

ARA Australian Retailers' *Index*

SEPTEMBER 2008



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- Capital expenditure, wages and prices
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Australian Retailers Association

Australian Retailers' Index



September 2008

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Introduction

The ARA Australian Retailers' Index is an initiative of the Australian Retailers Association, and aims to track the confidence and behaviour of small and medium enterprises (SMEs).

This year the retail sector is experiencing much change. The change of Government has seen a number of legislative issues on the agenda for retailing, and amidst all of this proposed change, retailers are operating in an environment of economic pressure. As the peak industry body for Australia's \$292 billion retail sector, it is imperative the ARA is listening to the issues, concerns and struggles of retailers now more than ever before.

Of course, to be a highly effective peak advocate for retailers the ARA must be committed to producing quality research. Only by canvassing the sentiments of the retail sector can we achieve an environment truly conducive to retail industry growth and development.

The ARA Australian Retailers' Index provides a snap shot of the retail sector every quarter in the following categories: Retailer confidence; retailer concerns; sales, profitability and employment; capital expenditure; wages and prices and assessment of Federal Government policies.

The results of the ARA Australian Retailers' Index assist the ARA to maintain strong links with government and influence and direct policy that may affect the retail industry. The focus of the Association is and will remain on the needs of our members, at both state and national levels, and is reflected in all aspects of our operations, from the management of national policy issues to the way the ARA deals with state specific matters.

The primary objectives of the Australian Retailers' Index are to track small and medium retailers' activity over the past three months; expectations over both the next three and 12 months; and to measure overall confidence within the small business community. A second purpose is to provide an independent, objective channel for reporting proprietors' experience and attitudes on key issues.

The Australian Retailers' Index analyses the Sensis® *Business Index* results for those businesses which are in the retail sector, and compares results for retail SMEs with SMEs in general.

The Sensis® *Business Index* is an initiative of Sensis as part of its commitment to this vital business sector. Surveying was conducted by Sweeney Research over the period 1 August to 31 August 2008.

Executive Summary

Australian retailers recorded a further sharp fall in business confidence in the past quarter, recording much lower confidence than for businesses in general.

Although business confidence was lower this quarter for businesses in most sectors, retailers' confidence levels dropped by a further 10 per cent to an overall net balance of negative two per cent, reflecting that more retailers felt concerned about their prospects than felt confident. This represents a fall in confidence of 34 per cent over the past year.

The main reasons for retailers expressing lower confidence was increased fuel prices, people not spending, and decreasing demand in their businesses.

Overall, a lack of work and sales was the main problem facing retail SMEs, followed by the economic climate and difficulties finding and keeping staff.

Lower confidence and problems with consumer demand and economic performance were related to performance. Australian retailers reported falls in performance in the key indicators of sales, profitability, wages and capital expenditure indicator in the past quarter. The only indicators to record increases in the past quarter were employment, which remained net negative, and prices.

Australian retailers continued to record strongly net negative support levels for Federal Government policies, despite the net support level rising by ten percentage points to net negative 22 per cent. The main reasons for negative views overall included increased fuel prices, that they did not offer incentives to small businesses and the level of paperwork and administration.

With economic conditions impacting on the retail sector, the survey found that retailers were reacting to this by cutting costs, advertising more and decreasing employment in their businesses.

About the Survey

The Australian Retailers' Index analyses the Sensis® *Business Index* results for those businesses which are in the retail sector, and compares results for retail SMEs with SMEs in general.

Since its inception in 1993, the Sensis® *Business Index* has been one of the most extensive and regular surveys of small businesses in Australia. Historically, the Sensis® *Business Index* has focused specifically on businesses employing 19 people or fewer. In November 2000 it was expanded to cover the medium business sector, while the regional and industrial sectors were also enhanced.

The August 2008 Sensis® *Business Index* results are based on telephone interviews conducted with 1,800 small and medium business proprietors. The sample size is divided between 1,400 small businesses and 400 medium businesses (the latter defined as businesses employing between 20 and 199 people). This sample included 250 retail businesses.

