

National Retail Federation

July 21, 2011

Matthew Shay: Good morning and thank you'all for joining us this morning to discuss the findings of our annual back-to-school survey. I'm Matthew Shay, president and CEO of the National Retail Federation, and I'll be joined on the call today by Pam Goodfellow, at BigResearch, and by my colleague, our vice-president of communications here at NRF, Ellen Davis. As you know, we released our back-to-school and back-to-college data earlier this morning. This is the annual survey that we conduct with our partners at BigResearch and we found this year that back-to-school and back-to-college spending is expected to be flat to modest in terms of growth. Having said that, this is still a very substantial investment in our economy. This is close to \$70 billion of spending and according to the survey families of K-12 students are going to spend approximately \$600, while back-to-college students and families are going to spend approximately \$800 and, again that's pretty consistent with last year so relatively flat; in some cases, some modest growth. We think that this year the theme for families really comes down to spending where you need to and saving where you can, which while not exclusively about basics, means that parents are going to really be thoughtful before they go shopping, make sure that they're not out making purchases that they don't absolutely have to have. Items like clothing and shoes, which obviously are being outgrown by young children very quickly, are going to continue to be popular. Surprisingly, there are a few other categories, particularly like school supplies, in which we expect that we'll probably see some decline. We think that this is all pretty consistent with what's going on in the larger economy and so it's understandable why consumers are behaving this way. 8 in 10 or 9 in 10 back-to-school shoppers indicated in this research that the economy plays a major role in the decision they're making about the spends that they're going to do this year. So, that's going to have an effect and that's certainly driving the decisions being made. To compensate for the continuing

uncertainty that's taking place in the economy, many consumers are shopping online more than in previous years or they're investing in store brand, private label offerings, which would we've seen perform very well or they're simply spending less. The good news for the retail industry is that we seem to have moved beyond basing consumer decisions exclusively on price. Many consumers now are interested in value and place a series of other decisions into the equation, including selection and quality and service. So, while price is still a fundamental piece of the decision, things aren't being driven exclusively by price. While we're going to see performance pretty good across the board, we think that in department stores we'll see the best performance. Department stores have really unlocked the value proposition challenge for their consumers and so they're going to increase probably more dramatically relative to last year than discounters. And, again, they're focusing on private label merchandise and finding ways to communicate with the consumers about value in terms that go beyond simply the price of the item. I think it's safe to say that retailers recognize that consumers are continuing to be thoughtful about purchase because of their concern about unemployment. They're concerned about their own job security, falling home prices or lackluster home sales; all of those are playing a significant role in the decision-making. So when retailers put together their plans for the back-to-school season, certainly they invested a great deal of thought in promotions and sales and I think that's reflected in what we see as the increasingly early promotional season. So, while we expected that the vast majority of activity will take place in the last few weeks right before and around Labor Day, certainly that's happening earlier in the summer, as early as 4th of July and even now, so that's probably going to continue and even increase. Another significant component that's gone into the thinking of retailers is how they manage their inventory. Obviously we know that commodity prices have increased pretty dramatically and, while gasoline prices moderated a bit in the last 30 to 60 days, cotton prices remain high. Many price increases have not been passed along to consumers and, at some point, some of that's going to have to work its way into the price equation as well, so retailers are trying to be thoughtful about how they manage

inventory, how they merchandise, and how they design apparel, in particular to account for those higher commodity prices. That's a general overview of some of the highlights of the research and Ellen Davis, my colleague, will get into more details in just a minute and will be able to answer questions. But before doing that, I think I just would make a couple of other general observations. I think we all would agree that the recovery we've experienced in the last 24 to 36 months has been underwhelming at best, particularly in terms of the anemic job creation. We're only seeing on average 20,000 or 25,000 jobs created monthly for the past few months; not nearly enough to chip away at the unemployment rate and really drive more aggressive consumer spending. We represent one in four jobs in this economy, nearly 20 percent of GDP. And so we think that the retail industry is a very appropriate, very accurate, proxy for the overall health of the larger economy. We're in the business of interacting with consumers on a daily basis, sometimes several times in a day, in a way that no other industry is. And so we see as well as or more clearly than any other segment of the economy where consumers are spending their money, what they're thinking about, what their confidence level is, and that all remains very uncertain. In spite of the fact that we expect flat or modest growth for the back-to-school season, we've seen monthly growth essentially throughout the last 12 months and so we continue to expect that we'll be close to 4 percent growth for the 2011 calendar year. We have had those 12 straight months of growth and, while the comparisons are going to get more challenging because we, a year ago, were comparing to '09 numbers and some of the pent-up demand has been exhausted, we still think we're going to meet something that's at or very close to 4 percent. Clearly, this can't go on forever without some pretty dramatic changes to the macro-economic conditions. The near term the focus of the Administration and the Congress is exclusively on the debt ceiling and that has sent tremendous uncertainty, whether it's reflected in the bond markets and the financial markets or not, it's very clear that consumers are concerned about this and it's also equally clear that unless and until Congress can move beyond this kind of a distraction and start solving problems of their own making, we're

