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RETAIL SUMMARY REPORT

Retail:

Although inventories are below last year's levels for most retailers, sales in January were strong, exceeding both street and internal projections. After a hiatus of more than two years, the number of shoppers going to malls has increased. This is likely to prove a positive factor for chains which have a large proportion of their stores in malls. Moreover, the longer-term trend toward trading up to more expensive merchandise has resumed in recent months, which will bolster volume for department stores.

Companies which reported surprisingly positive gains include **J.C. Penney (JCP - \$28.35)** and **Federated (FD - \$49.65)**. Despite recent improvements in operating results, each sells at a below-average price/earnings ratio. In addition to favorable economic trends, Penney is expected to benefit from the sale of the firm's large Eckerd drugstores division, which will improve the balance sheet substantially.

Reflecting intensive industry-wide focus on more rapid inventory turnover, profit margins are likely to continue to expand in coming quarters. In addition, a widespread focus on selling more private label goods will lessen direct competition and result in still further improvement in margins. Total consumer spending is likely to grow at a particularly rapid rate in the first half, primarily reflecting strong gains in personal income. On balance, we project sales and earnings increases for retailers in coming quarters which will outpace most street estimates.

Analyst's Certification: I Alan M. Silverman certify that the views expressed in this research report accurately reflect my personal views about the subject companies and their securities. I also certify that I have not been and will not be receiving direct or indirect compensation in exchange for expressing the specific recommendations in this report. I do have a long position in the shares of J.C Penney.

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