Businesses interviewed for the August 2008 Sensis® *Business Index* were drawn from all metropolitan and major non-metropolitan regions within Australia. Quotas were set on geographical location and type of business in order to produce the standard sample structure shown below. Where replacement businesses are recruited, this sample structure is maintained.

At the analysis stage, results were weighted by selected Australian New Zealand Standard Industrial Classification (ANZSIC) divisions within the metropolitan and non-metropolitan region of each state and territory. This ensured the sample reflected the actual small and medium business population distribution. The Australian Bureau of Statistics (ABS) Business Register, as at June 1998, was used to weight the sample to be representative of the total business population.

The Sensis® *Business Index* asks for the industry that each business is involved in and for retail businesses, the type of retail location. The results for retailers are then used for the *Australian Retailers' Index*.

All results in the *Australian Retailers' Index* are based on the responses of those businesses surveyed. Results are reported as a net balance, which represents the total number of positive responses minus the total number of negative responses.

Interviewing for this latest survey was conducted over the period 1 to 31 August 2008.

Australian Retailers’ Index – September 2008

Confidence in own business prospects over the next 12 months

The September 2008 *Australian Retailers’ Index* found confidence amongst small and medium enterprises (SMEs) in the retail sector at the lowest level of any sector. This result deteriorated further during the past quarter. The result for September 2008 was in the context of continued falls in confidence for SMEs nationally, with confidence for SMEs in general falling by eight percentage points, compared to a fall of 10 percentage points for retail SMEs, with confidence for these businesses 34 per cent lower than was the case twelve months ago.

Retail SMEs recorded falling business confidence with a net balance result of net negative two per cent. This was comprised of 39 per cent of retailers SMEs that were confident about their business prospects for the year ahead however, this was lower than the 41 per cent that were worried, resulting in the overall net negative result. These figures compare with net confidence of positive 25 per cent for SMEs across all sectors. Retail SMEs were the only industry sector that reported net negative levels of confidence.

The main reasons that SMEs in the retail sector lacked confidence were predominantly aligned with economic factors that were resulting in decreased consumer spending, including increased fuel prices, interest rates and increases in the cost of living. The key reasons for feeling confident were that they were established and experienced in their business operations, that they were competitively priced and were experiencing growth.

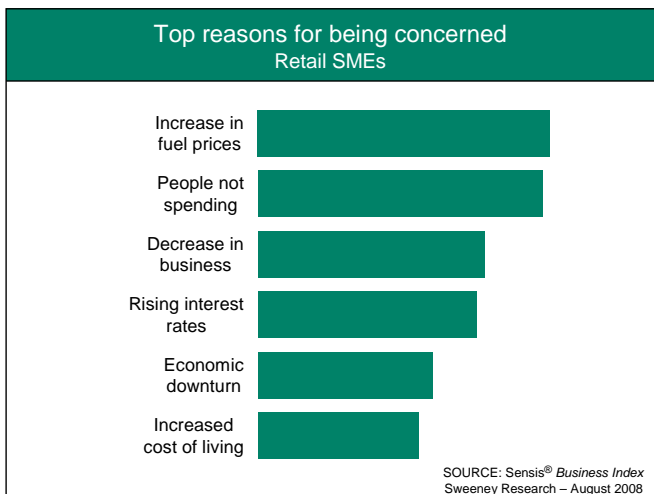
Retail confidence September 2008		
	Small and medium retailers	All small and medium business
Extremely confident	8%	10%
Fairly confident	31%	42%
Neutral	20%	21%
Fairly worried	32%	21%
Extremely worried	9%	6%
Total confident	39%	52%
Total worried	41%	27%
*Net Balance	-2%	+25%

