.4% | 6.4% | 5.9% | 6.8% | 5.9% | 8.3% |
| Shopping Center-Inclined Stores | 6.5% | 6.4% | 6.6% | 6.1% | 6.8% | 6.6% | 8.0% | 7.5% | 8.5% |
| NRF-concept Industry Sales | 6.5% | 6.4% | 6.6% | 6.2% | 6.9% | 6.8% | 8.2% | 7.6% | 8.7% |

Notes: GAFO store sales represent stores that specialize in department-store type merchandise (furniture, electronics, computer, clothing and accessory, sporting goods, music, book, hobby, general merchandise, office supplies, stationery and gift stores); GAFS is a National Retail Federation (NRF) sales concept that is defined as the sum of sales at general merchandise, clothing and accessories, furniture and home furnishing, electronic and appliance, sporting goods, hobby, book and music stores; shopping center-inclined sales is ICSC's industry benchmark defined as GAFO sales plus sales at building material and garden equipment and supplies, food and beverage, and health and personal care stores; NRF-defined industry sales equals ICSC's shopping center-inclined total plus miscellaneous store sales (NAICS 453) minus the difference between GAFO and GAFS.

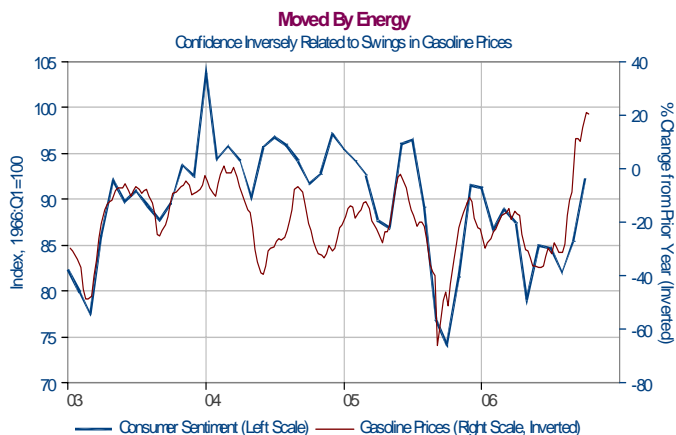
Industry and Economic News

- Federal Government Sees Red—Just Less:** The U.S. Treasury Department announced this week that the Federal deficit for the fiscal year ending September 30 was \$247.7 bn. That was \$71 bn. less than the prior year and considerably less than what White House's budget arm, OMB, originally projected (prior to the fiscal year), which was a shortfall of \$423 bn. However, a considerably stronger economy helped to pare that estimate for the mid-session review to \$296 bn. Despite the better-than-anticipated performance, individual income taxes receipts were about \$20 bn. below OMB's mid-session updated estimate, yet that was offset by higher corporate tax receipts.

U.S. Federal Budget
(Billions of Dollars, Fiscal Years, October-September)

| Fiscal Year | Deficit(-)/Surplus |
|---------------|--------------------|
| 1999 | \$125.6 bn. |
| 2000 | 236.2 |
| 2001 | 128.2 |
| 2002 | -157.8 |
| 2003 | -377.6 |
| 2004 | -412.7 |
| 2005 | -318.7 |
| 2006 | -247.7 |
| 2007 CBO est. | -286.0 |
| 2008 CBO est. | -273.0 |

- Tradeoffs Still Matter:** This week the Royal Swedish Academy of Sciences awarded the Alfred Noble memorial prize for economic sciences to Edmund Phelps of Columbia University "for his analysis of intertemporal tradeoffs in macroeconomic policy." Great as his contribution has been, his acknowledged work was in vogue some 20 years ago and has since lost favor.
- Housing—Better than Feared:** In what can only be said to be an upbeat and reassuring assessment for the economy, the National Association of Realtors (NAR) said that the housing market is showing some renewed life. NAR President Thomas Stevens explained, "The supply of homes on the market is the highest we've seen in over 13 years, mortgage interest rates are experiencing an unexpected decline...and sellers in most of the country are now showing a willingness to negotiate."
- Consumer Confidence Continues to Improve:** The ten-day flash reading from the University of Michigan's Survey Research Centers' October consumer sentiment survey found a fairly upbeat assessment. The October index was at its highest since July 2005. Confidence has been inversely tracking swings in gasoline prices.



