THE 2009 MELANIPHY CHICAGOLAND RETAIL & RESTAURANT TRENDS REPORT

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*This Newsletter if focused upon National, Regional, and Chicagoland Retail and Restaurant Trends, covering the last quarter of 2008, December, 2008, and what we see for 2009. Our **May 2009** Retail Sales Newsletter will focus on the detailed retail sales by major retail categories for the Top 20 suburban communities. The detailed data will not be released until later in 2009.*

THE NEWSLETTER'S 2008-2009 QUICK SUMMARY

- Negative best describes 2009, since housing and consumer spending will continue downward.
- Internationally, all major countries have had some degree of financial meltdown.
- We are in the worst recession since 1929, and the U.S. has lost over $7 trillion in wealth.
- CPI declined, down -12.7% in the last quarter of 2008.
- Real unemployment in December increased by almost a million persons.
- Unemployment has risen above 7.0% and is likely to rise to over 10% in 2009.
- December shopping traffic was down over 15.0%.
- Department stores inability to attract customers adversely affected holiday mall sales.
- Annual U.S. 2008 retail and restaurant sales declined overall by approximately -1.0%.
- Of the major stores, only Walmart experienced a sales increase (a paltry +1.7% for 2008).
- Chicago Metropolitan total retail and restaurant sales in the **4th quarter** declined by -4.0%.
- Chicago Metropolitan retail and restaurant sales for **all of 2008** declined by -2.15%.
- Retail sales will continue to fall in 2009, with rising unemployment and lack of consumer spending.
- Retail vacancies are expected to rise to approximately 12% by the end of 2009.
- President Obama's stimulus package will not accomplish the planned objectives; it is off-target.
- 2009 and 2010 will continue to be difficult years.

GLOBAL MARKET TRENDS

Economic indicators reflect a deepening global recession, initiated by the breaking of the housing bubble, years of greed on Wall Street, the U.S. Congress tampering with lending requirements, and declining consumer spending. However, we are not alone. The U.S. caught pneumonia; the rest of the world got the flu and, in some cases, a high fever. Japanese exports in November and December fell significantly in contrast to November and December of 2007. On the flip side, imports into Japan sank over 15% over last year. The outlook is not good. Additionally, in China, while retail sales grew by 21.6%, there are numerous negative signs. The Chinese government is trying to head off social unrest, while growth has slowed considerably, particularly since the world's greatest consumer, the U.S., has all but stopped buying. China could possibility be the next major meltdown. Over-production and over-expansion in China is coming home to roost. Interest rates were cut five times in three months in the latter part of 2008– the December cut representing 27 basis points to 5.31%. The reserve requirement was slashed 50 basis points to 15.5% for big banks and 13.5% for smaller ones. India, recently the poster country of the shopping center industry, is suddenly suffering economic hardships with declining consumer expenditures, rising interest rates and declining retailers. Russia, also joining the crowd, has seen its ruble devaluated recently for a wide variety of reasons, not withstanding the Ukraine gas shut-off problem which affected much of Europe. Capital is drying up at a time when it is desperately needed. In Europe, Germany's import price index dropped from October through December. In France, producer prices plunged during the holiday season. European industrial orders dropped 4.7% in October on top of a downwardly revised 5.4% decline in September. This took the year-over-year rate to -15.1%, the worst drop on record.

The Middle East remains in turmoil, especially with the drop in oil prices. U.S. funds flowing into Iraq have essentially bought limited peace. Israel and Hamas continue to experience havoc and distrust. Hatreds are deep. Iran continues to export arms, fighters and other forms of disruption.

In the Southern Hemisphere, generally indicators were positive in most of 2008 with rising income, increasing jobs (non-governmental), growing exports and improved economies. However, that was before oil prices started to decline. Mexico is now struggling as a result of declining oil prices, fewer U.S. tourists and the incredible wave of violence brought on by drug wars. Brazil continues to improve and become a stable economy after years of hyper-inflation. Argentina, the same. Venezuela, once Chavez's utopia, is now suffering with oil's decline. In all, the world is enduring a capital crunch and a stingy consumer, which will not improve until the U.S. recovers.

