

## SECOND QUARTER 2009

### **Salon/Spa Industry Outlook Improved in the Second Quarter as the Salon/Spa Performance Index Rose 0.7 Percent**

The outlook for the salon/spa industry improved in the second quarter, as the Professional Beauty Association's *Salon/Spa Performance Index* registered a solid gain. The *Salon/Spa Performance Index* – a quarterly composite index that tracks the health of and outlook for the U.S. salon/spa industry – stood at 101.8 in the second quarter, up 0.7 percent from its first quarter level.

The *Salon/Spa Performance Index* is based on the responses to the Professional Beauty Association's Salon/Spa Tracking Survey, which is fielded quarterly among salon/spa owners nationwide.

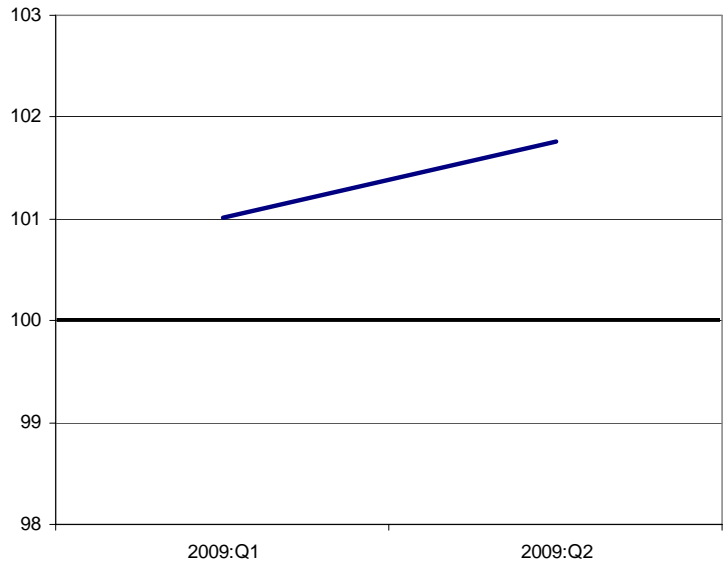
The *Salon/Spa Performance Index* is constructed so that the health of the salon/spa industry is measured in relation to a steady-state level of 100. Index values above 100 indicate that key industry indicators are in a period of expansion, while index values below 100 represent a period of contraction for key industry indicators. The index consists of two components – the Current Situation Index and the Expectations Index.

### **Current Situation Index Gained 0.9 Percent but Still Remained Below 100; Expectations Index Rose 0.6 Percent to Reach a Level of 103.9**

The Current Situation Index, which measures current trends in five industry indicators (service sales, retail sales, customer traffic, employees/hours and capital expenditures), stood at 99.7 in the second quarter – up 0.9 percent its first quarter level of 98.8. However, the Current Situation Index remained below 100 in the second quarter, which signifies contraction in the current situation indicators.

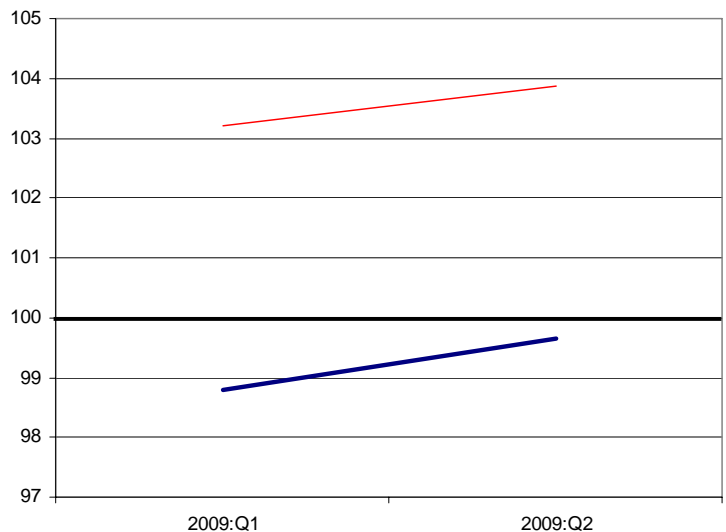
The Expectations Index, which measures salon/spa owners' six-month outlook for five industry indicators (service sales, retail sales, employees, capital expenditures and business conditions), stood at 103.9 in the second quarter – up 0.6 percent from its first quarter level. In addition, the Expectations Index stood well above 100, which indicates a solid level of optimism among salon/spa owners for industry growth in the months ahead.