not going to really attack the more important problems, the more structural deficiencies in our economy. There are some easy things that could be done in the short term. We've got a long list at the National Retail Federation of the kinds of things we think could and should be done. I won't go through all of those now, but there are easy things that could be done on a bipartisan basis, whether that's the free trade agreements that should be passed quickly or starting to have serious conversations about reforming the corporate tax code; lots of things we should be working on and, when we get to that, maybe we can begin to really see improvement in the economy. We're happy to have the opportunity to share those thoughts in more detail if you'd like to hear them. That's certainly part of what we're communicating to the Congress every day on behalf of this industry and are very pleased to be able to do that. What I'd like to do now is turn this over to Pam Goodfellow, who is the director of consumer insights at BigResearch. She can share some additional findings from the survey they conducted for us on consumer confidence levels and general views of shoppers about unemployment and how the recession is impacting spending over the long term. Pam?

Pam Goodfellow: Thank you. And I'd like to thank the NRF for allowing me to join them on today's call. Today I'll be discussing five facts you should know about consumers headed into back-to-school season and all these findings come from our July consumer intentions and actions survey of over 8600 consumers. I'll be speaking in more general terms today, but for more specifics, you can visit our new data-driven website, which is biginsight.com. Now, the first fact I'd like to discuss today is that consumers continue to worry about the economy. In July, we found that 26.5 percent of consumers were confident or very confident in the economy, and this is the lowest reading we've seen in more than two years. We're also seeing fading optimism for an economic rebound. We asked consumers if the economy would ever return to its pre-recession glory and 27.8 percent said this month that they were confident that it would fully recover, but this represents a nearly 40 percent decline from the same response back in July,

2009. More than a third of consumers just aren't sure where the economy's headed and this uncertainty really isn't sound footing to get consumers back into stores. My second point is that unemployment remains a major concern. At the same time, are anticipating more lay-offs over the next six months, while the majority think lay-offs will remain about the same. An already high unemployment rate, which doesn't account for those underemployed or who have left the workforce, this "more of the same attitude" is also keeping shoppers hesitant about spending. Additionally, consumers aren't confident about the stability of the employment situation, as you can imagine. Only 1 in 10 thinks we'll see improvements in the next six months, but the majority say it will take a year and a half or more for the employment situation to improve. The point is that consumers are poised for practicality and spending. About 50 percent of consumers said in July they've become more practical in their purchasing, and this is an increase over last month as well as July, 2010. Now even more consumers, over 60 percent, say they focus on what they need rather than what they want when shopping and this also rose from last month and last year. Now, you couple these off with the fact that prices on commodities are increasing, so consumers have even less disposable income to spend on items they may have bought a year ago. Now, this isn't to say consumers don't have money in the bank to spend, those that made it through the recession without losing their jobs, their houses, and so on do, but they've learned their lesson. Saving and frugal spending is key to the post-recession consumers. They will spend, but they need to have the right value proposition in order to do so. Now, to further this point, nearly 90 percent say the mess of the economy has impacted their lifestyles in long term. Nearly half of these consumers who are affected are doing things like considering each purchase more carefully, sticking to budgets, becoming more price conscious, and spending less dining out. My fourth point; gas prices are still influencing budgets. And while gas prices have come down a bit in the past month or so, consumers are still worried about the impact pump prices are having on their wallets. Now, 75 percent say that current prices are influencing their spending, which is up from about 70 percent one year ago. In our research, we find that

about the \$3 per gallon range is that magical number where consumers feel a little bit more comfortable and confident in their spending. Now, since we're still in the mid-\$3 per gallon range, consumers are still purging their spending on other goods with caution. So, my last point, consumers are feeling better about spending versus 2009, but forecasted purchases is waning. Compared to the height of the recession, we're seeing signs of improvement for spending on major goods and apparel categories over the next 90 days; however, when we compare this data to those of last month and then a year ago, spending intent has weakened. This furthers my point that consumers are approaching any spending with caution. Confidence in the economy, unemployment, gas prices, and other macro-economic issues continues to play into consumer practicality. And, with these issues remaining issues for the past several years now, consumers are making long-term changes to their spending habits. Now, I'd like to turn the call over to the National Retail Federation vice-president, Ellen Davis, who will highlight some of the big trends from this year's back-to-school survey. Ellen?