NOTE: There will be no Retail Real Estate Business Conditions published next week. It will resume on October 27, 2006.

International Council of Shopping Centers
Weekly Leading Indicator of Chain Store Sales

| Week ending | Index 1977=100 | Year/Year Chg | Week/Week Chg |
|-------------|----------------|---------------|---------------|
| 7-Oct | 311.7 | 0.8% | 0.1% |
| 30-Sep | 311.4 | 0.8 | 0.3 |
| 23-Sep | 310.5 | 0.2 | 0.6 |
| 16-Sep | 308.6 | 0.4 | -0.7 |
| 9-Sep | 310.8 | 0.9 | 0.8 |
| 2-Sep | 308.4 | -1.6 | 0.5 |
| 26-Aug | 306.9 | -2.5 | -0.1 |
| 19-Aug | 307.3 | -2.5 | 0.0 |
| 12-Aug | 307.4 | -2.3 | -0.1 |
| 5-Aug | 307.6 | -2.8 | -0.1 |
| 29-Jul | 308.0 | -2.1 | -0.3 |
| 22-Jul | 309.0 | -1.5 | -0.1 |
| 15-Jul | 309.4 | -2.2 | 0.6 |
| 8-Jul | 307.7 | -2.3 | -0.9 |
| 1-Jul | 310.6 | -2.1 | 0.4 |
| 24-Jun | 309.5 | -2.7 | -0.3 |
| 17-Jun | 310.5 | -2.0 | -0.3 |
| 10-Jun | 311.4 | -2.2 | 1.0 |
| 3-Jun | 308.3 | -2.9 | 0.8 |
| 27-May | 305.9 | -2.5 | 0.1 |
| 20-May | 305.5 | -2.9 | -0.1 |
| 13-May | 305.9 | -2.3 | -0.3 |
| 6-May | 306.7 | -2.2 | -0.6 |
| 29-Apr | 308.7 | -1.2 | -0.1 |
| 22-Apr | 309.0 | -1.2 | -0.6 |
| 15-Apr | 310.9 | -0.7 | -0.1 |
| 8-Apr | 311.1 | 0.0 | -0.3 |
| 1-Apr | 312.1 | 0.7 | -0.5 |

Data also available at <http://www.chainstoreage.com>.

UPCOMING U.S. ECONOMIC RELEASE SCHEDULE

| Date | Time (ET) | Indicator/Event | Consensus | Last |
|-------|-----------|--------------------------|-----------|----------|
| 10/16 | 8:30 AM | Empire Mfg. Index/Oct | +12.0 pp | +13.8 pp |
| 10/17 | 8:30 AM | Producer Price Index/Sep | -0.7% | 0.1% |
| | 8:30 AM | Excl. Food & Energy | 0.2% | -0.4% |
| | 9:15 AM | Industrial Prod./Sep | -0.2% | -0.1% |
| 10/18 | 8:30 AM | Capacity Util./Sep | 82.3% | 82.4% |
| | 8:30 AM | Cons. Price Index/Sep | 0.2% | 0.2% |
| | 8:30 AM | Excl. Food & Energy | 0.2% | 0.2% |
| 10/19 | 8:30 AM | Housing Starts/Sep | 1640 K | 1665 K |
| | 8:30 AM | Building Permits/Sep | 1707 K | 1722 K |
| | 8:30 AM | Initial Claims/Oct-14 | 310 K | 308 K |
| | 10:00 AM | Leading Indicators/Sep | 0.2% | -0.2% |
| 10/25 | 12:00 PM | Philly Fed Survey/Oct | +8.0 pp | -0.4 pp |
| | 10:00 AM | Existing Home Sales/Sep | 6275 K | 6300 K |
| 10/26 | 8:30 AM | Durable Goods/Sep | 0.9% | -0.5% |
| | 8:30 AM | Excl. Transportation | 1.3% | -2.0% |
| | 8:30 AM | Initial Claims/Oct-21 | 311 K | N/A |
| 10/27 | 10:00 AM | New Home Sales/Sep | 1053 K | 1050 K |
| | 8:30 AM | GDP/Q3(a) | 2.1% | 2.6% |
| | 8:30 AM | Chain Wgt. Price Index | 2.9% | 3.3% |
| | 9:45 AM | Michigan Sentiment/Oct | 92.2 pts | 92.3 pts |