### **Salon/Spa Performance Index**



Source: PBA; Values Greater than 100 = Expansion; Values Less than 100 = Contraction

### **Current Situation & Expectations Indices**



Source: PBA; Values Greater than 100 = Expansion; Values Less than 100 = Contraction

**Current Situation Indicators Registered Broad-Based Improvements in the Second Quarter, but Remained in the Contraction Range Overall**

Although the Current Situation Index posted a solid gain in the second quarter, it remained below 100 overall, which signifies contraction in the indicators of current salon/spa performance. Three out of the five current situation indicators stood below 100 in the second quarter, with only customer traffic finding its way into the expansion range.

Salon/spa owners reported an improvement in service sales in the second quarter. Thirty-nine percent of salon/spa owners reported an increase in same-store service sales between the second quarters of 2008 and 2009, up from 35 percent who reported a sales gain in the first quarter. Thirty-nine percent of salon/spa owners reported a same-store service sales decline in the second quarter, down from 44 who reported lower sales in the first quarter.

Although the overall retail sales picture improved somewhat in the second quarter, salon/spa owners continued to report lower retail sales volume. Thirty-three percent of salon/spa owners reported higher retail sales between the second quarters of 2008 and 2009, up from 26 percent who reported a retail sales gain in the first quarter. Forty-four percent of salon/spa owners reported lower retail sales in the second quarter, down from 49 percent who reported similarly in the first quarter.

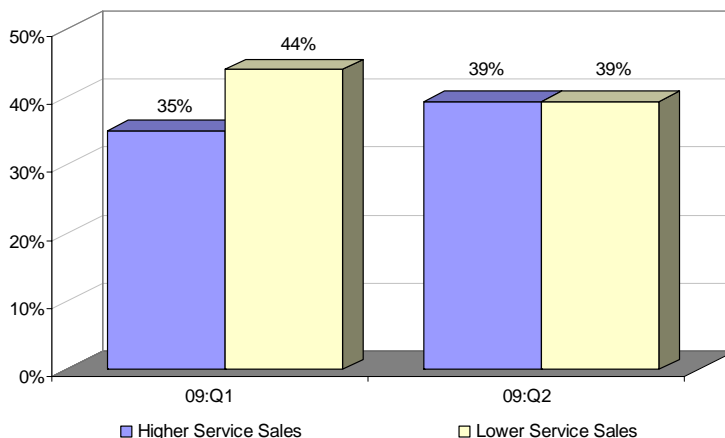
Salon/spa owners reported a solid improvement in customer traffic levels in the second quarter. Thirty-eight percent of salon/spa owners reported an increase in customer traffic between the second quarters of 2008 and 2009, while only 31 percent said their customer traffic levels declined. In the first quarter, 33 percent of salon/spa owners reported an increase in customer traffic, while 40 percent reported traffic declines.

Labor indicators were a mixed bag in the second quarter, with salon/spa owners reporting slightly higher staffing levels but a decline in employee hours. Twenty-eight percent of salon/spa owners said they added employees between the second quarters of 2008 and 2009, while 23 percent said they reduced staffing levels.

In contrast, 24 percent of salon/spa owners said they cut employee hours between the second quarters of 2008 and 2009, while only 15 percent increased employee hours.