Ellen Davis: Thanks Pam. Very much appreciate the insight and I think that certainly shows us kind of where consumers' minds are as we head into back-to-school. I wanted to take just a few minutes and elaborate on a couple of extra trends that we're seeing specifically in this year's data. I'm going to talk about five; although, Matt certainly addressed the first few very well. The first theme this year for back-to-school, and Matt mentioned this; spend where you need to, save where you can. That is really kind of the crux of what's going on this year and it's encouraging because it means we're moving away from price specifically, but it certainly means we've got a long way to go in order to get back to the 2005 and 2006 levels. The second trend is not about the best price; it's about the best deal. Matt talked about this a little bit in terms of the value proposition. We saw this last year; we're going to continue to see it again. Value is the name of the game this year instead of price and that's really important when it comes to back-to-school and back-to-college this year. That's everything from people being willing to spend more

on a pair of jeans that is a better quality to springing for a more expensive laptop because it has the extended warranty. And that's why we're starting to see people shift a little bit more of their spending to department stores and specialty stores, like electronic stores, who have done a very good job of promoting a value equation instead of merely the lowest price. So, those are the first two trends, and Matt highlighted those really well. I've got three more for you, just in terms of back-to-school and what we're seeing to think about going forward. Trend number three, and this is maybe a little bit of a stretch, but trend number three is everyone's a winner. And what's interesting, you look at back-to-school 20 years where it was really about a handful of retailers that sold clothing and shoes and school supplies and we're really starting to see back-to-school transition into a spending period that pretty much every retailer can benefit from. Discount stores are still the number one destination for consumers. About two-thirds will buy at least one item from a discount for K-12 students, and then that number is closer to half for college students. But discount has done a nice job focusing on low prices and they are a good place to buy everything you need. They are a one-stop shop for people who are trying to get in and get out, especially who have multiple kids to buy for. Department stores, Matt talked about in terms of what they've been doing with private labels, how they've been promoting value, and department stores actually saw the largest increase of any category in terms of where people are planning to shop, both for back-to-school and back-to-college. So, department stores will be a good group to watch, especially as we head into the holiday season. Online, no question, they're going to be a winner again this year. We actually, the research broke out online shoppers versus shoppers who only shop in stores, and something that's not in the press release, I just think is incredible, is that the average person who is shopping online is spending \$850 on back-to-school and \$1100 on back-to-college and both of those numbers are about 40 percent higher than average. I think what this goes to show for retailers is this serves as a reminder that companies need to be trying to maximize their channels and be accessible to customers when they're ready to buy or when they want to browse. So, there are very few

retailers right now who are still ignoring the Internet or mobile, but doing so, certainly comes at your own risk because customers are showing that they really want to shop in a variety of ways and they expect retailers to adapt to that. What else is interesting about this "everyone's a winner" category is that non-traditional segments are seeing some growth. For example, this year in our surveys, the people who are shopping at drug stores is increasing. The number is 21.1 percent for back-to-school versus 19.5 percent last year and for back-to-college it's 19.4 percent versus 17 percent last year. Drug stores have done a really nice job promoting their stores, not only as a place where you can obviously buy over-the-counter medicines and school supplies, but they've done a nice job expanding to food and other categories that might [cuts out 00:20:16]. So, in our back-to-college, for example, we are now tracking purchases of food, personal care items, and pre-paid cards. College students might not necessarily be wanting to eat at the cafeteria and, according to our research, people are spending \$5.4 billion on food in advance of returning to campus. That's a lot of granola bars and that's a lot of visits to grocery stores so those stores can see some nice increases. We're also seeing \$3.4 billion being spent on personal care items, like Tylenol, body wash, toothpaste, things that Mom and Dad might have in their house that, if you're going to college, you might need some of your own. And then pre-paid cards are expected to, we're expecting about \$3.4 billion to be put on pre-paid cards or gift cards for college students this year; that would be something like Mom or Dad purchasing or giving their student a pre-paid card for a discount retailer or a gas station, for example, so that kids can use that money when needed, but they're not just sending them a check every month or putting cash in the mail. Trend number four, and I think this is really important and we're really seeing this more this year than last year; within one season are two totally different shoppers, so although we lump back-to-school and back-to-college together and the total is about \$68, \$69 billion, these are two completely different groups of people. We see spending shift every year happening between the K-12 families and then the college families. This year what's interesting is that college spenders have caught up a little bit when it comes to concerns

