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Penney For Your Thoughts

Now that activist investor William Ackman departed from JCP and his Pershing Square Capital Management sold off his 39.1 million shares – about 18% – to Citigroup, the company can get back to rebuilding confidence in the 1100-store brand.

First things first. The company instituted a new poison pill plan that would block any single investor from owning more than 10% of the retailer's shares. It stated the move was not in response to any particular takeover attempt. Riiight.

Hedge fund manager Richard Perry bought an additional 3 million shares to increase his holdings to 8.62% of JCP, second behind George Soros. That makes at least one vote that the company can recover. The next thing you know, hedge funds barreled into JCP stock, according to a Wall Street Journal article.

The latest quarterly results proved a disaster, but winning back former customers remains key to any turnaround. Perhaps CEO Mike Ullman can take solace by looking to Best Buy for inspiration. The electronics retailer, once on the ropes, rebounded with a strong quarter. Possibilities abound. Certainly, resuming coupons and sales offer a start.

A further start might be to follow through with store upgrades. Upscale coffee-press maker Bodum Group sued JCP for breach-of-contract, according to a Reuters article, claiming JCP missed a March 2013 deadline to launch Bodum store-within-stores and installed fewer boutiques that initially agreed to.

GE Plans to Exit Retail Lending

General Electric Co. is planning to spin off the US consumer lending operations – including about 55 million store credit cards – of its finance arm GE Capital, according to a Reuters article. GE declined to comment on any potential IPO. The division earned \$3.24 billion last year and had assets of \$139 billion.

Office Depot and Starboard Settle

Office Depot, Inc. reached settlement agreement with its largest shareholder Starboard Value LP in proxy fight by expanding board of directors from 10 to 11 and appointing Starboard nominees Cynthia Jamison, Jeffrey Smith, and Joseph Vassaluzzo to the board. Guess they saw what happened over at JCP...

Tuesday Morning Pushes Bricks

At a time when most retailers are pushing the clicks of online shopping, Tuesday Morning Corp. played the bricks card, announcing the end of online sales. They also brought in Jeffrey Boyer as COO/CAO and CFO. He was COO at 24 Hour Fitness Worldwide.

Brooks Signs Deal with Oronot

Oronot signed Brooks Brothers to a 10-year joint venture, with a five-year renewal option, that will open the first four to eight stores in Australia – and possibly department store concessions – at the beginning of 2014. Oronot will hold 51%. The deal comes on the heels of Oronot losing the Ralph Lauren license.

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Weekly Retail Sales Summary

Thomson Reuters reported that the 11 retailers that still release monthly sales figures for stores open at least a year reported a combined 3.9% gain in July, missing the 4.4% increase that analysts expected, and a 3.5% gain in August, beating analyst expectations of 3.1%.

July apparel sales reflected back-to-school demand and focused on children's clothing and seasonal patterns which, for some retailers, centered on higher priced lines. Apparel sales held up well in the south where school starts earlier, but for August, heavy discounting drew traffic, but tore into margins.

Many consumers bought cars and houses to take advantage of still-low interest rates but held back on shirts, dresses, and shoes. In the run-up to the year-end holiday season, this does not bode well for many retailers.

Weekly Retail Sales Summary			
Week Ending	Month over Month Change	Year Over Year Change	
31-Aug-13	0.6%	4.7%	
24-Aug-13	0.3%	3.8%	
17-Aug-13	0.2%	3.4%	
10-Aug-13	0.4%	3.7%	
3-Aug-13	1.0%	3.7%	

Source: Johnson Redbook Sales Index.

Sales and Earnings (in Millions)

	Company	Period Ended	Sales	% Change Sales	Net Income	% Change Income
Apparel	Abercrombie and Fitch	Aug 3/Q2	\$945.7	-1.0%	\$11.4	-26.5%
	Aeropostale	Aug 3/Q2	\$454.0	-6.0%	\$(33.7)	-336.0%
	American Eagle Outfitters	Aug 3/Q2	\$727.3	-1.7%	\$19.6	3.2%
	Ann Inc. (Ann Taylor Consolidated)	Aug 3/Q2	\$638.2	7.3%	\$35.6	16.0%
	Ascena (Dress Barn FYE 7/31)	April 27/Q3	\$1,142.0	46.0%	\$31.2	-36.8%
	bebe Stores (FYE 7/6)	July 6/Q4	\$119.2	-9.4%	\$(20.8)	-793.3%
	Bluefly	Mar 31/Q1	\$19.8	-20.2%	\$(4.4)	44.3%
	Buckle, The	Aug 3/Q2	\$232.5	7.9%	\$25.1	8.2%
	Burlington Coat Factory	Aug 3/Q2	\$963.7	11.5%	N/A	N/A
	Cache, Inc. (FYE 12/31)	June 29/Q2	\$60.1	-2.4%	\$(3.2)	-420.0%
	Cato Corporation	Aug 3/Q2	\$229.4	-1.0%	\$14.8	-14.5%
	Chico's FAS	Aug 3/Q2	\$649.5	1.2%	\$43.6	-18.4%
	Children's Place Retail	Aug 3/Q2	\$382.4	6.0%	\$(23.6)	-31.8%
	Christopher & Banks (FYE 2/27) now 1/28	Aug 3/Q2	\$104.2	1.0%	\$(0.3)	86.4%
	Destination XL Group, Inc.(formerly-Casual Male Retail	Aug 3/Q2	\$97.6	-2.9%	\$(1.6)	-233.3%
	Fifth & Pacific Companies (formerly Liz Claiborne	June 30 Q2	\$382.0	13.4%	\$(16.0)	57.9%
	Gap, Inc. (consolidated)	Aug 3/Q2	\$3,870.0	8.1%	N/A	N/A
	Guess?, Inc.	Aug 3/Q2	\$639.0	1.0%	\$9.9	3.3%
	Gymboree	May 4/Q1	\$292.8	-1.7%	\$(2.8)	-33.3%
	Hot Topic, Inc.	May 4/Q1	\$174.8	1.9%	\$4.1	7.9%
	J. Crew Group	May 4/Q1	\$564.1	12.0%	\$29.3	-4.6%
	L Brands (formerly- Limited Brands)	Aug 3/Q2	\$2,516.0	5.0%	\$178.9	21.5%
	Pacific Sunwear	Aug 3/Q2	\$215.2	9.1%	\$(19.2)	-9.7%
	Ross Stores Inc.	Aug 3/Q2	\$2,551.0	9.0%	\$213.1	17.1%
	Saks, Inc. consolidated	Aug 3/Q2	\$707.8	1.0%	\$(19.6)	-5.9%
	SteinMart, Inc.	Aug 3/Q2	\$291.0	3.8%	\$3.4	47.8%
	Wet Seal Inc. (consolidated)	Aug 3/Q2	\$137.2	1.4%	\$1.0	107.8%
	Zumiez	Aug 3/Q2	\$157.9	16.9%	\$4.7	123.8%
Discount	99¢ Only Stores	June 29/Q1	\$433.9	8.2%	\$3.2	165.3%
	Amazon.com	June 30/Q2	\$15,704.0	22.4%	\$(7.0)	-200.0%
	Big Lots, Inc.	Aug 3/Q2	\$1,225.6	0.6%	\$17.7	-19.9%
	Costco Wholesale (U.S. comps, FYE 9/1)	Sept 1/Q4	\$31,800.0	1.0%	N/A	N/A
	Dollar Tree Inc	Aug 3/Q2	\$1,850.0	8.8%	\$124.7	4.6%
	Freds Inc.	Aug 3/Q2	\$482.2	2.0%	\$3.3	-45.9%
	Overstock.com	June 30/Q2	\$293.2	22.4%	\$3.4	686.8%
	TJX Companies (consolidated)	Aug 3/Q2	\$6,442.4	8.4%	\$479.6	13.9%
	Wal-mart Stores Inc	July 31/Q2	\$116,216.0	2.4%	\$4,069.0	1.3%

