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RETAIL COMMENTARY

Retail:

Despite the intense focus on retailing at this time of the year, actual results for the important November-December period will not be reported until January. Moreover, accurate assessment of sales and costs is particularly difficult this year, reflecting the West Coast ports closing and the added uncertainty of correct budgeting for a significantly shorter Christmas selling season.

Next year, however, is expected to be a much easier year for most retailers, with calendar shifts helping both the Easter and Christmas selling seasons. Coupled with absence of shipping difficulties, the most likely impact will be reduced expenses. Most importantly, a larger proportion of merchandise probably will be sold at regular, rather than sharply reduced, price in 2003.

The average retail stock has declined substantially during the past several weeks, in part reflecting well-publicized announcements of sales falling short of plan for certain companies. At this point, price-earnings ratios for most firms are considered depressed in relation to the favorable outlook. Additionally, profit margins could rise in the current quarter, which we regard as a likely result of tightly controlled inventories. This could prove a positive surprise.

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