about the economy. Last year the college crowd was a little bit aloof when it came to the economy impacting spending. Many of them said they weren't making any changes. This year the economy is just as important for college students and their parents as it is for back-to-school. There are a couple of reasons for that. For starters, some of them are employment and they have been more difficult for college students this year or for high school students going to college. What I think that means is that they might not have much money to spend on some of those back-to-college supplies as they did in previous years. They're already paying a lot for tuition, so they need to include that as part of their budget. And when you're paying between \$5,000 and \$50,000 for tuition, obviously the decision to make other purchases might be a bit difficult. Also, for back-to-college, some items might be seen as more discretionary. Your college student is not going to be outgrowing a pair of jeans, like your kindergartner. They're going to be wanting some of those more popular items, so the need versus want component is definitely at play. Something else that's very interesting between the back-to-school and the back-to-college shopper is when they're actually going to visit stores and shop online. According to our research, back-to-college shoppers are shopping earlier than they ever have been. About one-fourth are shopping at least two months before school starts, and that's huge. I think a lot of college students maybe used their graduation money in May when they got it; they didn't wait until August this year. They may have wanted some of those hot products, like an iPad or a Smartphone in advance of going to campus; there's that desire to get the fun items right now. Back-to-school, on the other hand, we're starting to see a shift a little bit closer to the actual date of school, so more parents this year are shopping one to two weeks before school starts than they were last year. And that's something for retailers to consider because, as we all know, there's kind of rolling start dates between schools across the country, so the Midwest might be more likely to start in the middle of August, but schools on the East Coast might be starting the middle of September. So, retailers are thinking ahead from an inventory standpoint, they're going to need to manage that closely to capitalize on the shift in purchasing. The good news is, I

think, that retailers have a good sense of when school starts throughout the country, so they might be able to move merchandise around in their current supply chain to make sure that inventory levels are strong where they need to be as school begins in different areas. The other discrepancy between back-to-school and back-to-college shoppers this year is in electronics. Electronics spending is actually still very strong for back-to-school. Spending on electronics is up 4.3 percent on average for the K-12 family. That said, far fewer people are buying, but those who are buying are spending a lot more. Back-to-college spending, we're seeing a drop in electronics at about 11 percent on average and that's on top of an 11 percent drop last year. Now, there's one side of the coin where this is actually good news, because electronics has moved from a seasonal back-to-school purchase to a year-round purchase. Apple and other companies have done a nice job of promoting electronics as hot gadgets that you need right away, but many of today's students going to college already have Smartphones, Tablets, digital cameras, and other items that they will take with them to go to school, so there's not that burning necessity to buy something before they head to campus. Also, another, a couple of points related to electronics and back-to-college; many people might be waiting to upgrade until a newer model comes out or until we get closer to Christmas, and, of course, we're also seeing deflation in this category where laptops don't cost \$2,000 anymore, they cost \$500. So, that's another important component to keep in mind when thinking about electronics. The last trend that I want to talk about, and I'm just going to go through this really quickly, is what this means for the holiday season. We are very fond and BigResearch is very fond of saying that don't necessarily think that because we're having a flat back-to-school season that that's what we're expecting for the holidays. This is a completely different shopper; it's a much smaller subset of the U.S. than those who shop for Christmas, but we can take some trends away from back-to-school that will likely continue through the holiday season. For starters, we expect increased commodity prices to continue to play a role, especially when it comes to increased cost of cotton and gas prices, which Matt talked about earlier. This isn't only going to affect consumer

spending, but it's also going to affect how retailers plan ahead for these increased costs, both in terms of trying to streamline the supply chain and also adding different materials and embellishments for the apparel category. We know that Smartphones and Tablets are hot. We certainly expect that to continue through Christmas. These are big "must have's" right now and are actually releasing some specific data on Smartphone and Tablet use for back-to-school within the next couple of weeks, so keep an eye out for that. We certainly expect the trend to continue of people being very careful about what they're buying. There isn't a complete focus on price anymore, but people do want to make sure that they're putting thought into purchases before they actually head to the store. And we also know that the economy is still impacting shoppers. Matt talked about unemployment and home values and a variety of other factors that are impacting spending right now and we expect that to continue into the holiday season. We also, there's been a lot of talk about back-to-school creeds this year with retailers putting merchandise on shelves and trying to promote right after Independence Day. Wouldn't be surprised if you'all are talking about Christmas creeds when we hit Labor Day or October 1 at the very latest. So, we expect a lot of promotions to start earlier and retailers trying to start enticing consumers earlier this year in order to capitalize on those sales. So, with that, I think I'm going to turn it back over to Jenny Lee, who will let folks know how to ask their question.

