

In this issue



**By Mari Shor
Retail Analyst**

Summary of Contents

- ◆ **We examine recent trends in retail sales which are vital to understanding the growth of the economy**
- ◆ **Housing sales have been ‘overstated’ for 5 years. What are the implications?**
- ◆ **Inflation looks to be under control but some pressures persist**
- ◆ **Has gold lost it luster?**

Retail Sales: Behind The Numbers

The week before Christmas represents approximately 30% of holiday sales. Promotional levels and inventories are higher than expected across apparel retailers. Unfavorable weather and the weak macro environment have put additional pressure on retailers to clear goods despite conservative inventory planning. While traffic remains weak across the mall, higher average unit retail prices

continue to plan their inventories conservatively given the macro backdrop. We also expect retailers will need to invest more (in the form of promotions, free shipping, systems, e-commerce platforms) in order to sustain current sales trends, thereby resulting in lower incremental margins.

Sales strength in hard lines for the month of November was mostly driv-

Retail Sales Category	YoY US Retail Sales Nov 11	YoY US Retail Sales Oct 11	Comments and Outlook
Total US Retail Sales (ex motor vehicle and parts)	6.8%	7.5%	Softlines weakness offset by strength in hardlines
Clothing & clothing accessories	3.7%	5.3%	Weakness in women's apparel, weak mall traffic and unfavorable weather
General merchandise stores	2.7%	4.6%	Aggressive promotions in toys and consumer electronics driving sales
Furniture & home furnishing store	4.4%	4.0%	Less promotional activity and some wallet share loss
Electronics & Appliances	6.4%	3.3%	Strength due to heavy discounting, margin risk is high
Building Material & Garden	6.2%	5.3%	Stronger sales due to weather and persistent repair and maintenance

Source: U.S. Census Bureau and Columbia Investment Advisers, LLC, November 2011

driven by inflation are supporting mid-single digit same store sales (comps) for the holiday period. As we have seen over the past several years, high end retailers continue to outperform and e-commerce is growing significantly faster than brick-and-mortar retail.

Within soft lines, categories of strength include men's and accessories (i.e., handbags, shoes, jewelry). Women's apparel remains the weakest category, as reflected in clothing sales in November. We expect mall traffic to resume its decline in the mid-single digit range post-holiday, with comps driven primarily by higher average unit prices. Even as raw materials inflation moderates, retailers

en by increased promotional activity. Although the latter was well planned out, we expect increased margin risk since attach rates for non-promotional higher margin products remain low.

The key question is less "How much of December sales were pulled into November?" and more "How much margin will be sacrificed to attract "deal-driven" consumers who are tapping into their already depleted savings?" This trade-off is well illustrated in the electronics category with a dramatic improvement in sales that may have come at the expense of margins. Best Buy recently confirmed

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this by disappointing investors with positive same store sales comparisons, yet reporting profit margin degradation.

Another noteworthy area of strength is home improvement which increased due to unfavorable weather and persistent repair and maintenance spending. These sales

should come at much healthier margin rate as the promotional activity was relatively muted in this category. Finally, furniture & home furnishing saw a slight improvement which can be explained by a loss of wallet share and a much less promotional cadence.

Housing: Sales Data Has Been Over Stated For 5 Years



By Stephanie Schneider
Analyst

The National Association of Realtors (NAR) stated that their sales data on previously owned homes from 2007 to October 2011 was overstated due to “new” homes sales being counted as “existing” and properties listed in both Multiple Listing Services (MLS).

The NAR has planned to release a corrected set of data this week that could be 15%-20% lower than previously reported numbers. Many investors may react negatively to the news since it paints a much darker picture of the housing market. However, I view this as neutral to positive. If the errors were consistent throughout the years, then the overall growth rates should not change even though the restated numbers may be much lower. Since investors focus on year-over-year growth rates there should be little surprise. However, according to Zelman & Associates, the MLS has gained share compared to private (by owner) sales. If left unaccounted for, this would make NAR’s sample size grow a lot faster than the overall market and overestimate sales from private sellers. If this is true then we could see material changes to growth rates on the downside and upside.