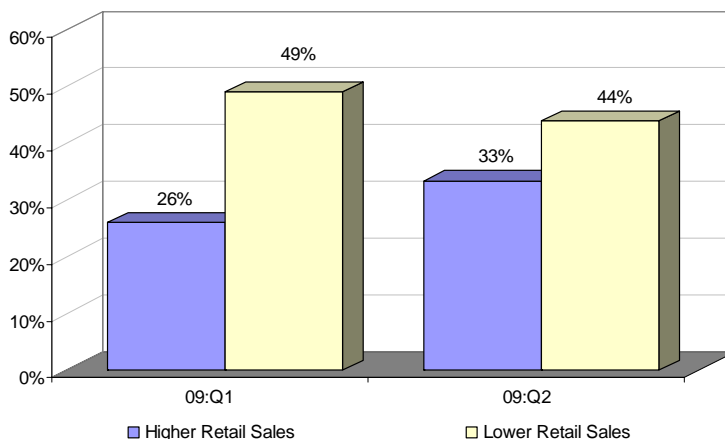
Capital spending activity remained relatively steady between the first and second quarters of 2009. Thirty-four percent of salon/spa owners said they made a capital expenditure for equipment, expansion or remodeling in the second quarter, compared to 33 percent who reported making a capital expenditure in the first quarter.

**Salon/Spa Owners' Reporting of Same-Store Service Sales vs. Same Quarter in Previous Year**



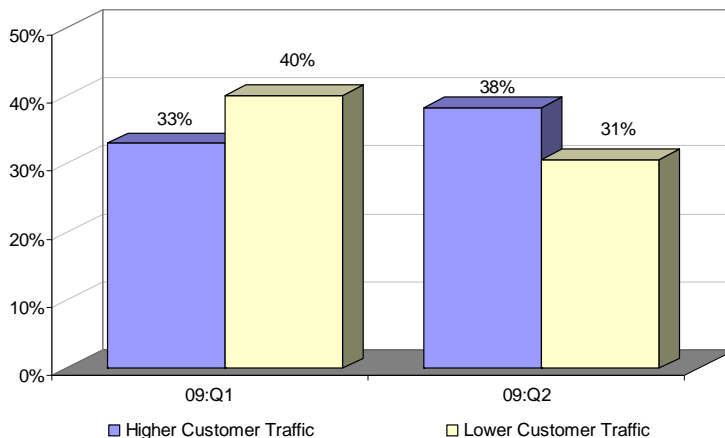
Source: Professional Beauty Association, Salon/Spa Tracking Survey

**Salon/Spa Owners' Reporting of Same-Store Retail Sales vs. Same Quarter in Previous Year**



Source: Professional Beauty Association, Salon/Spa Tracking Survey

**Salon/Spa Owners' Reporting of Customer Traffic Levels vs. Same Quarter in Previous Year**



Source: Professional Beauty Association, Salon/Spa Tracking Survey

**Expectations Indicators Registered Solid Gains in the Second Quarter, as Salon/Spa Owners are Generally Optimistic about Industry Growth in the Months Ahead**

The Expectations Index surged further into positive territory in the second quarter, which illustrates the solid level of optimism among most salon/spa owners. Each of the five expectations indicators stood above 100 in the second quarter, which points toward broad-based industry growth in the months ahead.

Growth in the Expectations Index was driven by an increasingly optimistic outlook for sales growth in the months ahead. Sixty percent of salon/spa owners said they expect to have higher service sales in six months (compared to the same period in the previous year), up from 54 percent who reported similarly last quarter. Only 13 percent of salon/spa owners expect their service sales volume in six months to be lower than it was during the same period in the previous year, down slightly from 15 percent who reported similarly last quarter.