THE U.S. MARKET

The United States, in our opinion, continues a move toward socialism with the government now responsible for solving all of our problems from Wall Street and Main Street. Even Larry Flint of Hustler Magazine is seeking help. What will we do if there is a cover-up? Will the government help the models or the centerfold? Don't forget the commercial real estate developers and landlords who are concerned about the size of their debt coming due and the inability to refinance the loans. How will all of this demand be prioritized?

The President's new $700+ billion stimulus program, in my opinion, is not adequately focused. The program hopes to use public works projects expenditures as a means to stimulate the economy. What we really need is something to stimulate employment in the financial and residential real estate category. **Table 1** below lists the Department of Labor's December 2008 estimates of U.S. unemployment by category.

Table 1

December 2008 U.S. Unemployment

Category	**Est. Unemployed Workers**
Financial/Real Estate	540,000
Architects & Engineers	124,000
Construction	1,500,000
Retail/Wholesale	1,500,000
Leisure/Hospitality	1,200,000
Health/Education	800,000
Manufacturing	1,350,000
Transportation	145,000
Professional & Business Services	1,200,000
Others	2,640,000
Total	**10,999,000**

Source: Department of Labor, 2009

The December unemployment adjusted numbers stated 500,000 additional unemployed; however, the real number was 952,151 persons, or almost one million people who filed for unemployment in December. As the table shows, there are now approximately 1.2 million unemployed construction workers (mainly residential), and another approximately 123,000 unemployed architects and engineers. Furthermore, there are 1,350,000 unemployed manufacturing workers and another 421,000 unemployed transportation-related workers. Moreover, unemployed persons in the financial/real estate industry total about 540,000 persons, while retail/wholesale unemployment amount to about 1,500,000 workers. The leisure/hospitality industry lost approximately 1.2 million workers, while the health/education category witnesses job losses of 791,000 persons. I cannot recall any characteristics that investment bankers, shopkeepers, bell captains and medical chart technicians have in common with public construction workers. It looks to me like public works construction is a payback for union political assistance. Regardless, it will not have much of an impact among the masses. In 2009, unemployment will probably rise above 9.0% from the 7.2% level today.

The U.S. economy has lost over $7 trillion in value and wealth as a result of the Wall Street and Main Street meltdown. In my opinion, it may take more than a decade to fully recover from what is similar in many ways to the Depression of 1929. Housing demand and consumer spending needs to lead the way out of this problem.

The **Consumer Price Index (CPI)** is a measure of the average change in prices over time of goods and services purchased by households. The CPI compounded for the last three months of 2008 was down by -12.7%. For all of 2008, the CPI was up 0.1%, the lowest annual increase since 1954. **December, retail sales nationally declined by -2.7% from 2007, and by an estimated -1.0% for all of 2008, the worst in over a decade.** The biggest decline was in the *Automobile* category, which witnessed car sales declines between -30.0% and -40.0% in 2008. Both the retail and restaurant industries are crying real tears. In the past, recessions basically hurt the "little guys" while the big guys cut employment and costs and hung on for another day. In the current crisis, no one has been immune– from Neiman Marcus, Saks, and Tiffany's patrons to Target and Kohl's customers.

The Commerce Department indicated that total retail sales fell to a seasonally adjusted $343.2 billion last month, taking sales for the whole year of 2008 down -0.1%. Consumers have been weaned on credit, and without its availability, they are immobile.

The economy continues in a snowballing decent without any real signs of recovery. Lower household wealth; rising unemployment, paralyzed credit conditions, and a confused economic picture have forced consumers to virtually halt all but necessary spending. Moreover, it is accelerating, rather than getting better, even with lower gasoline prices. The consumer remains comatose and unresponsive and actually starting to save. Consumer spending accounts for about one third of economic activity and the consumer appears to be in hibernation. Consumer confidence has dropped to the lowest level since 1967.

