ICSC

2002 HOLIDAY PREVIEW

SEASON IN A CAPSULE

- ICSC expects the holiday season to be similar to last year's—challenging and promotional for retailers with consumers being the beneficiaries.

- For the combined November and December period, non-auto retail sales are likely to increase over last year's by a percentage in the low- to mid-single digits.

- Potential upsides to this forecast stem from three main factors:
    * Consumers have the wherewithal to spend IF they can be motivated to do it—and promotions can provide the stimulus. Real spending power in terms of disposable income after taxes is up by 3.9% this year. Also, home refinancing has left many households with either lower monthly mortgage payments or cashed-out home equity in the bank.
    * Weather this year is forecast to be much more favorable for seasonal goods in general and apparel in particular—strong apparel sales in October provide evidence that cold, seasonable weather can be a boost for outerwear.
    * Pent-up demand—after a long period of consumer restraint, holidays are always a logical time for people to treat themselves and their families.

- Potential risks that may curb spending:
    * War
    * Planned and actual inventories (as a result of the West Coast port problems) may not be strong enough to support a "big" season.

- Impact of a shortened holiday season (26 days in 2002 vs. 32 days in 2001 between Thanksgiving and Christmas):
    * Same number of gifts will be purchased, although there will be some shift out of November into December vis-à-vis last year.
    * Same number of shopping trips will be made, but not all of them will be captured within the 26-day timeframe.
    * Therefore, from the retailers' standpoint, it is important to analyze results for November and December combined.

- Retail categories likely to drive sales are apparel, video gaming systems and software, and home electronics (especially digital).

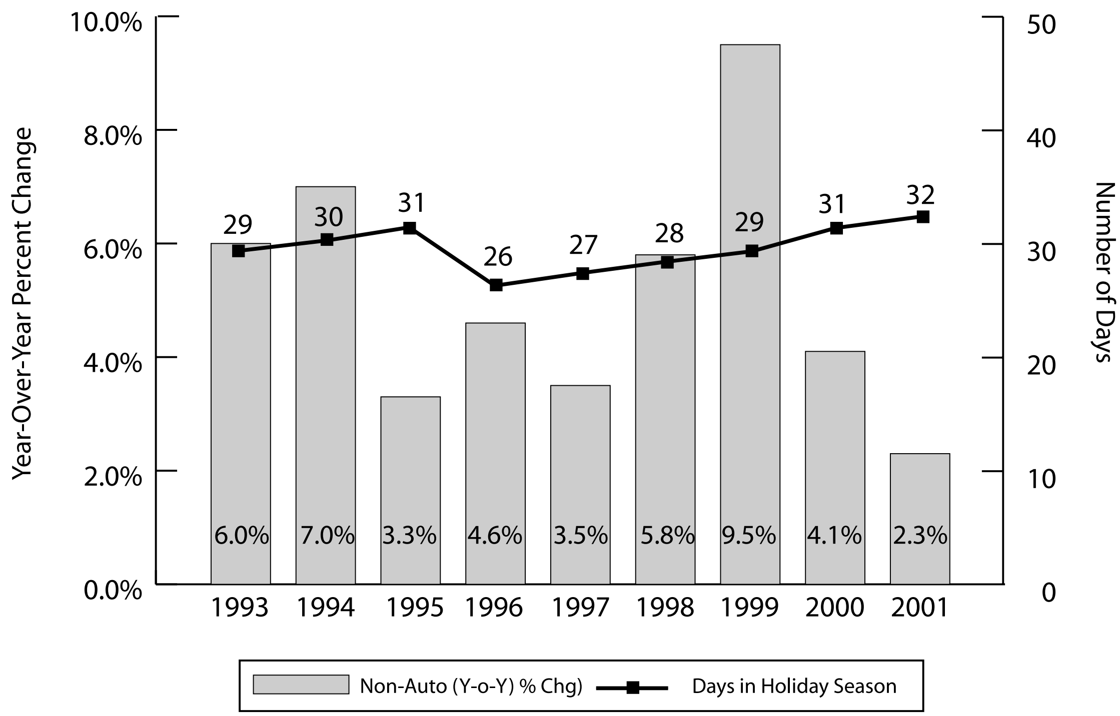
On page 5, following the overview of the 2002 holiday season, are the results of a consumer survey on holiday spending behavior conducted for ICSC by Opinion Research Corporation. Then, the Preview continues with the 2002 ICSC Analyst Survey (page 7), a list of Holiday Fun Facts (page 9) and concludes with our Hot Gifts List (page 10).