Q. Thinking about the next twelve months, how confident do you feel about your business prospects?

SOURCE: Sensis® Business Index
Sweeney Research – August 2008

Retail confidence trends - past five quarters					
	Aug 07	Nov 07	Feb 08	May 08	Aug 08
Extremely confident	12%	9%	9%	15%	8%
Fairly confident	43%	44%	46%	32%	31%
Neutral	22%	11%	22%	13%	20%
Fairly worried	18%	25%	18%	33%	32%
Extremely worried	5%	11%	5%	6%	9%
Total confident	55%	53%	55%	47%	39%
Total worried	23%	36%	23%	39%	41%
*Net Balance	+32%	+17%	+15%	+8%	-2%

SOURCE: Sensis® Business Index
Sweeney Research – August 2008



Concerns of Australian retailers

The most common concern for Australian retailers in September 2008 was a lack of work and sales, which was reported as a problem by 22 per cent of retail SMEs.

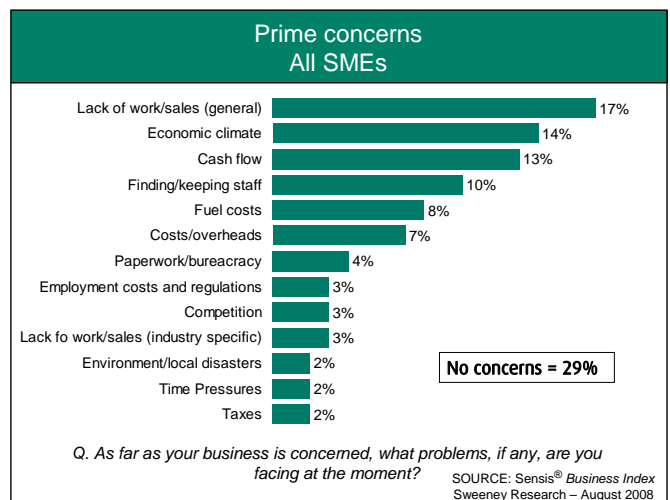
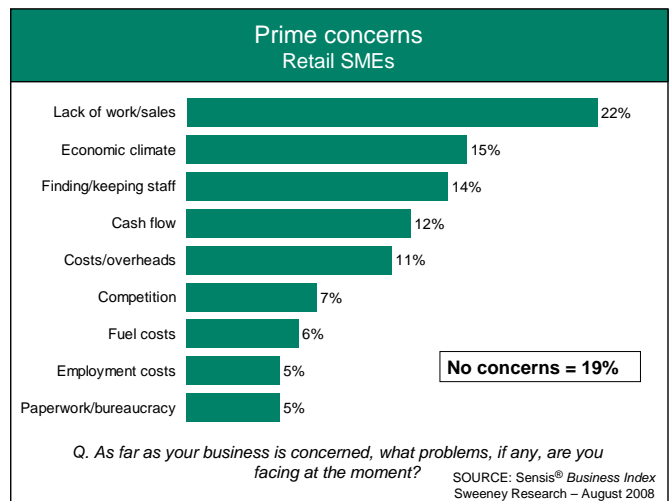
This level of concern was higher than in the general SME population. Overall, a lack of work and sales was also the greatest concern for SMEs in general, with 17 per cent saying that they were concerned about this issue. This issue has increased significantly for retail SMEs in the past quarter, rising by eight percentage points from 14 per cent last quarter.

The next highest concern for Australian retailers was the economic climate in general. Concerns with the economic climate were reported by 15 per cent of retail SMEs, slightly higher than the 14 per cent of SMEs in general that were concerned about the economic climate. The main area of economic climate that Australian retailers were reporting concern about was people not spending, closely followed by the level of interest rates.

The next most significant issue for Australian retailers was finding and keeping staff. These concerns were reported to be a problem for 14 per cent of retailers. The level of problems reported by Australian retailers with finding and keeping staff was unchanged in the past quarter, but was four percentage points above the level recorded for SMEs in general.