Operator: At this time, we will open the floor for questions. If you would like to ask a question, please press the "star" key followed by the "one" key; "star one" on your Touchtone phone now. If at any time you'd like to remove yourself from the queue, press "star two." Again, if you would like to ask a question, please press "star one." Our first question comes from Ashley West with Bloomberg News.

Ashley West: I'm just calling to, I wanted to ask about first the Christmas promotion. How early do you expect those to start?

Ellen Davis: Typically, Ashley, what we've seen is that holiday promotions usually really get underway October 1; that tends to be kind of an unofficial kick-off for a lot of retailers, but last year we started to see some retailers queuing out the holiday season right after Labor Day so wouldn't be horribly surprised to see that trend continue this year as well.

Ashley West: Okay. And then I'm working on a story about e-commerce and how different businesses are trying to engage customers through multi-channel platforms, like you were saying. And I was wondering if any of you could offer me, like a company that you think has done a really good job, or many a couple of companies, that have done a good job of promoting their businesses, and maybe a company that is still kind of behind on the times.

Ellen Davis: So, Ashley, we make it a point not to talk about specific retail companies because we're an association that represents a variety of different types of retailers, but I think if you look at department stores specifically, that's a category that's done a really nice job integrating mobile websites in their store format.

Ashley West: Great. Thanks.

Operator: Thank you. Our next question comes from Mark Albright with the St. Petersburg Times.

Mark Albright: Hi. Am I hearing you correctly? You're interpreting the data that there might be signs of consumer retrenchment; people going back into their shells?

Matthew Shay: Well, that's not how I would interpret the data. I think what we're seeing is consumers being very thoughtful. They're not shopping exclusively based on price; although, that continues to be obviously a very important component of the purchase decision. It's clear from the increased traffic and performance at department stores, for example, and that's not the only example, but that may be a pretty illustrative example, that consumers aren't retrenching, because now they're going back to places to spend that they weren't two years ago because they're looking for something more than exclusively priced. Having said all that, consumers remain very concerned about what's happening with the economy, about the painfully high unemployment rate, and so even if you have a job and have the ability to spend, you're going to be somewhat cautious about that because you don't know whether you're still going to have a job. So, I wouldn't call it retrenchment, but I'd say that consumers are very self-aware and they're not going to get caught extending themselves and so they're making very smart and thoughtful purchase decisions.

Operator: Thank you. Our next question comes from Oliver St. John with USA Today.

Oliver St. John: Hello. Which items are consumers are cutting out of their budget now that they're spending less money?

Ellen Davis: Which items are they cutting out?

Oliver St. John: Yeah, or spending less money on.

Ellen Davis: So, okay. So, Oliver, probably one of the biggest decreases we're seeing this year in terms of average spending is coming in the school supplies category for the

traditional K-12 student. There are a couple of reasons for that. For starters, many parents are hoping that their kids brought some items home from school last year that they can take back this year; glue sticks, crayons, pencils, etc. Those might be an area where a parent says, "You can use your brother's backpack." So, we are seeing the school supplies category decline this year more than other categories. And then also, I mentioned for back-to-college, that electronics is really where we're seeing the decline with many college students already having many of today's popular gadgets at home with them and just bringing those to school with them. So, keep in mind, it's really more of a shift in spending versus a decline in spending, but some categories are increasing or decreasing more than others obviously.

Oliver St. John: Great. Thanks.

Operator: Thank you. Our next question comes from Barbara Cowell with AOL Daily Finance.

Barbara Cowell: Hi. Can you expand a little bit on this whole idea; you use the word "value" has kind of been bandied about a lot versus price. Now, what is the distinction? I mean, in terms of, can we bring this to life a little bit in terms of what that means? Like two years ago, shoppers were looking solely for price versus now they're looking for value. What does that translate into specifically?

Matthew Shay: Well, I think that translates into customers being engaged in the experience on the basis of more than just the lowest common denominators. So, I think that if there's a broader selection, if there's an exclusive line, if there's a private label, if there's something that a retailer can provide, whether that's a discounter or department store or somebody online that goes beyond simply the least expensive price, customers value that and

so it might be the way that they get service, it might be the quality of the item that they're trying to purchase, it might be the selection; those are all components of the purchase decision that are playing more significant role now than they were two years ago. And in 2009 when things were being marked down because the inventories were too high from 2008, people just went out and looked for the best price period and that, I think, has moderated somewhat and it's reflected in the fact the department stores are going to have a better year this year even than they did last year. And so I think we base it on that sentiment expressed by consumers in this research that they're looking for more than simply the lowest price. Now, there are obviously consumers out there whose discretionary income has been severely curtailed because of gasoline prices, because of higher commodity food prices, because of the high unemployment rate, and for those customers price may still be the determining factor but the research shows that there's a significant number for whom it's about more than just price.