Sales and Earnings (in Millions)

	Company	Period Ended	Sales	% Change Sales	Net Income	% Change Income
Drug	CVS/ Caremark	June 30/Q2	\$31,248.0	1.7%	\$1,121.0	16.2%
	Rite Aid (FYE 2/26)	June 1/Q1	\$6,293.0	-2.7%	\$89.7	419.2%
	Walgreens (FYE 8/30)	May 31/Q3	\$18,313.0	3.2%	\$624.0	16.2%
Food	Publix	June 29 /Q2	\$7,096.7	3.8%	\$400.9	5.1%
	Supervalu (FYE 2/26)	June 15/Q1	\$5,158.0	-1.5%	\$85.0	107.3%
	Whole Foods (FYE 9/25)	July 7/Q3	\$3,058.0	12.1%	\$142.0	21.4%
Specialty	Best Buy (FYE 2/26)	Aug 3/Q2	\$9,300.0	-0.1%	\$266.0	2,116.7%
	Big 5 Sporting Goods (FYE 12/31)	June 30/Q2	\$239.9	5.9%	\$6.1	134.6%
	Dick's Sporting Goods	Aug 3/Q2	\$1,531.4	6.6%	\$84.2	56.8%
	hhgregg (FYE 3/31)	June 30/Q1	\$524.9	7.2%	\$(1.3)	77.2%
	Hibbett Sports	Aug 3/Q2	\$186.2	12.6%	\$10.5	32.9%
Mass Merch.	Bed Bath & Beyond (FYE 2/26)	June 1/Q1	\$2,612.0	17.8%	\$202.5	4.5%
	Kohl's Corporation	Aug 3/Q2	\$4,289.0	2.0%	\$231.0	-3.8%
	Target Corporation	Aug 3/Q2	\$17,117.0	2.0%	\$611.0	-13.2%
Department Stores	Bon-Ton Stores Inc., The (consolidated)	Aug 3/Q2	\$557.1	-6.3%	\$(37.3)	17.1%
	Dillard's Inc.	Aug 3/Q2	\$1,516.8	-5.5%	\$36.5	17.7%
	J.C. Penney	Aug 3/Q2	\$2,660.0	-11.9%	\$(586.0)	-298.6%
	Macy's, Inc.	Aug 3/Q2	\$6,066.0	-1.0%	\$281.0	1.0%
	Nordstrom	Aug 3/Q2	\$3,196.0	6.3%	\$184.0	17.9%
	Sears Holdings	Aug 3/Q2	\$8,871.0	-6.3%	\$(194.0)	-47.0%
	Stage Stores, Inc.	Aug 3/Q2	\$395.0	3.6%	\$9.6	-17.9%
Furn.	Haverty Furniture	June 30/Q2	\$171.1	12.9%	\$4.8	104.6%
	Furniture Brands International	June 29/Q2	\$255.0	-4.0%	\$(40.8)	-500.0%
Home	Home Depot, The	Aug 4/Q2	\$22,522.0	9.5%	\$1,795.0	17.2%
	Lowe's	Aug 2/Q2	\$15,711.0	10.3%	\$941.0	26.0%
Office	Office Depot	June 30/Q2	\$2,400.0	-4.0%	\$(64.0)	0.0%
	OfficeMax	June 29/Q2	\$1,533.0	-4.3%	\$(8.9)	-179.0%
	Staples	Aug 3/Q2	\$5,314.7	-2.2%	\$102.5	-14.9%
Book	Barnes & Noble (FYE 4/27)	July 27/Q1	\$1,329.5	-8.5%	\$(87.0)	-118.6%
	Books-A-Million	Aug 3/Q2	\$109.2	-8.6%	\$(9.0)	-900.0%
Auto	Advance Auto	July 13/Q2	\$1,549.6	6.1%	\$116.9	17.4%
	Auto Zone (FYE 8/27)	May 4/Q3	\$2,200.0	4.5%	\$265.6	6.8%
	Pep Boys	Aug 3/Q2	\$527.6	0.4%	\$5.4	-83.6%

Retail Bankruptcy Watch

Receive an alert when one of your customers files bankruptcy. Join Credit2B. Credit2B provides world-class on-demand business credit intelligence, including comprehensive credit reports, predictive scoring, and a peer-to-peer exchange of trade experiences on common customers. Built as a cloud-based application, Credit2B today delivers remarkably, high quality and timely credit and financial risk information. Credit2B is simple to join, create connections on shared customers, and access huge amounts of information from peers in and outside your industry. Below are some of the major retailers that have sought bankruptcy protection over the past year:

Bankruptcies Drop: According to the Epiq Systems, Inc., commercial bankruptcies filed in August 2013 totaled 3581, down 23% from year ago's 4681 and Commercial Chapter 11 filings totaled 536, down 24% from year ago's 702.