Months of supply (total housing inventory divided by annualized sales divided by 12) is another key metric for investors to gauge the health of the housing market. I expect little change for this metric as the inventory and sales numbers would be adjusted by

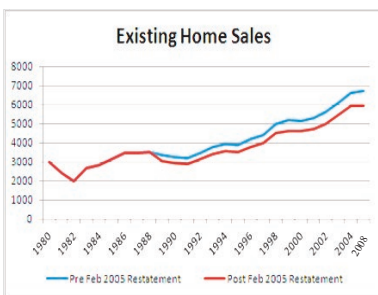
roughly similar degrees, making the effect on the overall ratio relatively small.

The restatement also has a few implications for the home improvement sector:

The metric that is more important for home improvement companies is “Mean Home Prices” which should not be restated. Home prices not only capture the balance between supply and demand of housing, but they also indicate to existing homeowners the financial attractiveness of housing remodels and home equity loans.

If the level of earnings growth for home improvement retailers in the past four years was achieved on “much worse” numbers then this should reassure investors that these retailers are doing a decent job at navigating a difficult housing cycle. Nonetheless, the overall outlook for existing home sales will be lowered dramatically which could put a damper on the perspectives for this sector.

In conclusion, although the restated data will paint a much darker picture of where the housing market has been, the overall trends and directional improvement should remain the same.



Source: NAR

Core Inflation: Still Alive



By Marie Schofield
Chief Economist

Headline inflation printed a little softer in November, stemming from lower energy prices and a weaker reading in owner's equivalent rent (OER), better known as the housing component.

On an annual basis overall Consumer Price Inflation (CPI) remains elevated, but has moved

slightly lower to 3.4% (after touching 3.9% as recently as September) much due to the fall in energy costs.

However, while welcome, this masks higher prices in some core components including apparel, medical and education costs which are all rising about 4% to 5%. While the

OER reading was soft this month, it has steadily risen all year and shows no sign of reversing. As a result, core inflation ticked higher again, with prices up 2.2% over the 12 months, the highest reading in over three years. Food prices have also been a problem, particularly earlier this year, but recent data shows some moderation in November in the important "food at home" category. This was offset by rises in the

"food away from home" component, as restaurants begin a belated effort to preserve margins. Vehicle prices have fallen in the last three months, after a marked rise earlier this year

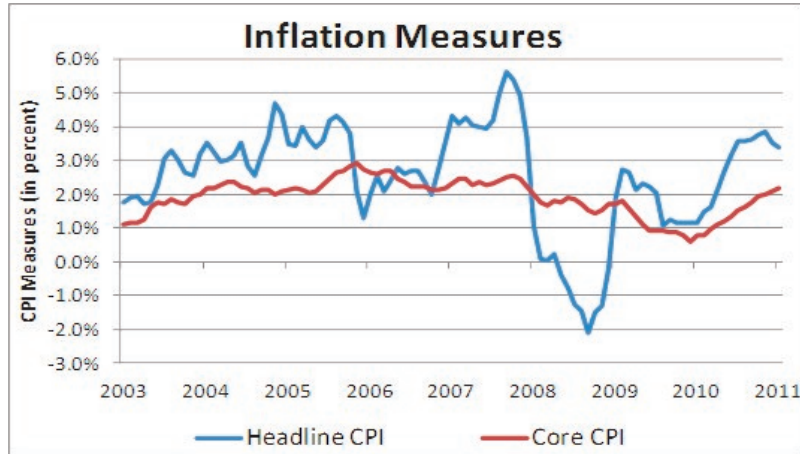
related to temporary supply disruptions from the Japan earthquake.

Core inflation tends to direction-

ally follow the trend in headline, but the lag can be measured in years.

While the headline inflation readings appear to have peaked, we should not expect core CPI to head materially lower anytime soon, despite the enormous amount of slack in the economy.