Barbara Cowell: Thank you.

Matthew Shay: You're welcome.

Operator: Again, if you would like to ask a question, please press "star one." Our next question comes from Eden Stiffman with The News and Observer-Raleigh.

Eden Stiffman: Hi. North Carolina is one of the few states that has our tax-free weekend for back-to-school and I'm wondering if one of you can talk about what impact those kind of events have on retailers.

Ellen Davis: Hi, Eden. So, you're right; North Carolina is one of a handful, of about a dozen states, with state sales tax holidays this year. What any retailer in your area, I'm sure will

tell you, is that state sales tax holidays do a great job of bringing consumers into the stores and encouraging them to get started on back-to-school spending. We also see a lot of consumers come in from neighboring states. I'm sure a lot of the retailers in your kind of border areas can talk about that as well. But state sales tax holidays do an incredible job of bringing in consumers and it's kind of counterintuitive, but saving 6 or 7 percent on sales tax is oftentimes more enticing to a consumer than saving 20 percent on a purchase, so they're very, very effective in driving sales.

Operator: Thank you. Our next question comes from Joan Verdon with The Record.

Joan Verdon: Yeah. Hi there. Sort of a two-part question. I wanted to make sure I heard you right. Are you, at the beginning when you were talking, are you, is NRF projecting, do you have a forecast out there for how much you think back-to-school sales are going to increase when all the numbers come in for August and September? Do you do a holiday forecast?

Matthew Shay: Yeah. We're expecting total sales to be approaching \$70 billion and, when compared to 2010, that is a pretty flat comparison.

Joan Verdon: Oh, okay.

Matthew Shay: So, when you break it up by industry category, we talked a lot about department stores. Department stores are going to have a better year this year than they did this time last year based on this research; people shopping on the Internet more this year than last year. So, category by category, some are up, some are down, but overall relative to last year's spending, it's approximately flat and that means essentially \$600, breaks down \$600 per family for K-12 and the number is \$800 or \$900 for the back-to-college spending, because

obviously the product mix is different when you're sending someone to college. You're furnishing dormitory rooms and things that you don't do for the K-12 students.

Joan Verdon: Yeah. No, when you were talking about the retail industry being an appropriate proxy for the health of the general economy, I heard you use the 4 percent increase, and I had lost track what that was in reference to.

Matthew Shay: Yeah. That, and we still think that's appropriate. We do think that given the share of the employment pool that we represent with one in four jobs and 20 percent of the GDP that on an overall basis that's an appropriate analogy. The numbers that we're going to see, assuming we get to 4 percent for the year, will be pretty strong for retail.

Joan Verdon: Oh, so that was, like, 4 percent for fall of 2011.

Matthew Shay: For the year, right.

Joan Verdon: (overlapping) To integrate; yeah, I wanted to make sure I was -

Matthew Shay: (overlapping) But that won't be anything close to the numbers that we saw in 2005 and 2006.

Joan Verdon: Right, right.

Matthew Shay: So, we're still way below where we need to be and we're still way below a number that would represent a growing and expanding economy that is really starting to chip away at unemployment and reduce the uncertainty that exists.

Joan Verdon: Okay. Great. And, Ellen, if you or whoever the appropriate person would be to expand on this, Ellen, you mentioned that you're seeing many more kinds of retailers participate in back-to-school, and you mentioned drug store. That has also pretty much become an event every retailer can benefit from. I'm just wondering if there's any other categories where you see that usual back-to-school activity?

Ellen Davis: Well, I think what's interesting is that the opportunities are there for pretty much every retailer under the sun; I mean, cell phone companies. I wouldn't go so far as necessarily to say jewelry stores, but I think that we are seeing a lot of different types of retailers.

Joan Verdon: That would be a new trend.

Ellen Davis: A new trend. Or -

Joan Verdon: (overlapping) Or back-to-college trend.

Ellen Davis: Exactly. But you could see a variety of different retailers; back-to-school never used to be important for grocery stores, drug stores, home furnishing stores. You see companies, like Lowe's and Home Depot, really capitalizing on the back-to-school trend. You see obviously The Container Store and Bed, Bath, and Beyond, all those different types of retailers that are able to capitalize on the college market that 15 to 20 years ago really weren't seeing the power of the back-to-school shopper. So, I think what this means is that retailers shouldn't put their blinders on and say, "Oh, back-to-school is not for me." There really could be

some opportunities there to increase sales; you just have to figure out how it works with your merchandise mix.