Surprisingly, retail sales continued lower even as gasoline sales tumbled -15.9% in December after diving by a record -18.3% in November, providing some consumer relief. Sales in department stores fell -2.3% in December, following a +1.7% gain in November. Clothing stores sales dropped -2.5% in December, driven by major sale prices, after rising slightly 0.1% in November. Sporting goods sales were down -0.4% in December following a +2.1% increase in November. **Once the darling of holiday retail sales, *Online Internet sales* dipped -2.3%, from previous years increases of 30%+ during the 2007 holiday season.**

Even Walmart was not spared; their sales went up in 2008, but only marginally. However, they did go up! Walmart said that same-store sales, or sales at stores opened at least one year, rose 1.7 %. Including fuel sales, that gain was 1.2%. Meanwhile, Costco Wholesale Corp. reported a -4.0% decline in same-store sales.

Sears Holdings said its December same-store sales dropped -7.3%, weighed down by a -12.8% drop at domestic Sears stores. How can Sears continue to survive with continuing declines in sales and profits? It cannot!! It looks to us like 2009 may be the funeral year. That said Kmart a Sears company, reported same-store sales down -1.1%, compared with a -10.0% drop in November. Target's December sales declined -4.1%, in contrast to Kohl's sales decline of -1.4%. Bon-Ton stores (Carson's) sales declined in December by -5.8%. Carson's, a Bon-Ton company, is performing like other department stores, but the balance of the Bon-Ton company is suffering. TJ Maxx and Marshalls combined sales declined by -5.0% in December.

Macy's nationally reported that its December sales at stores open at least one year, or same-store sales, fell -4.0 %. Same-store sales declined a significant -7.5% during the combined November and December holiday period. There were some positives with some apparel chains—Aeropostale**,** American Apparel and Hot Topic—reporting increases. However, they definitely reflected the minority. Dillard's, a national department store with 330 stores in 29 states, saw its sales decline by -5.0% in December. The department store industry continues to witness shrinking sales and declining market share. It is essential for their survival to fix this problem. If they fail, what will be the future of malls?

Circuit City is being liquidated, thus eliminating a major Appliance/Electronics player. While Best Buy's sales were down, they will be the beneficiary of the Circuit City loss. This category is really tough in an industry that is highly susceptible to recessions.

According to Precima, a national market research firm which surveyed over 3,000 consumers in 2008, "nearly half of American consumers (48%) say that they are spending their savings from lower gasoline prices at the grocery store. Groceries topped the list, ahead of "putting money into savings", and "paying off credit cards". Moreover, consumers are "buying week-to-week with no pantry storing".

Another significant finding from the survey, "nearly two-thirds of respondents said the recession is changing the way they plan their grocery trips, particularly in regards to pantry-loading. No less than 27% of consumers said they can no longer afford to stock up on food and now buy only what they need week-to-week, paycheck-to-paycheck. Another 35% said that they stock up more than they used to, but only when items are on sale."

Gift Card sales were down over the 2008 holiday season, in contrast to a major increase in 2007. Usually, the Christmas holiday season accounts for 30% to 50% of a retailer's annual total sales. Job cuts, portfolio losses and other economic woes have convinced consumers to significantly curtail their discretionary spending. Meanwhile, strong winter storms during the holiday season kept some would-be shoppers at home. On another negative note, **Merchandise Returns,** which are usually around 5%, increased this in January 2009 to approximately 10%, causing further retailer problems.

Restaurants and Quick Service Food Trends

Nationally, Restaurant (Eating and Drinking) sales declined in December, though they were up slightly for the year. The National Restaurant Association projects industry sales will reach $566 billion in 2009, which would be another record high for the foodservice community. We believe that their forecast is way too high. In our opinion, it is more likely that the number to be negative rather than positive. 2009 will represent a year of real negative growth.

The consumer has definitely cut dining-out frequency and is eating more meals at home. Also, there has been considerable trading down as reflected in the sales of many quick service food units, especially McDonald's. The casual dining units such as Applebee's, Chili's, and others have seen sales and profits decline, the result of a frugal consumer. Also, Take-Out has generally done well for varying concepts. Smart restaurateurs are making take out cheaper (lower labor cost) to stimulate sales. Nationally, Eating and Drinking sales declined in November and December as numerous Christmas parties were toned-down or simply cancelled particularly many corporate affairs. The prognosis for 2009 is tenuous. We expect sales nationally to be down and failures in this category are likely to increase. The U.S. Department of Commerce reported that 2008 restaurant and foodservice sales in Illinois were $18.8 billion, up slightly from 2007.