Orchard Supply Motions Approved and Objected: Orchard Supply Hardware Stores filed a motion with the US Bankruptcy Court on August 12, 2013 accepting Lowe's Co., Inc.'s bid of \$205 million for majority of Orchard's assets, including 72 stores.

Eastman Kodak Plan Approved: The US Bankruptcy Court approved on August 20, 2013 Eastman Kodak's First Amended Joint Plan of Reorganization. The Company anticipates finalizing remaining aspects of its reorganization, including closing its settlement with the Kodak Pension Plan, and emerging from Chapter 11 on September 3, 2013. Eastman Kodak filed for

Chapter 11 protection on January 19, 2012, listing \$6.2 billion in pre-petition assets.

Lowe's Completes Orchard Takeover: Lowe's Companies, Inc. completed its previously announced acquisition of the majority of assets of Orchard Supply Hardware, including 72 Orchard stores, for approximately \$205 million in cash, plus the assumption of payables owed to nearly all of Orchard's supplier partners. Orchard will continue to operate as a separate, standalone business, retaining its brand and its San Jose headquarters.

Ames Files Plan: Ames Department Stores filed on September 4, 2013 with the US Bankruptcy Court a second amended Chapter 11 plan and related disclosure statement to liquidate debtors' assets.

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Wal-Mart's African Expansion

Wal-Mart Stores' Massmart Holdings is planning to open a food store in West Africa by the end of the year and open 90 stores across sub-Saharan Africa in the next three years.

Wal-Mart's DC Minimum Wage Battle

Will Washington DC Mayor Vincent Gray sign a \$12.50 per hour minimum wage bill aimed at big box retailers? Will Wal-Mart terminate the three stores under construction in DC and the three more planned? Can the DC City Council override any mayoral veto? The saga continues...

No retailers want to see their \$8.25 per hour workforce in DC get a 50% boost in pay courtesy of the politicians, for if it happened in DC, it could happen anywhere. Sheesh, retailers already suffered scattered protests at various stores, and they already bailed on employee hours to keep them part time. Don't even ask about the health care act repercussions. Stay tuned.

GE Bulbs and Wal-Mart

General Electric announced plans to invest \$30 million and add more than 150 jobs to expand its USA-based light bulb manufacturing while Wal-Mart agreed to sell those made in the USA bulbs at its 3400 stores by summer of 2014.

Jobs at a GE light bulb plant in Winchester, Virginia that closed in 2012 average about \$30 per hour, according to a Washington Post article. GE workers at a locomotive assembly plant in Texas earn roughly \$18 to \$23.50 per hour, although the rate is about \$10 an hour less than what's being paid for the same work at GE's locomotive plant in Pennsylvania.

Harris Teeter Picks Paydiant

Supermarket chain Harris Teeter selected Paydiant for its smartphone-based mobile wallet system for a pilot project at its Matthews, NC, store. If successful, HT will roll out the system across all 200 stores.

Overstock Defeats Lawsuit

Federal Court dismissed a class-action lawsuit brought by Cynthia Hines against Overstock.com, Inc. over the company's return policy of providing partial refunds for returns of items in questionable condition.

Target's Slow Start in Canada

Target Corp. remained "highly confident" in their new Canadian operations despite a larger-than-expected loss of 21 cents per share from its Canadian segment during the second quarter. Target opened 68 of planned 124 stores due by end of year and will increase marketing and adjust store inventories to boost results.

Advance Auto: 4000th Store

Advance Auto Parts, Inc. opened its 4,000th store, with the latest store located in Montgomery, NY.

Meijer Hiring 9000

Meijer announced plans to hire 9000 mostly part-time employees in Michigan (4400), Ohio (1600), Indiana (1800), Illinois (900), and Kentucky (500).

Party City Hiring 20,000

Party City noted it would hire 20,000 seasonal employees in preparation for Halloween, or about 10 to 45 extra employees per store.

Fast Retailing to Tokyo

Fast Retailing Co., Ltd. announced plans to establish J Brand Japan Co., Ltd., a new subsidiary company, to create and develop the J Brand business in Japan.

Groupon Takes on Amazon?

Groupon, Inc., known for its coupon offers, is planning to acquire a network of North American warehouses for its physical goods business, pitting it against Amazon.com, Inc. and Overstock.com, Inc. CEO Eric Lefkowsky noted Groupon would follow the Costco model of offering a limited selection of items at cut-rate pricing.

Apple's iPhone Trade-in Program

Apple, Inc. launched a trade-in program that will give customers a credit for their old phones to be used toward the purchase of a new model. The current market for used iPhones is estimated at about \$14 billion.

Wet Seal Plus Collection

Wet Seal, Inc. moved its previously online only plus-size apparel, called Plus Collection, into 36 stores, with an eye towards expanding into more stores.

GGP Tests Same-Day Deliveries

Four of the General Growth Properties, Inc. malls (San Francisco, LA, Chicago, and San Jose) will offer same-day delivery to online customers of participating stores. GGP inked a deal with Deliv for the service, with the delivery cost the same or less than standard shipping. With Amazon.com offering same-day delivery, GGP certainly understands what could happen to the last advantage of retailers - getting items immediately.