Joan Verdon: Okay. Great. Thanks a lot.

Operator: Our next question comes from Erinn Murphy with Piper Jaffray. if you would like to ask a question, please press "star one." Go ahead, Ms. Murphy.

Erinn Murphy: Great. Thanks. I had a quick question actually with respect to, Ellen, your comment on everyone's a winner. So, seeing this large uptick in department stores online, who are they taking share from? Is it the traditional specialty or are there other non-traditional channels that they are capturing that fare from? And then I have a follow-up question.

Ellen Davis: Sure. According to the data, department stores seem to be largely taking the share away from discounters. The number of -

Erinn Murphy: (overlapping) Okay. The discounters being Kohl's -

Ellen Davis: (overlapping) No, no, no. I would include Kohl's in the department store category. I think discounters would be the Walmart, Target, the Dollar Stores.

Erinn Murphy: Okay, okay.

Ellen Davis: The stores that have done a really nice job focusing on low prices are seeing some shoppers move away to the retailers that are really doing a nice job focusing on value.

Erinn Murphy: And then you mentioned on the non-apparel trend sight, you kind of walked through some of the buckets of spending between personal items and pre-paid cards. Do you have those numbers for last year?

Ellen Davis: We do and we'll send them over to you, Erinn.

Erinn Murphy: Okay. That would be great.

Ellen Davis: They're available. If you go to nrf.com/backtoschool and click on the "raw data" and you'll have the numbers going back to, I think, 2007.

Erinn Murphy: Perfect. Okay. Thank you.

Ellen Davis: You're welcome.

Operator: Thank you. Our next question comes from Hansi Wang with NPR.

Hansi Wang: Hi, Matt. You mentioned earlier that there are a lot of price increases on the retailer and it's having an impact on the consumers, and I know there's been some data showing that discount stores, they saw an increase in sales in June because of aggressive discounting. Could you expand on that? Are you forecasting that we might start seeing higher prices?

Matthew Shay: Well, yeah, I think depending on the product category, there are certainly with regard to apparel many prices that have not been passed on to consumers. Lots of retailers

haven't had a significant price increase in quite awhile as commodities have gotten more expensive. So, sooner or later there will have to be a test of whether or not consumers will absorb an increase, but I think that's going to be handled, in a lot of instances, on a case-by-case basis and there's a way that retailers can adjust their merchandise mix and so they can raise prices on some items and keep others at a discounted price. But sooner or later, some of that has to come through the system and I wouldn't make the broad prediction that that's going to happen for all retailers and all products, but I think it's something we have to be aware of. As commodity prices have increased, most retailers have tried not to pass on those price increases to consumers and that can't go on forever.

Hansi Wang: How do you think that, so you're expecting these low pricing to continue through to the holiday season, the next big shopping season?

Matthew Shay: I suspect if there are going to be price increases we'll see some of those this fall.

Hansi Wang: And in apparel or just across the board -

Matthew Shay: (overlapping) Well, apparel is the obvious, just because of the commodity price of cotton price. But, again, different retailers are going to adopt different strategies to try to ensure that they retain consumers and that they take market share away from their competitors and that may be changing the product mix, that may be even down to the nitty gritty of the way they design products. It goes all the way back to the manufacturing process, especially with apparel. So, there are a variety of tactics that can be employed, but I think it's something that is going to become apparent eventually and whether we see it across the board or not in the near

term, I think is probably not likely. We'll see it across the board, but I suspect we'll see it eventually.

Hansi Wang: Okay. Thank you.

Operator: Our next question comes from Kavita Kumar with the St. Louis Post Dispatch.

Kavita Kumar: Hi. Would you somebody please talk a little bit more about the increase in online spending you're expecting this season? What sort of categories are people buying in the back-to-school season? Are you seeing people buying more school supplies and folders online or is it mostly apparel and electronics? Are there certain categories within the online spending that you're seeing an increase in?