Other key issues facing retailers this quarter were cash flow, nominated by 12 per cent of Australian retailers, and costs, which was nominated by 11 per cent. The proportion of retailers reporting problems with cash flow was one percentage point lower than was the case for SMEs in general, but the proportion of retailers reporting concerns with costs was four percentage points higher than SMEs in general.

Overall 19 per cent of retailers reported currently having no significant problems affecting their businesses. This was considerably lower than the 29 per cent of SMEs on average that reported having no concerns in the past quarter, reflecting that retailers are currently facing more problems than SMEs in other sectors.



Sales, profitability and employment

Sales

In line with retailers reporting problems with consumers not spending, sales performance fell dramatically in the past quarter. A net balance of a negative 25 per cent of Australian retailers reported having increased their sales over the past quarter, a decrease of 15 percentage points from the previous quarter's result. This result was 16 percentage points lower than the result for SMEs in general.

Looking forward, there was also a further softening in the net proportion of retailers expecting sales increases. A net seven per cent of retailers were expecting to increase their sales, down by two percentage points in the past quarter.

Profitability

In line with lower sales performance, retailers reported a decrease in profitability over the last quarter. A net balance of negative 35 per cent of retailers reported a net increase in profitability, down from a net negative 15 per cent in the previous quarter.

Looking ahead, there was also a drop in the net proportion of retailers expecting profitability increases. A net negative two per cent of retailers were expecting to increase their profitability, down by 13 percentage points in the past quarter.

Employment

Australian retailers reported negative net growth in employment over the past quarter. The 13 per cent of retailers that reported having increased their employment in the past quarter was marginally lower than the 14 per cent that reported a decrease. The resulting net balance, at a net negative one per cent, was in line with the result for all SMEs in general.

Looking forward, retailers reported softening expectations for employment for the current quarter. A net three per cent of retailers reported expecting to increase their employment levels in the coming quarter, down from nine per cent last quarter.

Value of sales - retailers

	Aug 07	Nov 07	Feb 08	May 08	Aug 08
Last Quarter					
Experienced increase	38%	38%	40%	34%	27%
No change	31%	31%	30%	21%	20%
Experienced decrease	30%	31%	29%	44%	52%
*Net Balance	+8%	+7%	+11%	-10%	-25%
Current Quarter					
Expect increase	46%	49%	43%	38%	36%
No change	43%	29%	33%	33%	35%
Expect decrease	11%	19%	24%	29%	29%
*Net Balance	+35%	+30%	+19%	+9%	+7%

SOURCE: Sensis® Business Index
Sweeney Research – August 2008

Profitability - retailers

	Aug 07	Nov 07	Feb 08	May 08	Aug 08
Last Quarter					
Experienced increase	28%	36%	31%	28%	18%
No change	39%	34%	34%	28%	29%
Experienced decrease	32%	30%	34%	43%	53%
*Net Balance	-4%	+6%	-3%	-15%	-35%
Current Quarter					
Expect increase	44%	39%	45%	31%	23%
No change	44%	36%	37%	40%	43%
Expect decrease	12%	24%	17%	29%	34%
*Net Balance	+32%	+15%	+28%	+2%	-11%

SOURCE: Sensis® Business Index
Sweeney Research – August 2008

Size of workforce - retailers

	Aug 07	Nov 07	Feb 08	May 08	Aug 08
Last Quarter					
Experienced increase	11%	10%	19%	13%	13%
No change	76%	74%	62%	69%	73%
Experienced decrease	12%	16%	20%	19%	14%
*Net Balance	-1%	-6%	-1%	-6%	-1%
Current Quarter					
Expect increase	10%	14%	21%	15%	10%
No change	87%	80%	76%	77%	82%
Expect decrease	3%	5%	3%	6%	7%
*Net Balance	+7%	+9%	+18%	+9%	+3%

SOURCE: Sensis® Business Index
Sweeney Research – August 2008

Capital expenditure, wages and prices

Capital expenditure

Australian retailers were more likely to have decreased their capital expenditure in the past quarter than SMEs in general. A net balance of a negative 17 per cent of retailers reported having increased their capital expenditure over the past quarter, down six percentage points in the past quarter. This compares to a result of net negative five per cent for SMEs in all sectors.