A moderation in core inflation should likely be



Source: Columbia Management Investment Advisers, LLC, November 2011

CPI Detail	Nov-11		YOY	Last YOY	3mo
	Mo	Last Mo			
Headline	-0.0%	-0.1%	3.4%	3.5%	0.8%
Core	0.2%	0.1%	2.2%	2.1%	1.5%
Computers	0.5%	-0.5%	-12.3%	-13.1%	-6.0%
Services	0.1%	0.2%	2.1%	2.1%	2.1%
Cars	-0.3%	-0.4%	3.2%	3.4%	-3.7%
Apparel	0.6%	0.4%	4.8%	4.2%	-0.4%
Commdty	-0.3%	-0.4%	5.4%	5.8%	-1.1%
Food/Bev	0.1%	0.1%	4.4%	4.5%	2.3%
Housing	0.1%	0.1%	1.9%	1.9%	1.5%
OER	0.1%	0.2%	1.7%	1.6%	1.9%
Transp	-0.8%	-1.1%	8.1%	9.3%	-3.7%
Educ	0.5%	0.4%	4.7%	4.7%	4.3%
Med	0.4%	0.5%	3.4%	3.1%	4.4%
Energy	-1.6%	-2.0%	12.4%	14.3%	-6.5%
Recreation	0.1%	-0.1%	0.3%	0.3%	-0.3%
New Car	-0.3%	-0.3%	3.3%	3.4%	-2.8%
Used Car	-0.1%	-0.7%	4.9%	5.1%	-5.2%

Source: Columbia Management Investment Advisers, LLC, November 2011

seen in 2012, particularly if there is a sharper slowdown in global demand. **The best news is that market expectations of inflation remain well-anchored around 2% suggesting low risk of an inflation problem over the longer term. This gives the Fed more latitude to pursue further easing measures — if they can, given the limited amount of tools at their disposal.**



By Josh Kapp
Senior Materials Analyst

Has Gold Lost Its Luster?

Gold began the year near \$1,400 per ounce, and spiked to \$1,900 in late August/early September. Trading has been volatile since, with gold losing roughly 15% of its value in the last part of September, regaining 10% into the early part of November, only to give that back and more in December.

Gold's attraction varies in the eyes of the beholder, but the metal has benefited in recent history from its status as a safe haven, inflation hedge and alternative currency, particularly to the troubled euro and fiat currencies. The downside evidenced in December stemmed in large part due to shifts to austerity and away from stimulus. With this, inflation concerns abate, as does gold's role as a hedge. In addition, as Europe strives to resolve its debt crisis, speculation has risen about central bank gold sales.

The Federal Reserve's restraint and Europe's issues have also pushed the dollar higher, which works against gold. Lastly, technical factors come into play; selling begets selling as trend lines are broken and margin calls covered.

In the last few days, the price of gold appears to have found some footing on improved macroeconomic data and a weaker dollar, together with apparent support from physical demand. While recent volatility may have dented confidence in gold's safe haven status, gold's appeal may ultimately balance on moves toward austerity vs. stimulus. As we head into the new year, the scales appear to be tipped to austerity.

There are special risks associated with an investment in commodities, including market price fluctuations, regulatory changes, interest rate changes, credit risk, economic changes, and the impact of adverse political or financial factors.

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Weekly Market Summary as of 12/16/11