As a reminder, holiday-related information will be posted on our Web site at **holiday.icsc.org** throughout the season.

INSIDE...

Chart 1

Non-Auto Retail Sales* 1993-2001 and Number of Days in Holiday Season **



*Combined November and December sales, including Food Services **Number of days between Thanksgiving and Christmas
Source: U.S. Census Bureau (Using the NAICS classification), ICSC

SEASON OVERVIEW

The 2002 season is shaping up to be quite similar to last year's—promotional with intense sales activity in the final 10 days before Christmas. (The top five shopping days last year all occurred during that 10-day time period. The final week before Christmas alone accounted for 34% of holiday sales in 2001.)

Non-auto retail sales will probably experience a modest year-over-year growth rate in the low to mid-single digits, putting the season on par with last year's and with 1995-1997. (See Chart 1.) The results of our annual survey of retail and real estate analysts conducted in October—on page 7 of this document—also reflect this view. On average, the respondents forecast a 2.1% year-over-year gain for holiday non-auto retail sales. So far this year, according to the U.S. Census Bureau, non-auto sales have increased 3.8% (January-October 2002 period).

Is There An Upside?
Yes. Although the potential downside risks attract the most publicity, there is notable upside potential to our outlook. Three factors in particular suggest that the season may exceed initial expectations:

- After last year's mild winter, the weather this year is likely to be more cooperative in encouraging people to go to shopping centers to buy seasonal goods, especially apparel.

- There is likely to be some pent-up demand as a result of a lengthy period of consumer restraint, particularly during the back-to-school season. Additionally, with a long string of bad news for people to focus on, both with regard to the economy and the geopolitical situation, there would be no better or more logical time than the holiday season for consumers to give themselves a lift by going shopping. Again, last year's season can be used for an analogy—after 9/11, threats of more terrorism and a faltering economy, consumers came out in force in the last 10 days before Christmas to produce a decent season in challenging circumstances.

- Consumers have the wherewithal to spend more if they can be motivated to do it. At least two factors suggest that consumers still have the ability to spend—first, real disposable personal income is up by 3.9% this year, as a result of productivity-driven wage increases and income tax cuts. (See Chart 2 on page 3.) Second, there is an increase in spending power emanating from home refinancing activity—many households are now enjoying either lower monthly mortgage payments, or cashed-out equity. Much of that cash has been used to reduce more expensive debt or has been put in the bank as savings, which implies a significant financial reserve is available.

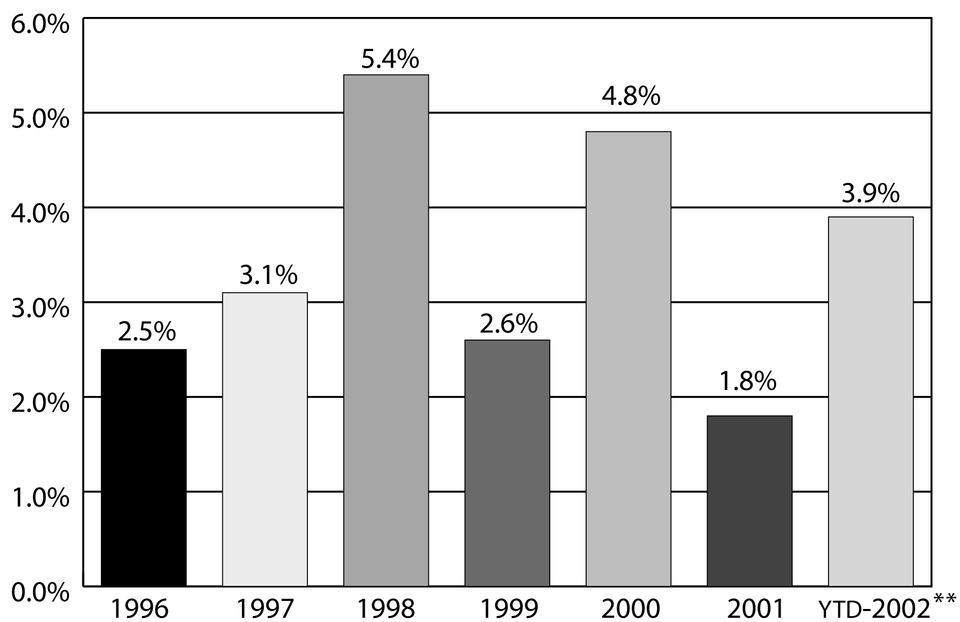
If the ability to spend is there, what would help to turn that into a willingness to spend? Obviously, promotions will help—and are likely to be aggressive across every retail format. In addition, seasonable weather, such as that seen recently across the country, and psychological factors like just getting into the holiday mood will go some way. But it would also definitely help if the prospects of war with Iraq were to recede.