However, in line with continued weak sales and profitability performance in the latest quarter, fewer retailers are expecting to increase their capital expenditure, with net negative 24 per cent reporting an expected increase in the current quarter.

Capital expenditure - retailers					
	Aug 07	Nov 07	Feb 08	May 08	Aug 08
Last Quarter					
Experienced increase	26%	28%	20%	18%	19%
No change	46%	45%	46%	50%	44%
Experienced decrease	25%	25%	31%	29%	36%
*Net Balance	+1%	+3%	-11%	-11%	-17%
Current Quarter					
Expect increase	18%	22%	25%	17%	15%
No change	52%	50%	47%	51%	45%
Expect decrease	29%	26%	26%	31%	39%
*Net Balance	-11%	-4%	-1%	-14%	-24%

SOURCE: Sensis® Business Index
Sweeney Research – August 2008

Wages

Fewer retailers reported having an increased wages bill over the past quarter. Overall, 22 per cent of retailers reported an increase to their wages bill in the past quarter with 16 per cent reporting a decrease. The resulting net balance, at a net positive six per cent, was below the average figure of net positive nine per cent of SMEs that reported an increased wages bill.

Looking forward, the proportion of retailers expecting their wages bill to increase increased marginally to a net balance of positive 15 per cent. This was in line with the result for SMEs in general.

Wages bill - retailers					
	Aug 07	Nov 07	Feb 08	May 08	Aug 08
Last Quarter					
Experienced increase	24%	20%	31%	25%	22%
No change	58%	66%	51%	56%	58%
Experienced decrease	14%	12%	14%	14%	16%
*Net Balance	+10%	+8%	+17%	+11%	+6%
Current Quarter					
Expect increase	20%	21%	23%	24%	24%
No change	73%	68%	66%	64%	65%
Expect decrease	5%	9%	9%	10%	9%
*Net Balance	+15%	+12%	+14%	+14%	+15%

SOURCE: Sensis® Business Index
Sweeney Research – August 2008

Prices charged

Overall, an increased proportion of retailers reported having increased their prices over the past quarter. Overall, 43 per cent of retailers reported having increased prices in the past quarter with six per cent reporting a decrease. The resulting net balance, at a net positive 37 per cent, was higher than the average figure for SMEs of 29 per cent.

Looking forward, the proportion of retailers expecting to increase their prices in the current quarter fell 10 percentage points to net 39 per cent. This was slightly above the average result for SMEs of 27 per cent.

Prices charged - retailers					
	Aug 07	Nov 07	Feb 08	May 08	Aug 08
Last Quarter					
Experienced increase	29%	28%	30%	35%	43%
No change	66%	64%	65%	57%	51%
Experienced decrease	5%	8%	5%	8%	6%
*Net Balance	+24%	+20%	+25%	+27%	+37%
Current Quarter					
Expect increase	30%	34%	41%	42%	36%
No change	68%	60%	57%	55%	57%
Expect decrease	1%	6%	2%	3%	7%
*Net Balance	+29%	+28%	+39%	+39%	29%

SOURCE: Sensis® Business Index
Sweeney Research – August 2008

Assessment of Federal Government policies

Key findings

Support among Australian retailers for the Federal Government remained strongly net negative during the quarter, despite having risen from last quarter’s result.

The net balance result of a negative 22 per cent approval rating represented an increase of 10 percentage points in the past quarter, following last quarter’s fall of 28 percentage points. The result comprised 11 per cent (up one percentage point) of retailers that were supportive of the Federal Government’s small business policies, and 33 per cent (down nine percentage points) that felt their policies worked against small business.

