



Consumer Spending Growth Likely to Remain Strong as Customer Satisfaction Hits All-Time High

Retail, Finance Sectors E-Commerce Improve Satisfaction

ANN ARBOR, Mich. (February 20, 2007) – Customer satisfaction with the goods and services that Americans buy reached an all-time high in the fourth quarter of 2006, according to a report released today by the University of Michigan’s American Customer Satisfaction Index (ACSI). The Index climbs to 74.9 on the ACSI’s 100-point scale, up 0.7% from the previous quarter, and up almost 2% from the previous year. This is the highest score the Index has had since its first measure in 1994 (74.8).

ACSI has consistently predicted future consumer spending and is an indicator of financial performance at both the company and industry level. The latest ACSI data suggest that satisfied consumers will continue to prop up the economy, driving consumer spending growth of between 3.5% and 4.1% for the first quarter of 2007.

“In view of these results, it is not surprising that the consumer continues to lift the economy despite the housing slump,” said Professor Claes Fornell, director of the University of Michigan’s National Quality Research Center, which compiles and analyzes the ACSI data.

“The economy may not be coming in for a soft landing. With the confluence of a number of favorable economic factors, there may be no landing at all. Rising wages, little inflation, and falling unemployment combined with higher customer satisfaction and strong consumer confidence suggest the trend in spending growth will continue to drive economic growth,” said Prof. Fornell.

Every fourth quarter, ACSI measures customer satisfaction for the retail and financial services sectors and e-commerce. Improvements in customer satisfaction occur across the board with 9 of the 13 industries measured in the fourth quarter showing improvements.

Food: Heinz Takes a Dip, But Still Leads Industry

Customer satisfaction with the retail sector, which includes department and discount stores, specialty retail stores, supermarkets, gas stations, and health and personal care stores, makes a big jump, up 2.8% to 74.4 on the ACSI’s 100-point scale.

The specialty retail stores industry improves 1.4% to 75. Leading the industry once again is Costco (NASDAQ: COST), which rose 2.5% to 81, its highest score ever and one of the highest in all of ACSI. The biggest gain in the retail trade goes to Best Buy (NYSE: BBY). The company’s score rises 7%

to 76. Top-line products and extensive service offerings are helping the retailer to improve customer satisfaction, even while it has added many stores over the last year.

Scores for Home Depot (NYSE: HD) and Lowe's (NYSE: LOW) moved in opposite directions in 2005 with Home Depot dropping and Lowe's on the rise. Their stock performances over the last four years have mimicked that trend, again illustrating the link between customer satisfaction and stock prices. But this year both companies reverse course, as Home Depot's ACSI score improves 4.5% to 70 and Lowe's drops 5.1% to its lowest score ever (74).

"Home Depot's \$350 million investment in store operations, new hires and more training may be paying off," said Prof. Fornell. "The gap in customer satisfaction between Home Depot and Lowe's is closing, but Lowe's still holds a significant lead. Their challenge is to maintain strong customer service even as they accelerate growth and open more stores."

The department and discount stores industry is one of the industries that did not improve this year, slipping 1% to 74. No measured company in the industry makes an improvement and the "all others" category of stores with smaller market shares declines 4%. Kohl's maintains its leadership position with a strong score of 80, followed by J.C. Penney, which holds steady at 78 for the second year in a row. Target (77) and Dillard's (75) drop 1.3%, while Federated Department Stores (71) sinks 4.1%.

Supermarkets improve slightly, up 1% in aggregate to 75. Publix reaches a new high, improving 2.5% to 83. The company is partly employee-owned and has a reputation for good customer service and a family-friendly atmosphere. SUPERVALU drops 4% to 74 as it absorbs some Albertson's stores in an acquisition. Albertson's had been a poor performer before being acquired, and its less satisfied customers surely have impacted SUPERVALU's score.

The drug store industry is up 2.6% from its first measurement last year. CVS (NYSE: CVS) makes a big jump of 5.4% to 78, and Rite Aid is up 4.2% to 75. Both companies have been adding more outlets, defying the convention that mergers compromise customer service. CVS has more locations nationwide than any other company in the industry. New computer technologies help drug stores keep highly interconnected and allowing prescriptions to be refilled at any store. More locations mean greater convenience.

Finance: Banks Cash In, Life and Health Insurance Register Healthy Increase

Every industry save one in the finance and insurance trade has improved customer satisfaction. In the aggregate, the finance and insurance sector jumps 2.7% to 76, its highest score since 1994 (78.5). The finance and insurance sector includes commercial banks and property, life and health insurance.

Commercial banks reach a new high of 77, continuing a steady trend of improvement that goes back to 2000. The 2.7% increase is driven by improvements by Wachovia (NYSE: WB) (+1.3% to 80), JPMorgan Chase (+3% to 72) and Wells Fargo (+7.5% to 72). Wachovia once again leads the industry, and no competitor is even within 6 points.

Improvements in quality and value are driving customer satisfaction gains for life and health insurance. The jump in life insurance scores (up 5.3% to 79) is led by MetLife (NYSE: MET), which climbs a whopping 10% to 78. Though health care costs continue to climb, both health insurance premiums and drug costs grew at a slower pace in 2006. Health insurance is up 6% to an all-time high of 72.

E-Commerce: Amazon, Barnesandnoble.com Lead; Online Brokerages Improve

E-commerce improves for the second year in a row, and at 80 is less than a point off of its all-time high (80.8 in 2003). The e-commerce sector includes e-retail, online auctions, online brokerages, and online travel.

Online retail is one of the highest-scoring industries of ACSI, and this quarter improves 2.5% to 83. Barnesandnoble.com (+1% to 88) continues to lead the industry, followed closely by Amazon.com (87).

eBay drops slightly to 80, but still leads online auction sites. Selling both new and used products in 45,000 different categories, eBay also competes with online retailers and continues to do well financially.

Online brokerage hits a new high-water mark at 78, up 2.6% from last year. Charles Schwab leads the charge, up 8.1% to 80. New to ACSI this year are Fidelity (80) and TD Ameritrade (77). E*TRADE also improves, up 4% to 74, though still lags others in the category.

The online travel industry is one of the few to lose ground this quarter, dropping 1% to 76. Though there are only slight fluctuations among the main players - Orbitz, Travelocity.com and Expedia - the decline is mostly due to smaller travel websites, which drop 4%.

Note: For more information or a copy of the report, please contact Chaat Butsunturn at 415-391-7900 x114 or at cbutsunturn@kearnswest.com

About the ACSI

The American Customer Satisfaction Index is a national economic indicator of customer evaluations of the quality of products and services available to household consumers in the United States. It is updated each quarter with new measures for different sectors of the economy replacing data from the prior year. The overall ACSI score for a given quarter factors in scores from about 200 companies in 40 industries and from government agencies over the previous four quarters.

The index is produced by the University of Michigan's Ross School of Business in partnership with the American Society for Quality and CFI Group, and is supported in part by ForeSee Results, corporate sponsor for the e-commerce and e-business measurements.