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# ARCHSTONE CONSULTING PROJECTS SLOWER RETAIL GROWTH IN SECOND HALF 2006

*Slower Growth Expected For Discount Retailers*
*Some Specialty and Luxury Goods Retailers To Face Challenges*

**STAMFORD, CT – June 09, 2006 --** Despite the fact that first quarter 2006 retail sales grew 9.5% driven in large part by redemption of gift cards, Archstone Consulting today predicted that consumers will reign in spending and is forecasting retail sales growth of 4 – 5 % for the second half of 2006 compared to 9 % for the same period in 2005.

"This is respectable growth, but well below the levels of 2004 and 2005," stated Andrew Buss, a director in Archstone Consulting's Consumer Products and Retail Practice. "With rising interest rates, gas prices at an all time high, negative savings and a weakening housing market, we have the ingredients for a pullback in consumer spending and we expect to see it in the second half of the year."

"The proliferation of gift cards as a holiday item will permanently change first quarter revenue expectations and retail strategies. Essentially, Q1 becomes an extension of the holiday season, setting a pace that is difficult to sustain in the second and third quarters," stated Michael Unger, noting that gift card revenue is recognized at redemption, not at the point of sale.

Slower Growth Expected For Discount Retailers, Some Specialty Apparel and Luxury Retailers Face Challenges

Specifically, Archstone Consulting expects discount retailers to see slower, yet stronger than average performance, while specialty retailers will report mixed results. "Those retailers who can market and merchandise successfully and demonstrate their relevance to their target markets will perform well while others will struggle and again be dependent on markdowns," predicts Michael Unger, Director of Archstone Consulting's Consumer Products Goods and Retail Practice. The company added that hardware/building material retailers, luxury goods retailers, electronics, furniture and appliance retailers may see weaker than average performance.

The Economic Factors

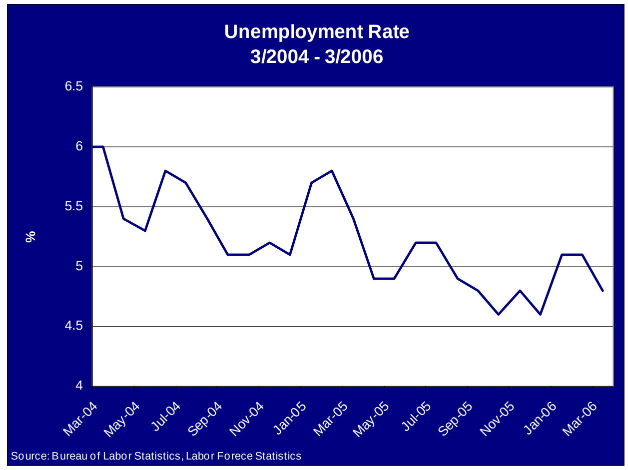
According to Archstone Consulting's research, the economy is at a crossroads similar to conditions in 1994-1995 and 1999-2000 when inflation was on the rise, the economy was softening, and the Federal Reserve neared the end of a series of rate hikes. In both cases, retail sales fell from strong levels to more moderate rates of between 3-6%. We expect this year's results will be similar.

Specific factors weighing on consumer spending include:

1. **Negative Savings**: Consumers have become increasingly reliant on debt to fuel the recent increases in spending. As Archstone Consulting indicated in its 2005 Holiday Retail Sales Forecast, this was good for short term economic performance, but could not be sustained in the longer term. "With personal savings rates in negative territory for a year, we believe consumers will now need to begin adjusting for their aggressive spending habits," stated Unger.
2. **Rising Interest Rates**: Compounding the problem of negative savings is rising interest rates. Outstanding debt will continue to become a greater burden on consumers, leaving them with fewer funds available for purchases. According to the Federal Reserve Board, interest rates on Credit Cards

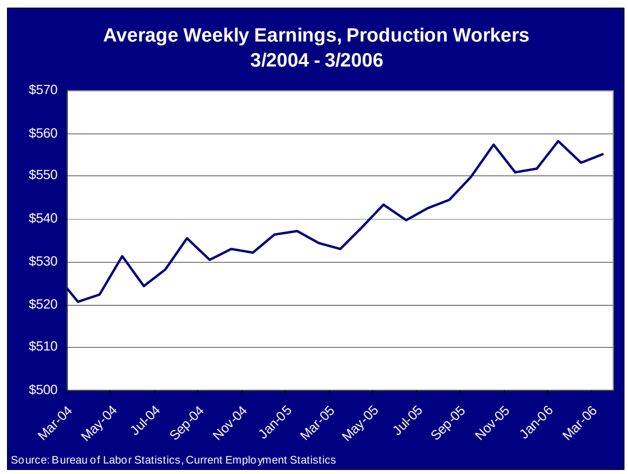
increased from 12.21% in early 2005 to 13.29% in the first quarter of this year (their highest rate since 2002).

3. **Weakening Housing Market**: The impact of a housing market decline could have significant consequences on consumer spending. Refinancing activity has stalled due to higher interest rates and housing inventory has spiked in key markets such as New York City. Cash-out refinancing had been a heavy source of funds driving consumption over the past few years. Additionally, consumers who tapped into their home equity with adjustable rate loans, will face higher interest rates and possibly a decline in property values – a "double whammy" that is sure to squeeze consumption. Finally, second home and vacation home sales have softened, thus slowing the retail spend typically incurred for these properties (furniture, etc.).




Factors positively impacting retail spending:

1. **Low Unemployment**: Despite some high profile layoffs by Ford, General Motors, and Whirlpool, unemployment remains low. "Strong employment numbers have consistently been associated with stronger retail sales in our models, and we believe this will counterbalance many of the negative factors impacting retail spending," added Andrew Buss.
2. **Wage Increases**: Wages for production workers continue to increase rapidly. March wages grew at their fastest year-on-year rate since 1997. This continued strong performance has fueled recent gains in retails sales, and has allowed consumers to largely shrug off the impact of rising fuel prices. "With the labor market tight, we anticipate wages will remain strong, though this has the potential to complicate matters for the Fed. If rising labor costs lead to price increases, expect more rate increases in the near future and great pressure on consumers," stated Brian Murphy, Associate with Archstone Consulting.




This forecast was prepared by Andrew Buss and Mike Unger, Directors, and Brian Murphy, Associate with Archstone Consulting.

For two consecutive years, Archstone Consulting has employed a predictive statistical model which has accurately forecast holiday retail sales (as defined by U.S. Census Bureau's Monthly Retail Trade and Food Service survey) based on factors including unemployment, wages, interest rates, consumer prices, productivity, consumer sentiment and others. For 2006, Archstone Consulting has modified this model to develop a retail sales forecast for the 2nd half of the year.

## About Archstone Consulting

Archstone Consulting is a rapidly growing, independent strategy and operations management consultancy. Archstone Consulting specializes in corporate transformations, CFO advisory services, and operations improvement services to fund growth in the consumer products and retail, life sciences, manufacturing, and services sectors. Archstone Consulting offers experienced support, efficient execution and measurable results. Headquartered in Stamford, Connecticut, the company has offices in Amsterdam, Chicago, London, New York, San Francisco and Toronto. For additional information, please visit the company's web site at www.archstoneconsulting.com

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