According to NPD, a major restaurant market research firm, for the first time since 2000, the number of U.S. restaurants fell from the year earlier, led by drops in the family-dining and fine-dining segments. Usually, the number of U.S. restaurants grows each year. In 2007, the number of restaurants grew by 1.8%. Casual-dining and quick-service locations showed small but positive growth in 2008. Independents were the hardest hit. The number of all independent restaurants (with one or two locations) fell 0.8 percent from one year earlier. Fine-dining independents drove the decrease, with a plunge of -10.8 percent in 2008. In previous years, independent locations grew by 0.7 percent in 2007 and by 0.5 percent in 2005, but contracted by -0.9 percent in 2006 and by as much as -1.8 percent in 2002.

Chain locations increased by 0.8 percent in 2008, compared with one year-earlier growth rates of 3.1 percent in 2007 and 4.1 percent in 2005.

THE CHICAGO METROPOLITAN AREA'S QUARTERLY AND ANNUAL RETAIL SALES GROWTH 2007-2008

Chicago Metropolitan Area retail sales for the first three quarters of 2008 amounted to $76.6 billion, but declined by -1.48% from the similar period in 2007. The 4th quarter sales by retail category will not be available until March and will be discussed in our Retail Sales Newsletter in May, 2009. However, we have projected the 4th Quarter Chicago Metropolitan Area retail sales, which in our opinion finished the 4th Quarter at approximately $27.0 billion, down from the same quarter in 2007 by -$1.126 billion. This represents a decline in 4th quarter retail sales from 2007 by -4.0%. **Overall, 2008 ended with total sales for all four quarters amounting to an estimated $103.6 billion, down -2.15% from 2007 retail sales of $105.8 billion.** As a result of this decline, Chicago and suburban governments are struggling with declining sales tax revenues resulting from the lower 2008 retail sales performance. This will continue, in our opinion, throughout 2009.

The 1st Quarter 2008 retail sales taxes reported by the Illinois Department of Revenue indicated retail sales amounting to $23.8 billion, down -0.76% from the 2007 quarter of $23.965 billion. The 2nd Quarter recorded retail sales of $26.8 billion, which declined from the 2007 figure of $26.975 billion, down by -0.51%. The 3rd Quarter saw sales decline by approximately $827.3 million to sales of $25.9 billion from sales of $26.8 billion in 2007. We estimated the 4th Quarter of 2008 at $27.0 billion, down -4.0% from 2007 sales of $28.1 billion.

The only major retail categories that increased in 2008 over 2007 included *Food* (eaten at home), *Eating and Drinking Places*, *Drugs and Miscellaneous Retail Stores*, *and the Agriculture* category. All others decreased by varying degrees. The largest decline occurred in the *Automobile and Filling Station* category which declined by approximately $1.9 billion in 2008 from 2007. The second largest decline occurred in the *Lumber*, *Building and Hardware* category which declined by over $607 million in 2008. *Furniture and Appliances* declined by over $527 million in 2008.

Table 1 on the following page shows a comparison of retail sales by quarter for both 2007 and 2008 by major retail categories. Keep in mind that the 4th quarter is an estimate.