Ellen Davis: Sure. Online, we don't break out the survey by, actually we do. We haven't released this, but I've got the data on online versus offline and I can send it over to you. Looking at, let me just pull up back-to-school and I'll give you kind of a sense; really online right now in terms of researching, we're still seeing a lot of people use the Internet to comparison shop before they go to the store, and a lot of times that's going to be the bigger ticket items; electronics obviously. If you're looking around for a laptop or trying to research which Tablet or Smartphone to buy, you might go to the Internet first. The same is going to be true with clothing. Maybe you visit a variety of retailer's websites trying to figure out where you want to shop for back-to-school this year. I don't think we're seeing as much in school supplies, even though that group, even though the online spender is spending more in school supplies than the average shopper, those tend to be lower ticket items. People really aren't looking to save five cents on a glue stick; they're trying to save \$50 on a laptop. So, they're doing a lot of that online spending

on the bigger ticket items so that they can try and maximize their savings when they can. Is that helpful?

Kavita Kumar: Yes. Thank you.

Ellen Davis: Yep. Okay. I believe we have one more question and then we need to wrap up. Jenny Lee, who do we have next?

Operator: Our last question comes from Marie Driscoll with Standard Poor's Equity. Go ahead, Marie.

Ellen Davis: Okay. I think we lost Marie. Marie, if you can hear us, shoot Kathy Grannis an email -

Marie Driscoll: (overlapping) Can you hear me? Sorry about that.

Ellen Davis: Oh, hi, Marie.

Marie Driscoll: Sorry about that.

Ellen Davis: That's okay.

Marie Driscoll: Before I get to my question, let me ask you this: Did you actually give an increase on online spending or did you just say it was, like, basically 40 or 50 percent above what average spending is per person for back-to-school?

Ellen Davis: That's what it is. We don't have a forecast for online spending. We just look at the online shopper versus the solely store-based shopper.

Marie Driscoll: Okay, okay. So, let me then ask you what I was concerned about: It seems that the consumer is very concerned about the economy and I'm wondering if for all the years you've been doing this, have you ever seen this level of involvement with what's going on in the broader economy from as you survey the consumer? That's my first question. My second question is: When you talk about returning to 2005 and 2006 spending levels, wasn't some portion of that driven by the consumer having unhealthy debt levels and, therefore, we're not likely to see that return; I don't even know that you'd want to see that return. So, those are my questions.

Matthew Shay: Well, I think the more straightforward part is that second bit of your question. Certainly it's not in anyone's interest to see unhealthy levels of debt or consumption and we would be the first to say that's not what we want or expect. So, there needs to be some appropriate restraints on the way in which credit is made available. Most of the overextension in the credit area was due to the housing market, not due to consumer credit; although, certainly that was a piece of it, but much of it was due to home equity values and things like that. But that doesn't help anyone when you have significant default. So, that's what we would advocate. Have our cake and eat it, too, to expect to get back to 2005 and 2006 without those kinds of debt levels? And I don't know. We haven't tried that before. We'd rather not see us put ourselves in a position of vulnerability, but we do think that a healthy expanding growing economy will bring consumers back at greater levels than they're engaged now in retail and there's certainly lots of ways we can start to get there, but don't require us to put ourselves at risk with unhealthy debt levels. So, I think that's a bridge that while we don't want to cross again, we're not anywhere near approaching at this point. In fact, some would argue that there's too

little access to credit now rather than too much and that things flowing back in the wrong direction too far, which is often the case, and overcorrection any other way. So, with regard to that bit, I think that would be our view.

Marie Driscoll: Okay. And then the other part of my question was: Have you seen the consumer ever so concerned about the economy?

Matthew Shay: Well, it can't get a lot higher than it is now because we know that 9 of 10 are saying that the economy is impacting their decision. I think the only way it could be any worse is if we were back to the immediate aftermath of the meltdown in 2008 and 2009 and then it was worse than it is now in the economy broadly and consumer sentiment was lower than it is now or even more pessimistic or less optimistic. So, it's been worse, but -

Marie Driscoll: (overlapping) Uh-huh, but not much worse.

Matthew Shay: But not much and so while it's not great right now, it's not as bad as it used to be. And so, listen, retailers are enormously creative, innovative. It is among the most competitive industries in the economy. The margins are tight, the barriers to entry are pretty low, and so the competition is fierce between online and bricks and mortar and bricks and clicks and pure play, so we think given a chance we can continue to play a leading role in leading the economy, but we can't do it forever on the backs of consumers who are challenged and who are concerned about that the debt ceiling is going to get raised and are we going to have real adjustments to the structural deficiencies in the way we budget and spend money, when will the employment rate get reduced; all those things. And we may play a role, but we can't do it by ourselves.

Marie Driscoll: Thank you.

Matthew Shay: Thank you very much, everyone. We appreciate it. We're grateful that you were able to take some time and we hope that if you have follow-up questions, you'll pass those along via email and we'll make sure we get you the information you need to answer any remaining questions and apologies to those we couldn't get to today.

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