The key reasons Australian retailers believed the Federal Government’s policies worked against them were: a feel that increases in the petrol price had impacted consumer spending; they did not offer incentives to small business; and that there was too much paperwork and administration.

The key reasons given by those retailers that felt the Federal Government’s policies were that they had tried to reduce red tape; that small business management training schemes had been beneficial; and the change of government had not had a negative impact on their business specifically.

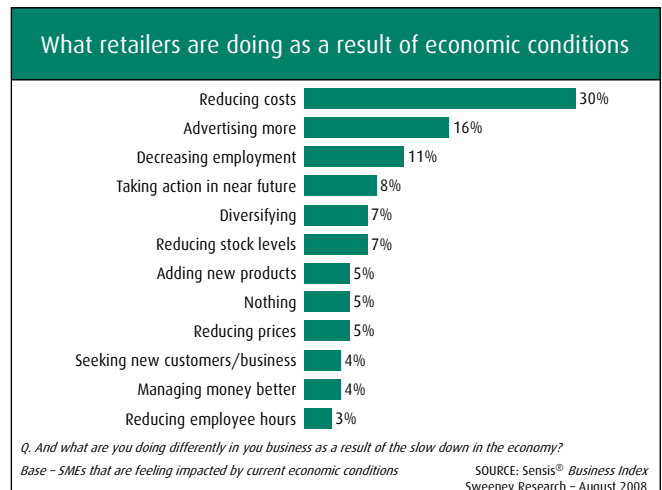
This quarter retail SMEs were also asked for their views on the changes that they had made to their business as a result of the impact of economic conditions. Overall, three in ten retailers had reduced their cost base, which was eight per cent higher than was the case for SMEs in general.

The second most frequent response was that they were advertising more, with 16 per cent of retailers that were impacted by economic conditions reporting this strategy, which was also higher than was the case for SMEs in general (11 per cent). Some 11 per cent of retailers reported that they had decreased employment levels, which was in line with the result for SMEs on average.

Attitudes to Federal Government policies Views of retailers					
	Aug 07	Nov 07	Feb 08	May 08	Aug 08
Supportive	28%	38%	15%	10%	11%
Work against	19%	24%	19%	42%	33%
No impact	53%	29%	66%	48%	57%
*Net Balance	+9%	+14%	-4%	-32%	-22%

Q. Thinking about the current Federal Government, do you believe that their policies are supportive of small business, work against small business or have no real impact either way?

SOURCE: Sensis® Business Index
Sweeney Research – August 2008



About the Australian Retailers Association:

For over 104 years, The Australian Retailers Association (ARA) has been the peak industry body in Australia's \$292 billion retail sector which employs over 1.2 million people. As an incorporated employer body under the Workplace Relations Act and with a range of member services including business consulting, policy development, advocacy and education, the ARA supports and represents over 5,000 members throughout Australia.

The ARA's vision is to be the pre-eminent, cohesive nationwide organisation which is recognised as representing the diverse interests of all retailers and is the most effective provider of quality information and services to members, which fosters an environment conducive to their business success.

About Sensis:

Sensis is Australia's leading information resource. We make complex lives simpler by helping Australians find, buy and sell. Sensis delivers innovative and integrated search solutions via print, online, voice and wireless channels to connect Australians 24 hours a day, seven days a week. Our powerful, multi-channel portfolio provides an unparalleled local information source incorporating: the, Yellow™ and White Pages® directories (including yellow.com.au and whitepages.com.au); the lifestyle site citysearch.com.au; whereis.com - the location and navigation site ; sensis.com.au - the search engine for Australians; 1234, the operator-assisted, premium voice information service; and The Trading Post Group's stable of weekly and monthly publications and Universal Publisher's mapping publications; and GoStay® accommodation website. Sensis also manages LinkMe.com.au, an innovative online career networking site, in partnership with MBI Investments. Sensis also recently announced a majority shareholding in SouFun.com, China's leading real estate and home furnishings website.

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