Deliv uses 'crowdsourced' drivers - ordinary people (not professional drivers)

who reply to online ads and pass a company vetting process including background checks – to keep company costs down. How Deliv can keep drivers – assuming the shipping cost is their pay minus the price of gas – remains to be seen – especially if more locales opt for increased minimum wage hikes.

Best Buy: 1-1

A US federal jury in the Best Buy Co. lawsuit found that HannStar Display Co. conspired to fixed prices for LCD flat panels used in computers and televisions while exonerating Toshiba Corp. The jury awarded Best Buy \$7.5 million in damages, but the HannStar lawyer asserted the company didn't owe Best Buy a cent. Best Buy did not comment.

Industry and Economic News

Consumer Confidence Rises...

Conference Board Consumer Confidence Index rose in August to 81.5, up from 81.0 in July. Conference Board analysts noted consumers were moderately more upbeat about business, job, and earning prospects. In fact, income expectations, which had declined sharply earlier this year with the payroll tax hike, have rebounded to their highest level in two and a half years. Consumers' assessment of current business and labor market conditions, on the other hand, was somewhat less favorable than last month.

...And Falls

The Thomson Reuters/University of Michigan's final reading on the overall index on consumer sentiment fell to 82.1 in August from 85.1 in July. Households with incomes below \$75,000 grew more pessimistic about the future, and all households expected higher interest rates over the next year and slightly slower growth.

US Services Up...

The Institute for Supply Management reported its index of national services activity rose to 58.6 in August, up from 56.0 in July and the highest reading since December 2005.

...Manufacturing, Too

The Institute for Supply Management reported its index of national manufacturing activity rose to 55.7 in August, up from 55.4 in July and the highest reading since December 2005. New orders also marked their best level in more than two years, with that sub-index jumping to 63.2 in August from 58.3 in July. Employment, however, fell from 54.4 in July to 53.3 in August.

Employment Up, Layoffs Down

The Commerce Department reported US private employers added 169,000 jobs in August, another steady increase as the

unemployment rate dropped from 7.4% to 7.3%. This 0.1% drop was mostly due to reduced labor participation – lowest rate since 1978. Worse, job numbers were trimmed downward in June and July by 74,000.

According to the National Retail Federation, retailers added 43,600 jobs in August.

The Labor Department reported new jobless claims averaged 328,500 in August, at times hitting levels last seen in October 2007. US labor costs were flat, indicating minimal inflationary pressure while productivity was up 2.3%.

As for the Federal Reserve, many members remain undecided whether to curtail the \$85 billion per month bond buying program or not. The numbers headed in the right direction, but not fast enough for a definite reduction. Look for a symbolic cut in the next month or so.

Holiday Battles Begin Now

Wal-Mart Stores, Toys R Us, Best Buy, Marshall's, K-Mart, and TJ Maxx announced layaway services for this holiday season while Wal-Mart and Toys R Us will offer price matching. Target scheduled its 'order online and pick up at the store' service to begin just before Black Friday, something Wal-Mart and Best Buy already offer.

Autumn Apparel Abatement

The 3 As, no, not the Amigos but American Eagle, Aeropostal, and Abercrombie & Fitch, stumbled in the second quarter and face a tough fall. Why? Fickle teen shoppers are blowing their dough on cheap fashion at Zara, Forever 21, Gap, and H&M, not the logo-centric 3 As. American Eagle, Aeropostale, and Abercrombie all forecasted a tough autumn, likely leading to price slashing and humbling earnings.

Why the switch? Blame the economy. According to the US Bureau of Labor Statistics, in July 2013 the youth (16 to 24 years old) employment rate was 50.7%, leaving 49.3% not pulling in a paycheck. Also, when they spend, many spend on smartphones and electronics. Finally, last year was the bright-colored jeans fad. This year? Bupkis.

Electronics Spending

The NPD Group's 2013 Household Penetration Study survey of 2500 adults found that consumers are expected to spend \$555 per person on new consumer electronics devices this year, a 9% increase over 2012, with 72% buying a consumer electronics product within the next year. Over the next two years, 28% of consumers expect to buy a flat-panel TV, down from 30%, while 20% intend to buy a tablet, representing the highest purchase intent levels of all devices measured.

Blu-ray player purchase intent for the next two years declined from 16% in 2012 to 12% in 2013 as DVDs start to fade in the face

of streaming media. Stereo headphones with microphones are up 65% in the first half of 2013. Surround sound systems are being passed over for sleeker soundbar systems.

Credit Card Delinquency Rate

TransUnion reported US credit card delinquency rate was 0.57% in the second quarter, down from 0.63% in first quarter and lowest rate in 19 years. An improving economy and consumer efforts to reduce debt contributed to the frugality.

Seven Retailing Trends

You've heard of the seven deadly sins and the seven words you can't say on the radio or TV, now a Chain Store Age article lists the seven trends impacting brick and mortar retail stores. You're probably familiar with the first five: social networks, showrooming, catering to local tastes, right-sizing square footage, and offering ordering fulfillment via stores, not the delivery service.

The next two? Maybe not. Near-field communication: tracking customer movement through the stores and offering pop-up choices ala advertising as shown in the movie *Minority Report* – assuming you can keep the annoyance factor to a minimum. Dark Store: Turning underperforming stores in strategic locations into mini-warehouses that fulfil same-day or next-day orders.

These last two will require healthy infrastructure investments in computerization, including extensive inventory control and customer service support that goes far beyond logging into a website and sending a message offering 'suggestions' based on past purchases – and doubly so if employee sales commissions are involved.

Crowdfunding Your Way

Crowdfunder released its new Crowdhoster software that allows companies to host their own crowdfunding efforts without the 10% or so cut to Kickstarter, Indiegogo, or other such sites.

Few Americans Invest in Startups

The 2012 Global Entrepreneurship Monitor survey of American adults directed by Babson College found that only 5.3% of Americans "personally provided funds for a new business started by someone else, excluding any purchases of stocks or mutual funds" during prior three years. That's a little better than 4.7% in 2007.