Table 1

A QUARTERLY AND ANNUAL COMPARISON OF RETAIL AND RESTAURANT SALES
CHICAGO METROPOLITAN AREA
2007 AND 2008

Retail Category	2007 1st Quarter	2007 2nd Quarter	2007 3rd Quarter	2007 4th Quarter	2007 Sales Total
General Merchandise	$2,657,130,765	$2,784,054,617	$2,722,205,653	$3,567,258,903	$11,730,649,938
Food	$2,948,193,846	$3,179,415,391	$3,178,650,277	$3,657,762,111	$12,964,021,625
Drinking & Eating Places	$2,834,343,208	$3,256,352,309	$3,327,381,534	$3,150,648,931	$12,568,725,982
Apparel	$1,049,059,880	$1,208,607,216	$1,212,271,618	$1,467,022,082	$4,936,960,796
Furniture & H.H. & Radio	$1,581,194,417	$1,539,772,202	$1,588,811,546	$1,873,000,721	$6,582,778,886
Lumber, Bldg, Hardware	$1,180,408,339	$1,760,341,520	$1,545,680,225	$1,375,638,604	$5,862,068,688
Automotive & Filling Stations	$5,052,728,151	$5,932,752,389	$5,762,480,547	$5,087,672,420	$21,835,633,507
Drugs & Misc. Retail	$3,470,727,770	$3,751,836,219	$3,796,779,901	$4,264,750,444	$15,284,094,334
Agriculture & All Others	$2,599,217,734	$2,874,119,210	$2,949,432,473	$2,986,854,870	$11,409,624,287
Manufacturers	$592,317,177	$687,323,417	$678,427,664	$703,381,524	$2,661,449,782
Totals	**$23,965,321,287**	**$26,974,574,490**	**$26,762,121,438**	**$28,133,990,610**	**$105,836,007,825**
Retail Category	**2008 1st Quarter**	**2008 2nd Quarter**	**2008 3rd Quarter**	**2008 Estimated 4th Quarter**	**2008 Sales Total**
General Merchandise	$2,523,910,393	$2,858,617,213	$2,731,711,014	$3,460,241,136	$11,574,479,756
Food	$3,172,284,870	$3,277,969,752	$3,336,007,449	$3,699,900,000	$13,486,162,071
Drinking & Eating Places	$2,942,293,164	$3,388,118,069	$3,301,183,518	$3,087,635,952	$12,719,230,703
Apparel	$990,472,270	$1,240,067,085	$1,163,538,785	$1,351,127,338	$4,745,205,478
Furniture & H.H. & Radio	$1,505,857,035	$1,493,076,072	$1,426,910,617	$1,629,510,627	$6,055,354,351
Lumber, Bldg, Hardware	$1,035,549,585	$1,548,835,781	$1,349,759,050	$1,320,613,060	$5,254,757,476
Automotive & Filling Stations	$4,940,148,692	$5,563,254,060	$4,886,988,192	$4,578,905,178	$19,969,296,122
Drugs & Misc. Retail	$3,537,395,834	$3,787,247,609	$4,102,964,174	$4,222,102,940	$15,649,710,557
Agriculture & All Others	$2,579,084,383	$2,989,481,207	$2,976,839,335	$2,968,933,741	$11,514,338,666
Manufacturers	$557,263,218	$689,405,036	$658,903,105	$689,313,894	$2,594,885,253
Totals	**$23,784,259,444**	**$26,836,071,884**	**$25,934,805,239**	**$27,008,283,865**	**$103,563,420,432**
Retail Category	**Differences**	**Differences**	**Differences**	**Differences**	**Differences**
General Merchandise	($133,220,372)	$74,562,596	$9,505,361	($107,017,767)	($156,170,182)
Food	$224,091,024	$98,554,361	$157,357,172	$42,137,889	$522,140,446
Drinking & Eating Places	$107,949,956	$131,765,760	($26,198,016)	($63,012,979)	$150,504,721
Apparel	($58,587,610)	$31,459,869	($48,732,833)	($115,894,744)	($191,755,318)
Furniture & H.H. & Radio	($75,337,382)	($46,696,130)	($161,900,929)	($243,490,094)	($527,424,535)
Lumber, Bldg, Hardware	($144,858,754)	($211,505,739)	($195,921,175)	($55,025,544)	($607,311,212)
Automotive & Filling Stations	($112,579,459)	($369,498,329)	($875,492,355)	($508,767,242)	($1,866,337,385)
Drugs & Misc. Retail	$66,668,064	$35,411,390	$306,184,273	($42,647,504)	$365,616,223
Agriculture & All Others	($20,133,351)	$115,361,997	$27,406,862	($17,921,129)	$104,714,379
Manufacturers	($35,053,959)	$2,081,619	($19,524,559)	($14,067,630)	($66,564,529)
Totals	**($181,061,843)**	**($138,502,606)**	**($827,316,199)**	**($1,125,706,745)**	**($2,272,587,393)**
Percent Difference	**-0.76%**	**-0.51%**	**-3.09%**	**-4.00%**	**-2.15%**

Source: Illinois Department of Revenue, Sales Tax Receipts 2007 and 2008 and Melaniphy & Associates, Inc., 2009

THE OVERALL 2008 CHICAGO METROPOLITAN AREA'S RETAIL ACTIVITY BY MAJOR RETAIL CATEGORY

Overall, retail sales declined in each quarter of 2008. However, some retail categories did increase. The current recession reflects both capital and consumer declines. Thus, people at all levels of income and wealth have experienced some negative results. Neiman Marcus, Saks Fifth Avenue, Nordstrom, Tiffany's and other upscale stores saw sales and customer traffic declines in the 4th Quarter. Below is a discussion of each major retail category.