Risks Remain
There are still undeniable downside risks to our expectations: clearly, war is one, or the imminent risk of war. The other factor is retailer inventories. At this point, it isn't clear that planned inventories will be sufficient to carry a season commensurate with last year's, when a substantial amount of clearance activity occurred in the final couple of weeks before Christmas. The West Coast port stoppage has also resulted in delays in the arrival of merchandise at retailers that source internationally. This represents a potential problem for both sales and margins, since merchandise that arrives late will have a narrower window between arrival and first markdown.

The Shorter Season Shouldn't Make a Difference
However, one factor that that is unlikely to adversely influence the strength of the season is the shorter period between Thanksgiving and Christmas, 26 days this year vs. 32 last year. Consumers will shop down their gift-list as usual. They will probably purchase less during the 26-day period than they did in the corresponding 32 days last year, but the difference will be made up in a broader time period, such as November/December combined. (See Chart 1 on page 2.) In fact, that's the only way to capture all of the gift and consumable purchases.

Chart 2

Real Personal Disposable Income*
Year-over-Year Percent Change



*Based on Chained 1996 Dollars **Year-to-date (YTD) is as of September 2002.
Source: U.S. Bureau of Economic Analysis.

[1] ICSC members can find the details of this study in "Sizing up Holiday Seasons," *ICSC Research Quarterly*, Vol. 9, No. 3, Fall 2002, which is also available on our Web site www.icsc.org.

ICSC recently went back over the record for the past 30 years to see if there was any correlation between the number of days from Thanksgiving to Christmas and the combined November/December sales performance. Four broad retail categories—non-auto, GAF, general merchandise and apparel—were examined, and no convincing correlation was found.[1] (See Chart 1 on page 2 for a graphic of the past decade.)

If consumers shop down their entire gift-list, why will there probably still be lower sales in the Thanksgiving to Christmas period this year compared with last year? There are two main reasons for that, and neither has anything to do with the health of the retail industry:

- First, there are six fewer days of shopping for consumable items that people make trips for on a relatively fixed periodic basis. Grocery store trips would be among them, whether they happen to be done once or twice a week at a traditional grocery store, a supercenter or a warehouse club. So losing the extra days doesn't eliminate those particular shopping trips—it simply places them outside the Thanksgiving-Christmas period.

- Second, even though holiday shoppers are famous for procrastination and for holding out to the last minute for the best bargain, we are still going to observe considerably more shopping before Thanksgiving in a 26-day season than in a 32-day season, purely because some people like to start their shopping at a roughly similar time before Christmas each year.

For these reasons, it makes more sense to be looking at the sales picture for the whole of the November/December period combined or even the fourth quarter as a whole to understand what really happened during the season.

MERCHANDISE CATEGORIES

It's Still Great To Be Home

What are going to be the merchandise categories driving sales this holiday season? Again, as it was last year, the home goods segment is going to be a very powerful sales driver.