Moreover, the typical amount invested by those providing funds over last three years was only \$5,000, with 50.2% investing in relative's business. Only 11.4% of the investments went to a "stranger with a good idea."

The Center for Venture Research at the University of New Hampshire, which conducts quarterly surveys of angel investors, estimated 268,160 investment angels were active in the US in 2012. Perhaps that percentage will increase once the SEC

Executive Changes

Tuesday Morning Corp.

Michael Rouleau
Confirmed as CEO

Jeffrey Boyer
Hired as Executive VP, Chief Administrative Officer and CFO

Bloomingdale's

Brooke Jaffe
Named as Operating VP of Fashion Direction for Women's Ready-to-wear

Erica Russo
Named as Fashion Director of Accessories.

Oroton

Sally Macdonald
Resigns as CEO

Mark Newman
Named as CEO

QVC

Dave Caputo
Promoted to Senior Vice President TV Production and Operations

Alex Miller
Promoted to Senior Vice President Digital Commerce

Weight Watchers

Ann Hollins
Named as Chief Human Resources Officer

Guess?, Inc.

Michael Relich
Promoted to Chief Operating Officer

Apple

Enrique Atienza
Hired as Director for US Retail Market

Lowe's

Michael P. McDermott
Hired as Senior VP and General Merchandising Manager (Building and Maintenance)

Home Retail Group (UK)

Terry Duddy
Plans to resign as CEO by July 2, 2014

Shutl

John Kelly
Hired as Executive VP of Retail

writes the regulations allowing investors to take a stake in companies via crowdfunding – but the SEC has already blown Congress' Dec 2012 deadline. Crowdfundit doesn't seem like such a stretch now, does it?

Holiday Apparel Sales to Flop?

IBM forecasted that US appliance sales will rise 6% in the current third quarter, with sales of other home goods up 1.67%. For the holiday season, it expects appliance sales to rise 2.13% and sales of home goods to rise 1.98%, while anticipating the steepest decline, 3.62%, in men's apparel. Analysts noted that when people spend more money on cars and homes, they cut back on clothes and shoes.

A Thomson Reuters analysis showed 30 of the top hedge funds shifted 2.15% of their funds out of consumer discretionary stocks – a percentage exceeded only in energy (5.25%) and materials (11.59%) – and into healthcare, telecoms, and technology stocks.

According to an August poll of 1,100 U.S. consumers by Ipsos for Reuters this month, 26% plan to spend less on clothing this holiday season, while only 12% say they expect to spend more.

Federal Reserve Succession

Who gets to be the next Federal Reserve chairman? Good question. Vice Chairs Janet Yellen and Don Kohn and former Treasury Secretary Larry Summers are all in the running to replace Chairman Ben Bernanke, who did not attend. The recent retreat at Jackson Hole, Wyoming, provided the setting for intense speculation about how each would run the Fed. Between the economic gyrations from even the hint of slowing down bond purchases to the spectre of inflation, the next chairman will likely dance around a fiscal minefield as much as Bernanke.

Debt Limit Deja Vu

Here we go again. Pick your adjective, perhaps a stronger one than before, to place before the word "Congress" because the debt ceiling dance is about to begin anew. Yes, the folks who gave you sequestration because they couldn't agree on how to cut the budget will face the end of their stopgap resolution funding the government by the end of September – just in time for the beginning of the Federal fiscal year.

If the continuing resolution expired without a new appropriations bill, the federal government would shut down, with thousands of employees put on furlough and only essential services, like air traffic control, continuing. The Treasury would be able to spend money only as it came in. It might be forced to choose certain payments over others — paying bondholders but not Social Security recipients, for instance, noted a NY Times article. Look what happened to retail sales under these type of impacts.

Perhaps we can all take comfort in the mid-August Gallup poll that found Congress' approval rating at 14% while its disapproval rating was 81%. The approval rating hovered between 13% and 17% and the disapproval rating between 78% and 81% all year, so nothing new here. You have to go all the way back to 2012 (average 17% approval rating), 1992 (average 18% approval rating), or 1979 (average 19% approval rating) to get numbers that low.

The highest average approval rating? 2001, when Congress' approval rating average 56%. Then again, we do tend to pull together in tragedy.

Credit Card Settlement in Jeopardy?

Opposition to the \$7.25 billion credit card fee settlement surpassed 25%, triggering the right of Visa and Mastercard to back out of the deal. The main sticking point: no more lawsuits allowed to contest swipe fees charged by Visa and Mastercard. Retailers

should be concerned with virtual credit card monopolies that will have no legal checks and balances. Consumers more so, because one provision allows merchants to pass on their processing costs to customers via surcharge.

Understandably, Visa and MasterCard are pushing the deal that provides \$6 billion in direct payments to merchants, \$1.25 billion in temporary interchange rate reductions, and the pass-through fee provision. The settlement is subject to a judge's final approval in federal court in a hearing on September 12.

US Home Prices Rise...

The S&P/Case Shiller composite index of 20 metropolitan areas found that home prices rose 0.9% in June and analysts forecasted continued strength, although prices will slow now that mortgage rates have increased a tad. The median price for a new home sale rose to \$257,200, up from \$237,400 in the June 2012.

...But Home Sales Fall

The Commerce Department reported sales of new single-family homes in the US fell 13.4% to an annual rate of 394,000 units, lowest level in nine months. Blame rising mortgage rates for this slowing of sales.

August Builder Confidence Up

The National Association of Home Builders/Wells Fargo Housing Market Index showed builder confidence rising to from 56 in July to 59 in August, the fourth consecutive monthly gain and its highest level in nearly eight years. Firming home prices and thinning inventories of homes for sale are contributing to an increased sense of urgency among those who are in the market.

Manufacturing Stumbles in July...

