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Online sales expected to rise 17% in 2008

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By Anne D'innocenzio, Associated Press

NEW YORK — Online spending is expected to rise a robust 17% this year, despite a sluggish economy that has bruised many brick-based retailers, according to an annual survey to be released Tuesday.

Retail sales online, excluding travel purchases, are set to grow to \$204 billion in 2008 from \$174.5 billion last year, fueled by sales of apparel, computers and autos, according to a survey conducted by Internet analysis firm Forrester Research for Shop.org, the online arm of the National Retail Federation trade group. That projection is below the 21% increase seen in the prior year, but industry officials attribute it to the maturing of the business, not the sluggish economy.

E-commerce "is clearly the bright spot in retailing," said Scott Silverman, executive director of Shop.org.

The upbeat report contrasts with the outlook for many traditional retailers, which have been paring down store growth and closing shops as they struggle with consumers who don't feel like spending amid higher gas and food costs, a housing slump and a weaker job market. The exceptions are discounters and wholesale clubs, as shoppers turn to less expensive stores.

On Thursday, the nation's retailers are expected to report at best flat sales growth in March, according to the International Council of Shopping Centers. Same-stores sales are sales at stores opened at least a year and are considered a key indicator of a retailer's health.

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Online retailers are not immune to the same economic challenges, but what has spearheaded e-commerce growth is a "tale of two shoppers that visit the Web for different reasons," according to Sucharita Mulpuru, a Forrester Research analyst and lead author of the report.

There are the price-sensitive shoppers who appear to be buying more items online as they look for better prices. And then there are the more affluent customers, who have been increasing their online spending because of the convenience and vast offerings.

But those shoppers looking for a bevy of free online shipping deals may not find them as plentiful as they did last year. The study, which surveyed 125 online retailers in February and March, showed that merchants are less interested in using such promotions this year. While 85% of online retailers said they used some shipping incentive in the past year, just 35% said they would focus more on these types of deals in 2008.

Instead, retailers said they plan to invest more in advertising on social networking sites like myspace.com and facebook.com, according to the survey.

That may not be the best strategy, according to Mulpuru.

"It's great for brand-building and for buzz, but it's still unproven how social networking drives direct revenue" for retailers, said Mulpuru.

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