Home entertainment will also be very important. DVD players and software, digital cameras and camcorders, and home theater systems are likely to sell well. Big-screen TV's will also be on a lot of people's wish-lists. DVD players will certainly be very strong, either as stand-alones for the home or car, or embedded in DVD/TV combinations, game systems, home theater systems and so on. [According to the Consumer Electronics Association's annual survey of the public's buying plans, holiday shoppers will purchase more DVD players than any other electronic product, followed by digital cameras and desktop PC's. Year-to-date sales (through October) of DVD players alone rose 30%, according to the CEA.[2]]

Then there is video gaming hardware and software, which was important last year and will be again this year, particularly as two factors are at play. First, prices are down from last year, and second, last year, retailers couldn't get the inventory to meet demand for the two newer systems (i.e. GameCube and Xbox). This year, there shouldn't be that problem. The beneficiaries of this trend should be both mall and non-mall based.

As for apparel, weather during the last holiday season was too warm for outerwear sales and a large amount of sweaters and other outerwear sat on shelves and didn't move out until the post-Christmas clearance sales. With more cooperative weather, as is presently being forecast, the situation could be much better this year. This would confirm the results of our consumer survey on page 5, which reports that three out of four respondents plan to buy clothing as gifts for this holiday season. In any case, apparel accessories are likely to do well, including lingerie, sleepwear and leather accessories.

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[2] See the Consumer Electronics Association's Web site: www.ce.org

ICSC HOLIDAY CONSUMER SURVEY

Opinion Research Corporation conducted a telephone survey of 1,012 adults (18 years and older) on behalf of ICSC during the period November 7-10, 2002 regarding their holiday spending plans. Below is a summary of the responses.

Preferred Retail Formats
Respondents were asked to identify the retail format where they would do MOST of their holiday gift shopping this year. Table 1 shows that three formats were overwhelmingly favored as the top spots: discount stores (26% of all respondents), department stores (26%) and mall specialty stores (22%). This trend also held true across gender and age groups.

The results indicated that women preferred discount stores (30%), while men preferred department stores (26%) closely followed by mall specialty stores (25%). Discount stores were the number one choice for people above 35 years old, while the young segments preferred department stores and/or mall specialty stores.

Table 1: Where MOST Holiday Gift Shopping Will Be Done

	Percent of Responses								
	Total	Gender		Age of Respondent					
		Male	Female	18-24	25-34	35-44	45-54	55-64	65+
Discount Store	26%	23%	30%	19%	16%	33%	31%	30%	29%
Department Store	26%	26%	26%	29%	37%	21%	21%	25%	26%
Mall Specialty Store	22%	25%	18%	39%	23%	20%	18%	18%	15%
Catalog	8%	5%	10%	4%	5%	7%	7%	11%	13%
Online	6%	8%	5%	7%	9%	9%	8%	3%	1%
Warehouse Clubs	3%	4%	2%	0%	3%	3%	4%	5%	3%
Other	2%	2%	1%	1%	3%	*	3%	2%	0%
Don't Know	7%	7%	8%	3%	5%	6%	8%	7%	13%

* not statistically significant

The survey also provided results by household income segments. (Table 2 shows the top three choices only.) In general, people with household incomes below $50,000 selected discount stores as their top choice, while those with incomes above $50,000 preferred department stores and mall specialty stores.

Table 2: Top 3 Preferred Shopping Formats by Household Income

	Total	< $15,000	$15,000-$24,999	$25,000-$34,999	$35,000-$49,999	$50,000 and above
Discount Store	26%	46%	37%	25%	33%	19%
Department Store	26%	25%	27%	32%	24%	25%
Mall Specialty Store	22%	10%	19%	16%	20%	24%

Separately, the same three retail formats: discount stores (24% of all responses), department stores (23%) and mall specialty stores (19%) were selected as the SECOND most preferred retail venue for holiday gift shopping this year.

Timing
The majority of respondents (48%) usually start their holiday shopping after Thanksgiving. Another 28% start before Thanksgiving, while 21% shop throughout the year for the holidays. More men usually start shopping after Thanksgiving (54%) than women (42%).

Despite this preference for shopping after Thanksgiving, only 35% of respondents planned to do any holiday shopping on the day after Thanksgiving (Black Friday). There was considerable variation among the age groups: A majority (61%) of young adults (18-24 years old) planned to shop on Black Friday, while those 65 years old and above were the least likely (18%).