The Commerce Department reported orders for durable goods – items meant to

last at least three years – fell 7.3% in July, a stumble after three straight months of increases and the steepest drop in nearly a year. However, excluding the volatile transportation category, orders fell just 0.6%. Core capital goods orders fell 3.3%, a drop after four straight months of gains. Most analysts predicted a 2.5% annual rate of growth in the second half of the year.

...Could Get Worse

Manufacturers Alliance/MAPI reported that in 2000, US exports of manufactured goods were triple the amount of Chinese exports of the same goods. By 2010, China's manufacturing exports were 50% higher than US manufacturing exports. By 2013, China's manufacturing exports will double the value of US exports.

US manufacturing exports totaled \$558 billion in the first half of 2013, 13% higher than a year ago, but the U.S. manufacturing trade deficit worsened by 21% over the same period, resulting in a first-half deficit of \$213

billion. China reported exports of \$826 billion in manufactured goods in the first half of 2013, up 24% from the year earlier. Economists estimated that a \$1 billion increase in the U.S. trade deficit translates into a loss of 4,000 to 10,000 jobs.

Why the change? China is shifting away from labor-intensive manufactured goods such as clothing and shoes – offshoring them to Vietnam and Bangladesh – towards capital- and technology-intensive products, such as power generation equipment, industrial and electrical machinery, and data processing equipment.

How to reverse the trend short of a trade war? Convince the Chinese to let the yuan float against the currency market, end their subsidies to export-driven companies, and get them to adhere to World Trade Organization accords. Good luck on that.

Shipping Via Arctic

Climate change may down the coastlines, but good news for shipping goods

from China to Europe – an Arctic sea lane is now open. A Chinese freighter sailed from China to Netherlands via the 8100 nautical mile long Northern Sea route in about 35 days, shaving 2400nm and 13 days from the usual route through the India Ocean and Suez Canal. Russia issued 393 permits to use the route in the summer of 2013, up from 46 in 2012 and four in 2010. Asia to Europe shipping accounts for 15% of total shipping trade.

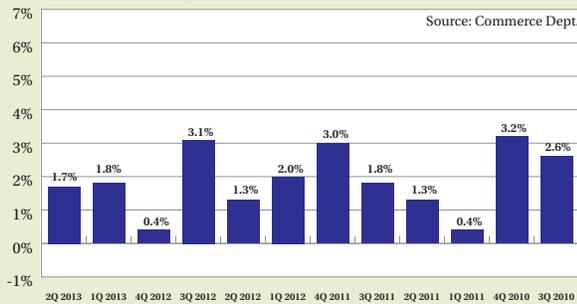
According to the US National Snow and Ice Data Center, Arctic ice covered 860,000 square miles in 2012, down 53% from 1979, as temperatures rose 7.2 degrees over the past 50 years. Lloyd's List estimated that by 2021, this northern route will carry 15 million metric tons of cargo, a large increase but still only a fraction of the 900 million tons sent via the Suez Canal.

China's Retail Woes

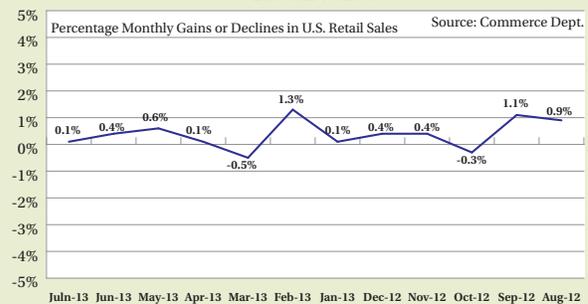
July retail sales in China grew at 13.2% annual growth in 2013, down from 14.3%

Economic and Creditor Indicators

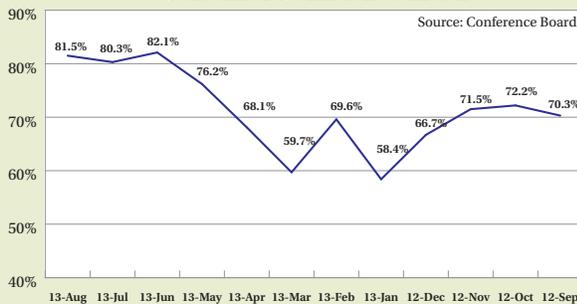
Gross Domestic Product



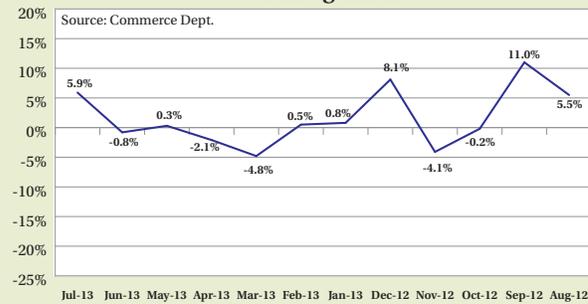
Retail Sales



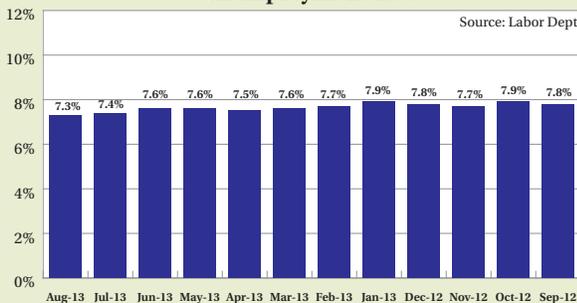
Consumer Confidence Index



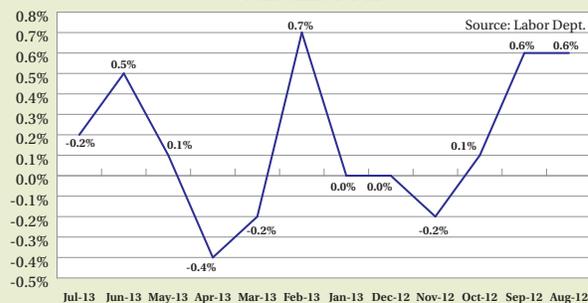
Housing Starts



Unemployment Rate



Consumer Prices



annual growth in 2012, and 17.1% growth in 2011, according to a Reuters article. Note that official Chinese retail sales counts a sale from when an item is shipped rather than when it is actually sold and retailers are complaining about slow growth no matter what the official numbers say.