	Last	Week Ago		Month Ago		YTD		Year Ago	
Bonds	Yield	Yield	Chg	Yield	Chg	Yield	Chg	Yield	Chg
U.S. 2-year	0.22	0.22	0.00	0.24	-0.02	0.59	-0.37	0.64	-0.42
U.S. 10-year	1.85	2.06	-0.21	2.00	-0.15	3.29	-1.45	3.42	-1.58
Barclays Capital U.S. Aggregate	2.25	2.35	-0.10	2.37	-0.12	2.97	-0.72	3.15	-0.90
Barclays Capital U.S. Agg Corporate	3.76	3.84	-0.08	3.76	0.00	4.02	-0.26	4.19	-0.43
BofAML High Yield Index	8.82	8.83	-0.01	8.80	0.03	7.85	0.97	7.91	0.91
AAA Muni 10-year	2.33	2.38	-0.05	2.57	-0.24	3.16	-0.83	3.25	-0.92
Equity Indices	Price	Price	TR Chg	Price	TR Chg	Price	TR Chg	Price	TR Chg
S&P 500 Index	1,219.7	1,255.2	-2.8%	1,236.9	-1.2%	1,257.6	-1.0%	1,242.9	0.2%
Russell 1000 Growth Index	566.3	585.3	-3.2%	580.9	-2.4%	574.7	0.0%	570.8	0.8%
Russell 1000 Value Index	604.5	620.0	-2.4%	607.9	-0.3%	639.2	-3.2%	627.8	-1.3%
Russell 2000 Growth Index	414.7	431.7	-3.9%	423.0	-1.9%	440.5	-5.3%	438.6	-4.9%
Russell 2000 Value Index	953.3	975.7	-2.2%	954.7	0.0%	1,058.1	-8.2%	1,043.2	-6.7%
MSCI EAFE Index	1,370.8	1,428.2	-4.0%	1,426.1	-3.8%	1,658.3	-14.6%	1,629.5	-13.0%
MSCI EM Index	904.1	934.2	-3.2%	960.1	-5.7%	1,151.4	-19.6%	1,111.9	-16.7%
Commodities	Price	Price	%Chg	Price	%Chg	Price	%Chg	Price	%Chg
Gold	1,599.0	1,711.6	-6.6%	1,763.4	-9.3%	1,420.8	12.5%	1,370.3	16.7%
Crude Oil	93.5	99.4	-5.9%	102.6	-8.8%	91.4	2.4%	87.7	6.6%
USD Index	80.3	78.6	2.1%	78.0	2.9%	79.0	1.6%	80.2	0.1%

Source: Columbia Management Investment Advisers, LLC

Past performance is no guarantee of future results.

DESCRIPTION OF INDICES

The Barclays Capital Aggregate Bond Index is a market value-weighted index that tracks the daily price, coupon, pay-downs, and total return performance of fixed-rate, publicly placed, dollar-denominated, and non-convertible investment grade debt issues with at least \$250 million par amount outstanding and with at least one year to final maturity.

The Barclays Capital Corporate Investment Grade Index is an unmanaged index consisting of publicly issued U.S. Corporate and specified foreign debentures and secured notes that are rated investment grade (Baa3/BBB- or higher) by at least two ratings agencies, have at least one year to final maturity and have at least \$250 million par amount outstanding. To qualify, bonds must be SEC-registered

The BofA Merrill Lynch High-Yield Bond Master II Index is an unmanaged index that tracks the performance of below investment grade U.S. dollar-denominated corporate bonds publicly issued in the U.S. domestic market.

The Standard & Poor's (S&P) 500 Index tracks the performance of 500 widely held, large-capitalization U.S. stocks.

The Russell 1000 Growth Index measures the performance of those Russell 1000 Index companies with higher price-to-book ratios and higher forecasted growth values.

The Russell 1000 Value Index measures the performance of those Russell 1000 Index companies with lower price-to-book ratios and lower forecasted growth values.

The Russell 2000 Growth Index measures the performance of those Russell 2000 Index companies with higher price-to-book ratios and higher forecasted growth values.

The Russell 2000 Value Index tracks the performance of those Russell 2000 Index companies with lower price-to-book ratios and lower forecasted growth values.

The Morgan Stanley Capital International Europe, Australia, Far East (MSCI EAFE) Index is a capitalization-weighted index that tracks the total return of common stocks in 21 developed-market countries within Europe, Australia and the Far East.

The Morgan Stanley Capital International Emerging Markets Index (MSCI EMI) is a free float-adjusted market capitalization index that is designed to measure equity market performance in the global emerging markets. As of June 2006, the MSCI Emerging Markets Index consisted of the following 25 emerging market country indices: Argentina, Brazil, Chile, China, Colombia, Czech Republic, Egypt, Hungary, India, Indonesia, Israel, Jordan, Korea, Malaysia, Mexico, Morocco, Pakistan, Peru, Philippines, Poland, Russia, South Africa, Taiwan, Thailand and Turkey.

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