A shorter period between Thanksgiving and Christmas has not prompted most respondents to start shopping earlier this year. Indeed, the vast majority (72%) of all respondents planned to begin their holiday shopping "about the same time as last year", while 17% planned to begin earlier this year.

Dollars

Most respondents (34%) expected to spend less than $500 on holiday gifts this year. Another 25% expected to spend between $500 and $999, while 30% planned to spend $1,000 or more. (Approximately 10% did not know how much they would spend, while 2% were not planning to spend anything on holiday gifts.)

On average, respondents expected to spend $817 on holiday gifts this year.[3] (If responses indicating zero spending are excluded, the average rises to $833.) As shown in Table 3, men expected to spend more than women and people 35-44 years old expected to outspend other age groups.

Table 3: Spending on Holiday Gifts in 2002*

	Total	Gender		Age of Respondent					
		Male	Female	18-24	25-34	35-44	45-54	55-64	65+
Mean	$817	$868	$768	$666	$948	$989	$838	$834	$531
Median	$500	$500	$500	$500	$500	$700	$500	$500	$400

* includes responses that indicated no spending

Not surprisingly, expected average spending increased with household income, reaching a peak of $1,180 for households earning $50,000 and above.

Average spending was $980 in households with children under the age of twelve, versus $905 for households with children between the ages of 12 and 17 and $728 for households without children.

Regionally, respondents in the South expected to spend an average of $894 on holiday gifts, versus $853 in the West, $777 in the Northeast and $698 in the Midwest.

Table 4 reveals that expected spending on holiday gifts was "about the same" as last year for most respondents (63%). This held true for both genders and across all age groups. However, a considerable portion of people 18-24 years old (40%) expected to spend more this year compared to last.

Table 4: Expected 2002 Spending Compared to Last Year

	Percent of Responses								
	Total	Gender		Age of Respondent					
		Male	Female	18-24	25-34	35-44	45-54	55-64	65+
More	15%	15%	15%	40%	15%	13%	9%	10%	7%
Less	20%	17%	22%	13%	23%	19%	22%	21%	18%
About the Same	63%	63%	63%	46%	57%	65%	67%	67%	73%
Don't Know	2%	4%	1%	1%	4%	3%	2%	2%	1%

The 20% who expected to spend less this year on holiday gifts cited having less money to spend this year (55% of responses) as the top reason behind the pullback. This was the reason given particularly by the youngest and oldest age groups. The second most common reason given by respondents was that they were worried about the economy (16%). This was especially concerning for respondents age 35-54 years.

Finally, three-quarters of all respondents (75%) said that clothing would be among the gifts they purchase this holiday season. Respondents in the Northeast (78%) and South (79%) were more likely to purchase apparel than those in the Midwest (68%) and West (72%).

[3] Please note that surveys of consumer spending intentions are useful for providing a snapshot of consumer thinking at the time of the survey. However, consumer spending plans may not be realized, particularly in instances where spending is spread over a relatively long period of time, such as the holiday season. (This subject was addressed in "Surveys of Consumer Spending Intentions – Do They Provide Useful Information?," *ICSC Research Quarterly*, Vol. 8, No. 3, Fall 2001.)

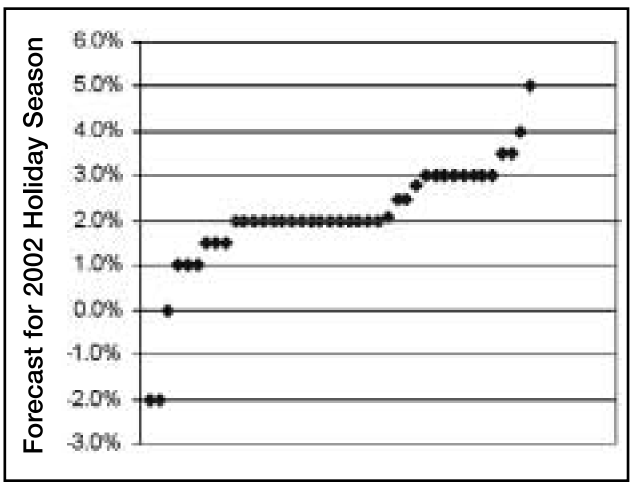
2002 HOLIDAY WATCH SURVEY OF RETAIL AND REAL ESTATE ANALYSTS

For the ninth consecutive year, the International Council of Shopping Centers (ICSC) has surveyed leading retail and real estate analysts on their opinions about the upcoming holiday season. This year, we obtained the insight of over 40 analysts located throughout the United States. The surveys were sent out in October. The following is a summary of the survey responses.