European Rebound?

Eurostat reported that the European Union's economy grew by 0.3% in the second quarter, perhaps the first breakout of the lingering recession. Stronger exports and spending – and a softening of austerity measures – contributed to the rise. Analysts are predicting 0.1% growth in the third quarter. However, note that the European Commission is still predicting the EU economy to shrink by 0.4%.

US Trade Deficit

The Commerce Department reported the trade deficit increased 13.3% to \$39.1 billion, although the impact on GDP was negligible. Analysts are forecasting that global economic recovery will increase US exports and add to GDP later in 2013.

Convenient Gore

In an interesting twist of merging technology with Halloween costumes, Mr. Costumes is offering Digital Dudz iWound Zombie costume that combines traditional apparel with a free iPhone or Android app. A smartphone is placed in a bib and cycles through a variety of gory animations of zombie organs. If that should prove a success, bigger and gorier fare will no doubt be popping up on tablets for next year.

Halloween Hits

Jones Soda, sold at Target, announced the return of 8-oz cans in four unique flavors – Candy Corn, Red Licorice, Caramel Apple and Blood Orange – packaged with illustrated portraits of a werewolf, Frankenstein, a zombie, and a vampire.

Chicago Fed Economic Index: NFCI

The Chicago Fed National Financial Conditions Index (NFCI) provides a comprehensive weekly update on US financial conditions in money markets, debt and equity markets, and the traditional and 'shadow' banking systems. The NFCI is a weighted average of 100 measures of financial activity, each expressed relative to its sample average and scaled by its sample standard deviation. Positive values of the NFCI indicate financial conditions that are tighter than on average, while negative values indicate financial conditions that are looser than on average.

In August, the NFCI continued to indicate looser-than-average financial conditions. By the end of the month, the leverage subindex decreased slightly from the previous week, while the credit subindex was unchanged and the risk and nonfinancial leverage subindexes increased slightly.

30-August-2013	-0.7x
23-August-2013	-0.80
16-August-2013	-0.81
9-August-2013	-0.81
2-August-2013	-0.80

Chicago Fed Economic Index: CFNAI

The Chicago Fed National Activity Index (CFNAI) is a monthly index designed to gauge overall US economic activity and related inflationary pressure – a weighted average of 85 existing monthly indicators. It is constructed to have an average value of zero and a standard deviation of one. Since economic activity tends toward trend growth rate over time, a positive index reading corresponds to growth above trend and a negative index reading corresponds to growth below trend. Any result below -0.70 usually represents a recession. Any result above +0.70 usually represents sustained period of inflation.

July's growth in national economic activity continued below its historical trend. For July, 38 of the 85 individual indicators made positive contributions to the CFNAI, while 47 made negative contributions. Also, 53 indicators improved from June to July, while 32 indicators deteriorated.

Manufacturing production decreased 0.1% in July after increasing 0.2% in June. The unemployment rate fell to 7.4% in July from 7.6% in June as non-farm payrolls rose by 162,000 in July, just slower than the 188,000 in June.

Housing permits increased to 943,000 annualized units in July from 918,000 in June as housing starts rose to 896,000 annualized units in July from 846,000 in June. The contribution from the sales, orders, and inventories category to the CFNAI rose to +0.04 in July from -0.07 in June.

July 2013	-0.15
June 2013	-0.23
May 2013	-0.29
April 2013	-0.52
March 2013	-0.23
February 2013	0.76
January 2013	-0.49

ICSC-Goldman Sachs Chain Store Sales Index

The ICSC-GS consumer tracking survey found that the US sales were a mixed bag for most of August, starting off strong with good back to school sales, then sagging into the late summer lull. Grocery, electronics, books, and jewelry retailers saw a late surge.

WkE	Yr/Yr Chg	Wk/Wk Change
31-Aug-13	1.8%	-0.6%
24-Aug-13	1.9%	0.2%
17-Aug-13	2.2%	-1.9%
10-Aug-13	2.6%	-0.2%
3-Aug-13	2.5%	0.3%

Mergers

2Q2013 Retail and Consumer Mergers

PwC reported 21 merger deals worth \$5.4 billion in retail and consumer sector in second quarter 2013, down 49% in volume and 90% decrease in value from the 41 deals worth \$40.5 billion during the second quarter of 2012. PwC noted the second half of 2013 appeared promising for merger and acquisitions activity in the industry given the recent pick up in businesses starting to come to market for sale, although price expectations remain high and seller timelines remain short.

Nieman Takeover

Nieman Marcus, Inc. owners TPG, Warburg Pincus LLC, and Leonard Green & Partners LP agreed to a joint \$6 billion buyout by Ares Management LLC and Canada Pension Plan Investment Board, TPG and Warburg bought NM in 2005 for \$4.9 billion. Analysts noted the lackluster climate for luxury retailers may have convinced TPG and Warburg to go for outright sale than try for an IPO. NM CEO Karen Katz will remain as CEO.

Massmart to Kenya?

Wal-Mart Stores' South African unit Massmart opened talks to take a 50% plus one share stake in the Kenyan supermarket chain Naivas that would give the world's largest retailer a foothold in east Africa's biggest economy. Naivas has 28 stores with two more to open later this year.

IKEA Buys the (Wind) Farm

IKEA closed a deal to buy the 7.65 megawatt Carrickeeny Wind Farm from Mainstream Renewable Power for an undisclosed price as part of IKEA's 1.5 billion pound investment in wind energy and solar programs through 2015.

Visteon Sells Stake

Auto parts supplier Visteon agreed to sell its 50% stake in Yanfeng Visteon Automotive Trim Systems to Huayu Automotive Systems Co. Ltd. for \$1.25 billion and expects to receive about \$1.1 billion of the cash proceeds before Dec. 31.