GENERAL MERCHANDISE STORES

In this category, Walmart was the 2008 winner with an increase nationally in total sales of approximately 1.7%. Others did not fare very well, and most reported a decline in same-store sales for 2008. Target saw a sales decline of -4.1%; Kohl's declined by -1.4%; Kmart by 1.1%; Sears domestic stores by -12.8%; Macy's down -4.0%; Nordstrom was down -10.6%; Bon-Ton (Carson's owner) by -5.8%, Von Maur claims that they stayed about even; Neiman Marcus was down over -27%, JCPenney's fell -8.7%; and Saks reported a decline in December of -19.8%. While outside of the Chicago area, Gottschalks is bankrupt, and Goody's stores are being liquidated. Rumors persist that Bon-Ton, Carson's parent, is experiencing financial problems, mainly in the Eastern part of the U.S. They also own the Boston Store group in Wisconsin.

The Chicago Metropolitan Area retail sales in this category in 2008 amounted to $11.6 billion, down -$156.2 million from 2007's sales of $11.7 billion. Sales were positive in the 2nd and 3rd quarters.

EATING & DRINKING (RESTAURANTS AND QUICK SERVICE UNITS)

The declining economy has especially affected casual dining restaurants including Chili's, Applebee's, Ruby Tuesday, Max & Erma's, Outback Steakhouse, Romano's Macaroni Grill, and others, while helping some of the quick service food industry. 2009 should be somewhat more negative as the consumer becomes more conservative with rising unemployment and rising food prices. In 2008, this category grew by over $150.5 million to $12.7 billion in the Chicago Metropolitan Area, up from $12.6 billion in 2007. However, 4th quarter sales in this category declined by an estimated -$63.0 million from a similar period in 2007.

While life's fast pace had necessitated eating many meals away from home due to longer work hours, children's "scheduled" commitments, and time constraints, the tough economy is reversing the trend, forcing families to eat more meals at home. "**Take out**" restaurants and quick service food remains very popular, and the consumer is "trading down" to more quick service meals. Discounts on "Take Out and Pick Up meals" will become more prevalent. We expect to see sales and profit pressure persist throughout 2009.

SUPERMARKETS AND WAREHOUSE STORES

The Food Industry (meals consumed at home) has benefited from the economic decline, even though food prices have increased considerably. Pressure on income has forced consumers to cut out restaurant dining, in favor of quick service dining or simply eating meals at home. Pricing pressure has changed the consumer's buying patterns. Now, they are buying for immediate meals, not stocking the pantry, and living from paycheck to paycheck. Expensive items are passed over in favor of bulk to fill stomachs.

In 2008, retail sales in this category in the Chicago Metropolitan Area amounted to an estimated $13.5 billion, up $522.1 million in sales from 2007's sales of $12.96 million. Walmart Supercenters continue to gain market share at the expense of supermarkets and grocery stores. Costco, a favorite of upscale consumers, saw its national sales decline -4.0% in December.

APPAREL AND ACCESSORY STORES

The Christmas season was unfavorable for most apparel and accessory retailers as sales declined, even with discounts of between 50% and 75%. Sales in this category fell in all but the 2nd Quarter. Chicagoland's 4th Quarter sales amounted to approximately $1.4 billion in 2008, down from sales of approximately $1.5 billion in 2007. Overall, sales in this category declined from $4.9 billion in 2007 to $4.7 billion in 2008. Part of this decline reflects the result of poor department store customer generation in the malls, adversely affecting total customer traffic in the malls. During the holiday season, pedestrian traffic in the malls declined by an estimated -15%. Less traffic usually means lower sales. Food court sales were generally lower in most malls due to lower customer traffic upon which they are wholly dependent.