1. WHAT IS YOUR FORECAST FOR THE YEAR-OVER-YEAR PERCENT INCREASE OR DECREASE IN NON-AUTO RETAIL SALES FOR THIS HOLIDAY SEASON?

Mean	+2.1%
Median	+2.0%

The analysts predicted a 2.1% rise in non-auto retail sales this holiday season. The estimates ranged from –2.0% to +5.0%, with a median of +2.0%. Last year, analysts had predicted a 1.1% increase in holiday sales. The scatter diagram below plots the range of forecasts from lowest to highest, with a red line across the median response.



2. PLEASE STATE WHETHER THE FOLLOWING RETAIL FORMATS WILL CAPTURE MORE, THE SAME OR LESS OF TOTAL HOLIDAY SALES THAN LAST YEAR:

	% of respondents		
Retail Format	**More**	**Same**	**Less**
Department Stores	0.0%	17.5%	82.5%
Discount Stores	87.5%	12.5%	0.0%
Specialty Stores	25.0%	40.0%	35.0%
Factory Outlets	27.5%	45.0%	27.5%
Warehouse Clubs	67.5%	27.5%	5.0%
Box/Category-killer	43.6%	35.9%	20.5%
Online (multi-channel and pure play) retailers	72.5%	17.5%	10.0%
Mail order catalogs, TV shopping channels	20.0%	47.5%	32.5%

Analysts predicted that four store formats—discount stores, warehouse clubs, big box/category-killers, and online retailers—will capture more of total holiday sales this year compared to last year. Analysts also predicted that specialty stores, factory outlets, and catalogs/TV shopping will capture the same amount of total holiday sales as last year while department stores will capture less of total holiday sales this year than last year.

3. What do you think will be POSITIVE factors influencing consumer spending this year?

Low interest rates and mortgage refinancing were most frequently cited by the analysts as positive influences on consumer spending. A continued emphasis on family and home, seasonal weather, and value pricing/widespread promotions were also named as factors that would positively influence spending. One response noted that the reappearance of holiday parties—which may have been suspended last year—might also fuel spending.

4. Which of the following categories do you think will report the highest sales growth during the 2002 holiday season? Please rank, with #1 reporting the strongest gain over the 2001 holiday season.

Average Rank	
Video game software	2.5
Digital electronic products excluding gaming	3.5
Books, CDs, movies (VHS/DVD)	3.5
Furniture/Home Furnishings	4.3
Video game hardware	4.8
Toys/Hobby	5.2
Clothing, shoes and accessories	6.4
Computers, computer-related products	7.3
Jewelry	7.3
Sporting goods	7.7

Video game software, digital electronic products (excluding gaming) and entertainment products such as books, CDs, and movies were favored as the top performers for the holiday season. Sales of furniture/home furnishings, video game hardware and toys/hobby were also expected to improve over last year. In contrast, neither jewelry nor sporting goods received high scores.

Analysts were asked to identify specific products that stood out as potential big sellers. Among those named were video game software (especially for PlayStation 2), DVD players and movies, flat-screen TVs, digital cameras, outerwear, arts & crafts products and costume jewelry/accessories.