Mr. Candle? Jarden Acquisition

Jarden Corp. known for its Mr. Coffee products, agreed to buy candle maker Yankee Candle Co., Inc. for \$1.75 billion from private equity owner Madison Dearborn Partners LLC. Jarden will fund the transaction with cash, common equity, and a mix of bank debt and bonds.

Pep Boys Buy Discount Tire

Pep Boys acquired 17 Discount Tire Centers in Southern California from AKH Company, Inc., which had 55 stores prior to deal. Terms were not disclosed. The 17 stores will re-open under the Pep Boys label.

Stocks

RadioShack Refinancing

RadioShack Corp. is seeking to refinance its debt with new, lower-cost loans by the end of the year, according to Reuters, to avoid restructuring by paying off its current lenders.

Carter's Notes and Stocks

Carter's, Inc. announced its wholly-owned subsidiary, The William Carter Company priced an offering of \$400 million aggregate principal amount of 5.25% Senior Notes due 2021. The company intends to use the proceeds to return capital to shareholders through share repurchases and/or dividends, and for general corporate purposes.

The company also began a \$400 million stock repurchase of its common shares under an accelerated share repurchase program.

Lowe's Senior Notes

Lowe's Companies, Inc. prices its \$500 million of 3.875% notes due 2023 and \$500 million of 5% notes due 2043. Estimated net proceeds from this offering will be approximately \$984 million, which will be used for general corporate purposes.

Sears Stock Repurchase

Sears Hometown and Outlet Stores, Inc. authorized a \$25 million stock repurchase program for the company's outstanding common stock.

Tractor Supply 2 For 1

Tractor Supply Co. approved a two-for-one stock split of its common stock.

Starbucks Senior Notes

Starbucks Corp. priced its previously announced offering of \$750 million of 3.85% Senior Notes due 2023, with net proceeds to be used for general corporate purposes, which may include business expansion, payment of cash dividends on Starbucks common stock, the repurchase of common stock under the company's ongoing share repurchase program, or financing of possible acquisitions.

Home Depot Senior Notes

The Home Depot priced \$1.15 billion of 2.25% senior notes due 2018, \$1.1 billion of 3.75% senior notes due 2024, and \$1.0 billion of 4.875% senior notes due 2044 and will use the net proceeds from the offering to refinance \$1.25 billion of 5.25% senior notes that mature in December 2013 and to repurchase an incremental \$2 billion of outstanding shares during the remainder of 2013. The incremental share repurchases are in addition to the Company's previously announced intention to repurchase approximately \$6.5 billion of outstanding shares throughout 2013, of which \$4.3 billion had been repurchased at the end of the second quarter of 2013. These repurchases are being made pursuant to the Company's \$17 billion share repurchase authorization announced in February 2013.

Loblaw's Senior Notes

Loblaw Companies, Ltd priced \$1.6 billion aggregate principal amount of senior unsecured notes, consisting of \$800 million of Senior Unsecured Notes, Series 2019 due March 12, 2019 with a fixed rate of 3.748% and \$800 million of Senior Unsecured Notes, Series 2023, due September 12, 2023, with a fixed rate of 4.860%. The net proceeds of the offering will either be applied toward partial payment of the cash portion of the purchase price for the acquisition of all of the outstanding common shares of Shoppers Drug Mart Corporation (the "Acquisition") or, if applicable, to repay indebtedness or for other general corporate purposes.

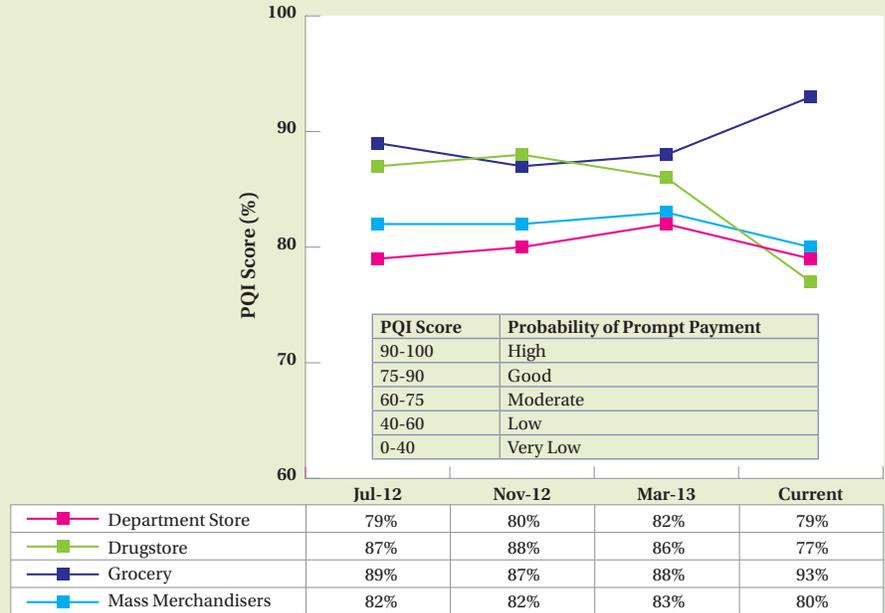
Icahn Waves White Flag

Activist investor Carl Icahn ended his months-long battle to prevent Dell, Inc. from being taken private, increasing the odds that Thursday's vote will favor the buyout by Michael Dell and Silver Lake Partners.

Credit2B PQI™ Index

The Credit2B Payment Quality Index (PQI) is based on receivable aging data submitted by trade suppliers, and is a weighted average score of the probability of being paid according to supplier terms. It takes a number of factors into consideration, including the amount past due relative to total owing, the past due aging distribution and the ratio of monthly payments compared to total owing, all tracked over 13 months. The PQI is adjusted to reflect an accelerating, improving or worsening payment trend. We believe that PQI trends can be predictive of default risk.

12 Month Historical Select Retailers



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