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FTI Consulting Projects a 1.0% Decrease in Holiday Season Sales in 2008 Retail Report

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- First decline in holiday sales since 1990. Results could be even worse if September/October retail sales are the new paradigm.

- Customer warning regarding gift cards: Retailers not obligated to honor cards if they declare bankruptcy after holiday push.

- Aggressive share buyback programs in recent years have drained many retailers of precious liquidity they now need to weather the credit crisis.

WEST PALM BEACH, Fla., Nov. 18 /PRNewswire-FirstCall/ -- FTI Consulting (NYSE: FCN), the global business advisory firm dedicated to helping organizations protect and enhance their enterprise value, today released its 2008 Retail Report, which forecasts a 1.0% decrease in 2008 holiday season sales, measured from November 2008 through January 2009, compared with an FTI projection of 3.6% in 2007 and an actual increase of 3.0% in 2007. The FTI Retail Report is an annual analysis of the sector by the firm's leading team of corporate finance executives who offer a unique combination of industry expertise and experience in value management, credit advisory and turnaround services.

"As we outline in the report, this year retailers are facing multiple challenges, each of which is disconcerting in its own right," said Kevin Regan, senior managing director and retail industry expert at FTI Consulting. "With disposable income down, the housing market in the worst shape it has been in many years and consumers grappling with rising credit card debt, any retailer hoping to salvage the holiday season will need to work that much harder to keep cash registers ringing into the New Year."

The key factors driving FTI's projected change for 2008 are the deceleration of real income growth and the severe deterioration in consumer confidence. Year-over-year (YOY) real disposable income and wage growth has slowed sharply since mid-2007 and is now close to zero for various measures of real personal income. Real wage growth (YOY) is currently running slightly negative, something that has only occurred during the previous six recessions. Real income growth is highly correlated with consumer spending growth and the current trend bodes poorly not only for the upcoming holiday season but 2009 as well. Furthermore, the two most respected gauges of consumer confidence are at or near all-time lows, and this too is worrisome since historical data going back decades indicate that consumer sentiment particularly influences discretionary spending. Moderating energy prices, especially as we enter the winter heating season, is one of the few reasons to hope that the 2008 holiday season will be anything but disappointing.

"For the past few weeks, the sector has watched the country's biggest retailers deliver tepid-to-terrible third quarter numbers and offer glum forecasts for the fourth quarter. Our report confirms not only the sentiment expressed in the industry but also supports the economic facts on the ground, all of which show that the ongoing economic slowdown is having a deep impact on Main Street retailers," added Bob Duffy, Senior Managing Director and Leader of FTI's Retail Industry Practice.

Key findings of the report include:

-- Stabilizing Home Prices Will Remain An Ongoing Challenge: Declining home prices continue to be a main source of consumer anxiety, as the vast majority of Americans have most of their wealth tied to their homes. Despite unprecedented price declines in the past year, some quite severe, home prices in many regions of the country remain high by conventional metrics. Some parts of the country, mostly in the Northeast corridor and Pacific Northwest, have barely experienced any price declines. We anticipate a rolling correction where prices may begin to stabilize in some ravaged regions but will weaken notably in some previous strongholds. Moreover, the deteriorating employment picture and the ongoing parade of layoff announcements will keep many prospective homebuyers on the sidelines while stricter lending standards will further tamp down demand. Overall, home price declines have not yet run their course.

-- Many Retail Sectors Have Been in Recession For Some Time: The market-driven events of September and October have convinced the last of the holdouts that the U.S. economy will experience a recession. Indeed, the credit crisis on Wall Street has had a real impact on Main Street, judging from retailers' comments about September sales. However, several retail sectors, particularly those selling durable goods, were experiencing declining sales (YOY) for a year or more before these tumultuous two months. For them, business conditions have worsened as consumers slammed the brakes on spending. If this sudden restraint is more than temporary then the U.S. retail sector could be a leader in defaults and bankruptcies in 2009, as many struggling chains that have been barely hanging on will finally fall.

-- One-Time Consumer Tax Rebates Are an Ineffective Economic Stimulus:

Recently there has been talk of another economic stimulus package coming from Washington. The previous rebate checks sent out in May and June barely moved the economic needle in the subsequent three months, judging from various measurements of retail activity and personal consumption. Retailers hardly felt the benefits of this stimulus.

-- The Gift Card Factor: Gift card giving will undergo some changes this season. Many consumers have learned that bankrupt retailers are not required to honor gift cards purchased prior to bankruptcy, though they may do so with court permission. The failure of Sharper Image drew considerable attention to this issue. With so many retailers failing and liquidating in 2008, and with little improvement expected in 2009, shoppers might be a bit wary of gift card purchases. Consumers receiving gift cards will use them more quickly too. Moreover, many consumers have said they intend to purchase "practical" gift cards this year, for such things as gasoline or fast food. This would blunt holiday sales a bit, as these categories are typically omitted from measurements of the season. Lastly, the high anxiety and financial stress experienced by so many households will undoubtedly impact gift cards sales as they would the sale of seasonal merchandise.

-- Share Repurchase Programs Have Drained Many Retailers of Precious Liquidity While Doing Little for Shareholders: As it becomes evident that banks and other lenders will be more restrictive about corporate lending practices and standards, many public companies will come to regret aggressive share repurchase programs executed between 2005-2007, which resulted in hundreds of billions of dollars being used for share buybacks at considerably higher prices than today's. In retrospect many of these programs were a poor use of capital and these funds could sorely be used today by many struggling firms. Retailers executed some of the worst buyback programs of all industry groups.

Mr. Regan is a senior managing director at FTI Consulting and has 33 years experience. He assists senior management, Boards of Directors and creditors with financial and operational restructurings, loan workouts, and business planning in the retail industry.

About FTI Consulting

FTI Consulting is a global business advisory firm dedicated to helping organizations protect and enhance enterprise value in an increasingly complex legal, regulatory and economic environment. With more than 3,000 professionals located in most major business centers in the world, we work closely with clients every day to anticipate, illuminate, and overcome complex business challenges in areas such as investigations, litigation, mergers and acquisitions, regulatory issues, reputation management and restructuring. More information can be found at www.fticonsulting.com.

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