Sales and activity in this category are expected to be lower in 2009. Moreover, bankruptcies will increase and vacancies continue to rise in this category.

APPLIANCE AND ELECTRONICS STORES

High definition TV's (HDTV), flat screens, plasma, LCD's, iPhones, iPods, digital cameras, satellite radio, and other electronics have driven the Appliance and Electronics category in recent years. Best Buy is #1 in stores and sales, and with the liquidation of Circuit City, should advance in sales as the economy recovers. In a recession it is not unusual to see store sales in this category decline by -20.0% to -30%. Even Abt has been adversely affected by this recession.

The *Appliance and Electronics* category is combined by the State in collecting retail sales tax receipts, so we separated them based upon our past experience. Thus, we estimate retail sales in the Appliance and Electronics category in 2007 amounted to over $3.5 billion, which declined by -$400 million in 2008 to approximately $3.0 billion in sales. Sales in this category will likely decline further in 2009, unless the industry comes up with exceptionally unique products that drive sales.

FURNITURE STORES

The *Furniture* market in 2008 declined as consumers avoided non-electronic durable goods. Furniture sales were down from 2007's sales of approximately $3.0 billion to under $2.7 billion in 2008. This industry has experienced economic pressure for some time. The current recession has signaled a death-knell for many companies. Wickes bankruptcy and the decline of others signals a poor 2009 for furniture stores.

HOME IMPROVEMENT STORES

The decline in housing and housing demand, combined with dwindling wealth and pressure on household income, has caused consumers to put off home repair and improvement projects. Furthermore, operating problems with the big three – The Home Depot, Lowe's, and Menards, have resulted in declining sales. Sales in this category in

2008 amounted to approximately $5.3 billion, down from $5.9 billion in 2007, or $607.3 million. The category will be difficult in 2009 because of consumer resistance.

AUTOMOTIVE AND FILLING STATIONS

Retail sales in the *Automobiles and Filling Stations* category declined in 2008. In 2007, sales in the Chicago Metropolitan Area amounted to $21.8 billion. In 2008, *Automobiles and Filling Stations* had sales of $19.97 billion, a whopping decline of -$1.9 billion during 2008. Keep in mind that gasoline prices nearly doubled in 2008, and even with those increases, this category declined by nearly $2.0 billion. Automobile manufacturers report sales declines of between -30% and -40% in 2008. Even Toyota and Honda reported declining sales.

DRUG AND MISCELLANEOUS RETAIL STORES

Competition continues to be cut-throat in the Chicago area. Walgreens, CVS, Osco, Walmart, Target, Costco, Sam's Club, Meijer, Kmart and others are having difficulty keeping up with filling prescriptions. This category also includes many retail stores normally found in shopping centers. As a result, sales in the *Drug and Miscellaneous Retail Stores* category declined in the 4th Quarter by over $42.6, the only negative quarter of 2008. The Drug portion of the sales actually increased, but was dragged down by shopping center stores. For the full 2008 year, it is estimated that sales in this category amounted to over $15.6 billion, up by $365.6 million from 2007 sales of $15.3 billion.

2009 IN PROSPECTIVE

The anticipated trends for 2009 include:

- ❑ Continuing consumer shock with concern over job losses and declining job security.
- ❑ Growing retail and shopping center bankruptcies in 2009, as retail sales continue to decline.
- ❑ Rising retail and restaurant vacancies to approximately 12%, especially in many malls.
- ❑ More restaurant chains and independents failing as sales do not materialize.
- ❑ Struggling department stores will face another dreadful year; another major bankruptcy may occur.
- ❑ Until housing recovers, the consumer will continue to be elusive.
- ❑ Retail construction will continue to decline from the estimated 7 million square feet in 2008.
- ❑ Fewer retailers will open new stores in 2009 and 2010.
- ❑ Chicagoland Lifestyle centers will need to be rethought given their lackluster sales performance.

The opinions expressed in this Newsletter are those of the author. The statements are based upon decades of evaluating consumer patterns and retail and restaurant sales data both nationally and locally. The author takes no responsibility for any actions taken by readers as a result of the statements or the data. Each reader should evaluate their own facts and make their own decisions. When in doubt, consult a professional for advice.

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