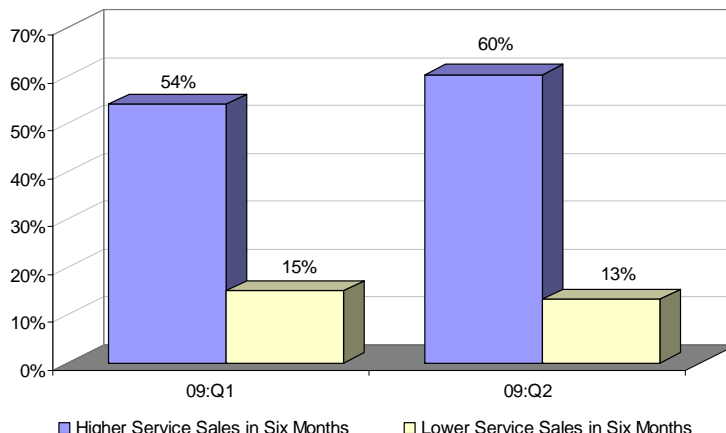
A majority of salon/spa owners also expect to see retail sales growth in the months ahead. Fifty-one percent of salon/spa owners said they expect to have higher retail sales in six months (compared to the same period in the previous year), up from 46 percent who reported similarly last quarter. In comparison, 15 percent expect their retail sales to decline in six months (compared to the same period in the previous year), down from 22 percent who reported similarly last quarter.

Salon/spa owners are also decidedly upbeat about the direction of the overall economy. Sixty-three percent of salon/spa owners said they expect economic conditions to improve in six months, while only six percent expect to see worse economic conditions in six months. This sentiment was relatively unchanged from first quarter levels.

On the staffing front, a majority of salon/spa owners are planning expansion in the months ahead. Fifty-two percent of salon/spa owners said they plan to have higher staffing levels in six months (compared to the same period in the previous year), up from 49 percent who responded similarly last quarter. Meanwhile, only six percent of salon/spa owners expect to reduce staffing levels in six months, down slightly from eight percent who responded similarly last quarter.

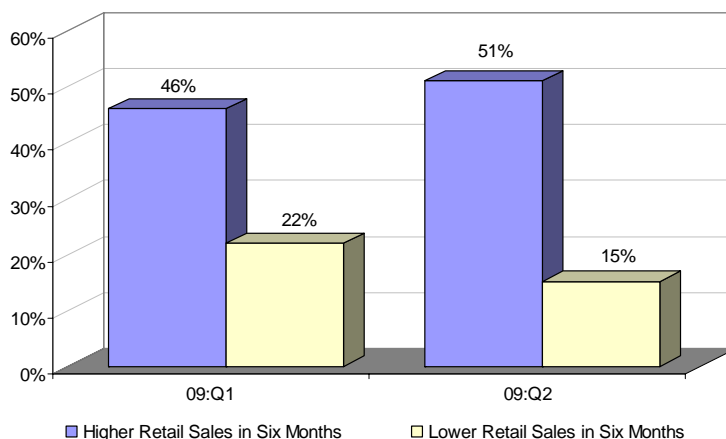
Although their sales outlook registered a solid improvement, salon/spa owners' plans for capital expenditures in the months ahead held relatively steady. Forty-two percent of salon/spa owners plan to make a capital expenditure for equipment, expansion or remodeling in the next six months, roughly on par with 41 percent who reported similarly last quarter.

**Salon/Spa Owners' Outlook for Service Sales Volume in Six Months vs. Same Period in Previous Year**



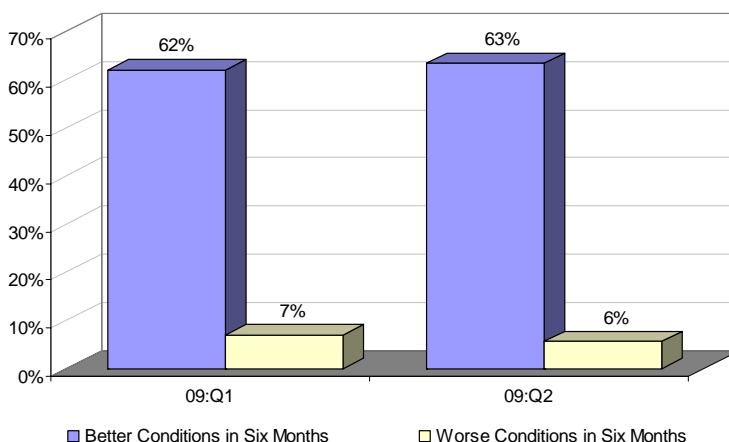
Source: Professional Beauty Association, Salon/Spa Tracking Survey

