

Broadlines & Food Retailing

Weather Alert - Easter Conditions May Be an Egg

High expectations for a favorable Easter weather comparison may prove to be a bit of a disappointment – we're not calling the pre-holiday selling period a flop by any stretch, but forecasts for the most favorable selling conditions in 20 years failed to come to fruition. On an Easter-over-Easter basis, the calendar shift from March 23 to April 12 naturally will result in warmer temperatures (and limited snow cover!), which should benefit spring selling. However, the calendar comparison versus the beginning of April 2008 is less compelling as Easter laps the peak of early-season selling last year and a sizeable shift toward warmer weather. All in, based on the WTI weather outlook and our industry checks, we're not too concerned that pre-Easter sales will be a debacle, but we're cautious that expectations may be somewhat ahead of themselves heading into the holiday weekend.

- **A Look at Easter Past . . .** Looking at the pre-Easter period in 2008 (March) and 2009 (April), there is no question that the calendar shift will be favorable for retailers strictly from a weather perspective. Specifically, Easter fell on March 23 last year – its earliest date in 94 years – during a cold snap (2nd coldest Easter in 16 years) with record snow cover and precipitation. As Easter generally marks the beginning of spring selling, the five-week stretch of colder temperatures and ~40% national snow cover leading into the holiday certainly dampened consumer spirit, keeping seasonal sales at bay.
- **. . . And a Glimpse at Easter Present.** Turning to Easter 2009, the 3-week shift from March 23 last year to April 12 this year lands Easter firmly in the spring selling season. Forecasts indicate that temperatures will be 5-6°F warmer on average for the holiday (March 23rd vs. April 12th), with the one exception being the Southwest, which looks to be trending slightly cooler. Precipitation also looks to be favorable, with negligible snow cover and drier conditions for most of the country expected leading to the holiday weekend. We believe that the combination of an event-driven purchasing occasion (which has proved to be one of the most important catalysts over the past 18 months) coupled with spring-like weather should help kick-start seasonal selling this year, making for a favorable Easter-over-Easter comparison.
- **Holiday Comparison Favorable . . . But Calendar Comp Not as Sunny.** On a calendar basis, however, the weather comparison gets less exciting, in our view. To this point, despite expectations for the most favorable pre-Easter period in 20 years, temperatures disappointed so far with the past 4-weeks only about 1°F warmer than the same calendar period last year. Further, the week of Easter 2009 cycles the most favorable weather conditions for spring 2008 – last year, temperatures were up 6.4°F YOY for the week of April 12, one the first weeks of warmer conditions since February, and precipitation down slightly. Fast forward to this week 2009, although temperatures are expected to warm dramatically heading into the weekend after a cool start, the year-over-year comparison will be difficult (especially along the coasts), and WTI is looking for temperatures to be 3.9°F cooler overall (see Figure 1 country map).

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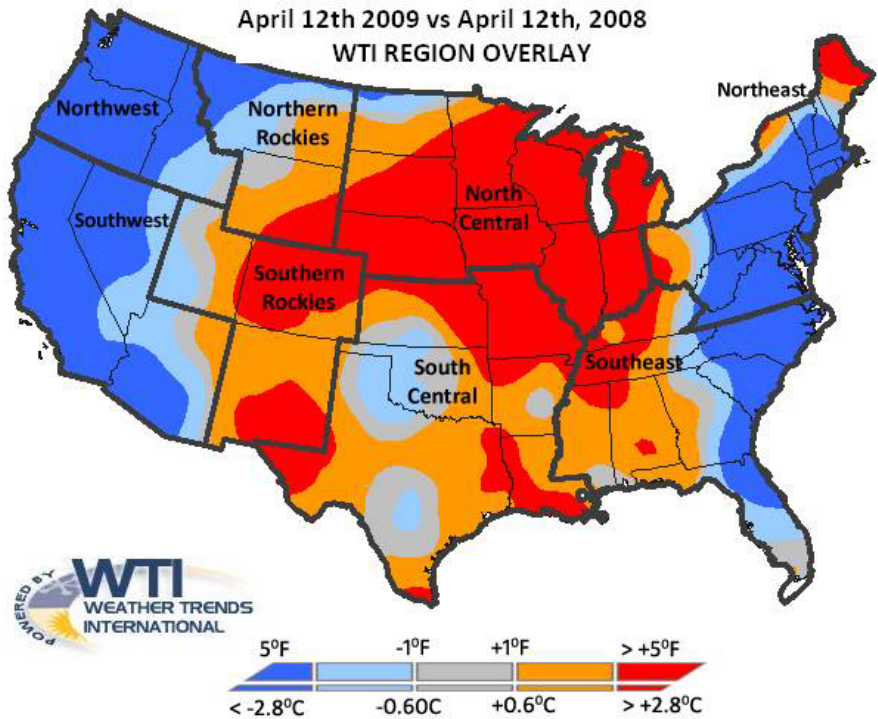
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- **Which Retailers Have Favorable Exposure to Decent Pre-Easter Weather?**

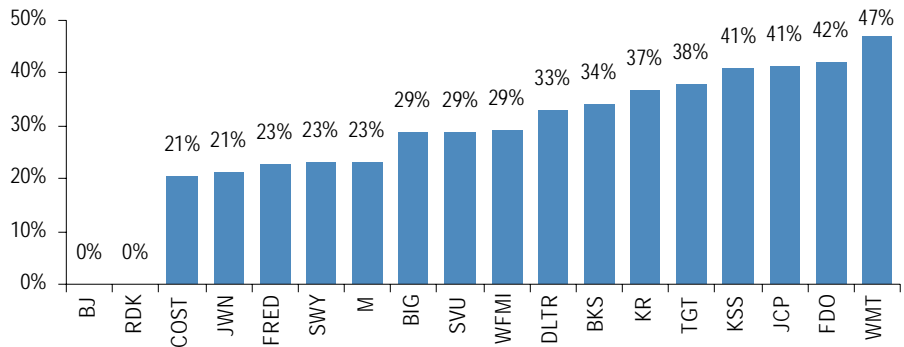
According to WTI, the most favorable regions this week will be the (1) North Central, (2) South Central, (3) Northern Rocky Mountain States, and (4) Southern Rocky Mountain States. This includes the following states: Arkansas, Louisiana, Indiana, Illinois, Michigan, Minnesota, Wisconsin, Iowa, Kansas, Missouri, Nebraska, North Dakota, South Dakota, New Mexico, Oklahoma, Texas, Colorado, Montana, Utah, and Wyoming. Retailers with above average exposure to these states include (in order): Wal-Mart (47%), Family Dollar (42%), JCPenney (41%), Kohl's (41%), Target (38%), and Kroger (37%). Conversely, retailers with low exposure include: BJ's/Ruddick (0%), Costco (21%), Nordstrom (21%), and Fred's (23%).

Figure 1: On a Calendar Basis, Temperature Comparisons Won't Be Favorable This Easter
 YOY change in temperature by region (



Source: WTI

Figure 2: WMT, FDO, JCP, and KSS Have The Most Exposure To Favorable Pre-Easter States
 exposure to states with favorable temperature comparisons by retailer



Source: WTI, J.P. Morgan estimates.

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