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## News release

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### **Retail sales rebound was “false dawn” says BIS Shrapnel**

*Shopping centre incomes under threat*

While it's tempting for Australian retailers and their landlords to take comfort from recent positive newspaper headlines, they are little more than a false dawn.

Leading industry analyst and economic forecaster, BIS Shrapnel, says that the strong bounce-back in consumer sentiment, surprisingly robust retail turnover data and the upgrading of profit guidance by large retailers don't reflect what's in store for the year ahead.

BIS Shrapnel's *Retail Property Market, 2009 – 2019* report highlights a dramatic turnaround in household disposable income, from the strongest level in over 20 years in 2008/09 to a negative result this financial year. The report also forecasts shopping centre incomes will fall as weaker disposable income drags down consumer spending.

“Government hand-outs, the positive March quarter GDP figure and the bounce-back in the sharemarket have been behind the positive news,” says report author and BIS Shrapnel Senior Project Manager, Maria Lee. “But as unemployment continues to rise throughout the rest of this year and next, we expect consumers to rein in their spending.

“Last year consumers didn't spend for fear of unemployment,” continues Lee “This year they haven't got money to spend and, in fact, we think consumers will borrow to shore up spending.”

BIS Shrapnel is forecasting just 0.1 per cent real growth in retail turnover in 2009/10. While food retailing will remain solid, BIS Shrapnel expects all other categories of retail to suffer falling turnover this year.

The weakness in retail turnover will put pressure on retailers and their capacity to pay rent. In recent years, strong turnover and higher retailer profitability have supported above-average growth in shopping centre incomes.

BIS Shrapnel says it will now become a challenge to maintain shopping centre income growth in the light of the weaker economic environment, higher shopping centre vacancies and increased financial assistance to tenants.

“There's already widespread evidence that retailers have become more assertive in asking for financial help,” says Lee. “It's apparent from A-REIT results that the rate of growth of centre incomes has already started to reduce. We are forecasting shopping centre incomes will fall by around four per cent in real terms over the next two to three years.”

BIS Shrapnel also says there is another threat to shopping centre incomes waiting in the wings – the Australian dollar. Increases in the Australian dollar and the associated cost reductions underwrote strong rises in profit margins from around three per cent at the start of the decade to over four per cent currently. This, even more than strong growth in retail sales, is what drove strong rises in retailers' profitability.

"When the Australian dollar collapsed last year it caused a panic among retailers because it seemed as though the high profit margins to which they had become accustomed would come under pressure," says Lee. "The dollar has now made up much of the lost ground, but remains highly volatile and the risk of downward pressure on the dollar, and on profit margins, remains."

All in all, it's going to be another tough year for retailers and their landlords before consumer spending recovers in line with the economy around 2011, concludes BIS Shrapnel.

### **About BIS Shrapnel**

BIS Shrapnel is Australia's leading provider of industry research, analysis and forecasting services. BIS Shrapnel helps clients better understand the markets in which they operate, through reliable and detailed market data, analysis of developments and drivers and thoroughly researched forecasts.

BIS Shrapnel compiles accurate, clearly explained and detailed information on industry sectors, markets and industries in which their clients operate. BIS Shrapnel provides market size and segmentation data, market shares, consumer attitudes and supplier reputation information, and regularly conducts both business-to-business and consumer research.

Over the company's 45-year history, BIS Shrapnel has built up a strong level of expertise and unique methodologies for forecasting.

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