**Salon/Spa Owners' Outlook for Retail Sales Volume in Six Months vs. Same Period in Previous Year**



Source: Professional Beauty Association, Salon/Spa Tracking Survey

**Salon/Spa Owners' Outlook for General Economic Conditions in Six Months**



Source: Professional Beauty Association, Salon/Spa Tracking Survey

## Professional Beauty Association Salon/Spa Performance Index Data

	First Quarter 2009	Second Quarter 2009	09:Q2 over 09:Q1
<b>Salon/Spa Performance Index</b>	101.0	101.8	0.7%
<b>Current Situation Index</b>	98.8	99.7	0.9%
<i>Current Situation Indicators:</i>			
Same-Store Service Sales	99.1	100.0	0.9%
Same-Store Retail Sales	97.7	99.0	1.3%
Customer Traffic	99.3	100.8	1.5%
Labor	99.3	99.8	0.5%
Capital Expenditures	98.6	98.8	0.2%
<b>Expectations Index</b>	103.2	103.9	0.6%
<i>Expectations Indicators:</i>			
Same-Store Service Sales	103.9	104.7	0.8%
Same-Store Retail Sales	102.4	103.6	1.2%
Staffing	104.1	104.6	0.5%
Capital Expenditures	100.2	100.4	0.2%
Business Conditions	105.5	105.8	0.3%

*Note: For each of the Indices and Indicators, a value above 100 signals a period of expansion while a value below 100 signals a period of contraction.*

### Methodology

The Professional Beauty Association's *Salon/Spa Performance Index* is a statistical barometer that measures the overall health of the U.S. Salon/Spa Industry. This quarterly composite index is based on the responses to the Professional Beauty Association's quarterly Salon/Spa Tracking Survey, which is fielded among salon/spa owners nationwide on a variety of indicators including service sales, retail sales, customer traffic, employees and hours, and capital expenditures. The *Salon/Spa Performance Index* is composed of two equally-weighted components: the Current Situation Index and the Expectations Index. For each of the Indices and Indicators, a value above 100 signals a period of expansion while a value below 100 signals a period of contraction, and the distance from 100 signifies the magnitude of the expansion or contraction.

The Current Situation Index is a composite index based on five 'recent-period' salon/spa industry indicators:

*Same-Store Service Sales:* Compares same-store service sales volume in the reference quarter versus the same quarter in the previous year

*Same-Store Retail Sales:* Compares same-store retail sales volume in the reference quarter versus the same quarter in the previous year

*Customer Traffic:* Compares customer traffic in the reference quarter versus the same quarter in the previous year

*Labor:* Compares the number of employees and the average employee hours in the reference quarter versus the same quarter in the previous year

*Capital Expenditures:* Measures capital expenditure activity during the reference quarter

The Expectations Index is a composite index based on five 'forward-looking' salon/spa industry indicators:

*Same-Store Service Sales:* Salon/Spa owners' outlook for same-store service sales in six months, compared to the same period in the previous year

*Same-Store Retail Sales:* Salon/Spa owners' outlook for same-store retail sales in six months, compared to the same period in the previous year

*Staffing:* Salon/Spa owners' expectations for their number of employees in six months, compared to the same period in the previous year

*Capital Expenditures:* Salon/Spa owners' capital expenditure plans during the next six months

*Business Conditions:* Salon/Spa owners' outlook for general business conditions during the next six months



The Professional Beauty Association is made up of salons and spas, distributors, and manufacturers dedicated to improving their individual businesses and the industry as a whole. Led by industry volunteers, the association offers: business tools – government advocacy – education – networking – and more. Visit [probeauty.org](http://probeauty.org) or call 800.468.2274 (480.281.0424) to learn more.

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