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ICSC Holiday Fun Facts 2002

Holiday Preparations

This year, most malls will begin decorating for the holidays on …	November 1
The holiday song played most frequently last year was…	Jingle Bells
The second-most frequently played song was…	White Christmas
The average number of days it takes to decorate a center for the holiday season…	8 days
The average amount of money that a center spends decorating for the holiday season…	$22,998
The average number, per mall, of full-time seasonal employees hired by management in 2001…	2
The average number, per mall, of part-time seasonal employees hired by management in 2001…	4
The percentage of malls that will advertise for the 2002 holiday season on the Internet…	56%
The most common mode of advertisement for the 2002 holiday season…	Print

Santa Claus at the Mall

The average number of full-time Santas employed per mall in 2001…	1
The average number of part-time Santas employed per mall in 2001…	2
Santa Claus will arrive at most malls on …	November 16
The percentage of malls that will mark Santa's arrival with a special event…	79%
The most common method of arrival will be… (Other methods include on a fire engine, by horse-drawn sleigh or during a children's breakfast.)	A parade
The average number of pictures that were taken with Santa Claus per mall in 2001…	4,288
The average number of children who visited Santa Claus, per mall, in 2001…	10,119

Sales & Services

The percent of malls that will extend their holiday shopping hours…	94%
The most common day that extended holiday shopping hours will begin…	November 29
The most common special amenity offered for holiday shoppers…	Gift wrapping
Among malls that offered gift-wrapping services and had figures available, the average number of gifts that were wrapped, per mall, during the 2001 holiday season was…	3,709
The average amount in gift certificates sales, per mall, during the 2001 holiday season…	$598,643
The denomination of gift certificate that is sold most frequently is…	$25
The average amount of a gift certificate purchase is…	$59
The percentage of malls that participate in a special holiday gift certificate incentive program…	40%
The most common gift certificate incentive is…	A gift with purchase program

Holiday Spirit

The percentage of malls that will be hosting charity events this holiday season…	90%

Source: International Council of Shopping Centers based on a survey of approximately 230 enclosed malls

WHAT'S 'HOT' THIS SEASON?

One of the most common questions that ICSC Research has received over the last few years is "What are the hot gift items this season?" Here's our short gift list. This year, home is where the holiday spirit is — gift-giving will be focused on home-oriented items such as pillows and throws, candles and wall frames.

TOYS

- Dancing Dora—We Did It!
- Bratz—Funk 'N Glow Dolls, Stylin' Salon 'N' Spa
- Barbie as Rapunzel
- Chicken Dance Elmo
- Quantum Pad Learning System
- Crayola Crayon Maker
- Care Bears plush dolls
- FurReal Friends
- Yu-Gi-Oh! trading cards
- Scream Machine Three-Wheeler
- Rescue Heroes—action figures, ultimate robotic vehicle (URV)
- Board games—20th Anniversary Trivial Pursuit, Junior Monopoly

Movie/television/comic book-inspired Toys and Games

- LEGO Harry Potter Chamber of Secrets
- Harry Potter Slime Chamber Play Set
- Spiderman—action figures, vehicles, web blasters, pinball machine
- Lord of the Rings

CARDS/GIFTS/BOOKS

- Arts & Crafts (jewelry in beads and semi-precious stones, floral arrangements and scrapbooks)
- Razor Scooters
- Gift certificates
- "Lovely Bones" by Alice Sebold
- "Fast Food Nation" by Eric Schlosser
- "Harry Potter" by J.K. Rowling

JEWELRY

- Diamonds—bracelets, earrings, necklaces and watches
- Pearl
- Gold (yellow, white)
- Colored gemstones (opal, sapphires, rose quartz)
- Watches—in colorful watchstraps; in different case shapes (square, rectangular, cushioned, tonneau or barrel, oval and more free-form such as diamond shape and figure of eight); colored diamond (pink, yellow and black) watches

HOME FURNISHINGS

- Pillows and throws
- Accessories in velvet and chenille fabrics
- Candles/Candle holders
- Wall Frames (for pictures, paintings, any artwork)

MUSIC/ENTERTAINMENT/SOFTWARE

- Digital Cameras
- DVD Players; DVD movies
- Big-screen TVs
- Home theater and home stereo
- Camcorders
- Video Game Systems (e.g., Microsoft's Xbox, Nintendo's GameCube and Sony PlayStation2)
- Video Softwares (e.g., NBA Live 2002 and Tony Hawk Pro Skater 4 for PlayStation2; Super Mario Sunshine for Nintendo GameCube)

Happy Holidays to All from the Holiday Watch Team

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