Professional Beauty Association
Salon/Spa Performance Index (SSPI)

THIRD QUARTER 2009

Salon/Spa Outlook Remained Positive in the Third Quarter as the Salon/Spa Performance Index Gained 0.1 Percent

The outlook for the salon/spa industry remained positive in the third quarter, as the Professional Beauty Association's *Salon/Spa Performance Index* rose for the second consecutive quarter. 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 101.9 in the third quarter, up 0.1 percent from its second 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.

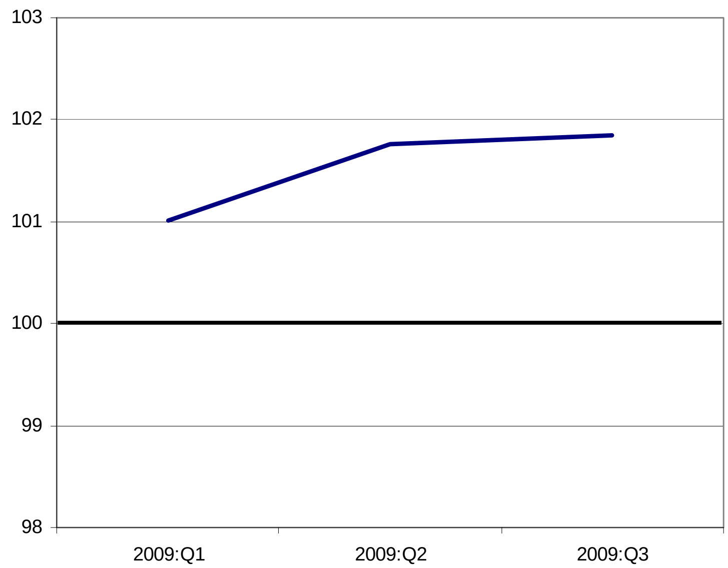
The *Salon/Spa Performance Index* is constructed so that the health of the salon/spa industry is measured in relation to a steady-state level of 100. Index values above 100 indicate that key industry indicators are in a period of expansion, while index values below 100 represent a period of contraction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

Current Situation Index Declined 0.6 Percent and Remained Below 100; Expectations Index Gained 0.7 Percent to Reach a Level of 104.6

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 99.1 in the third quarter – down 0.6 percent from its second quarter level of 99.7. The Current Situation Index has remained below 100 throughout 2009, which represents contraction in the current situation indicators.

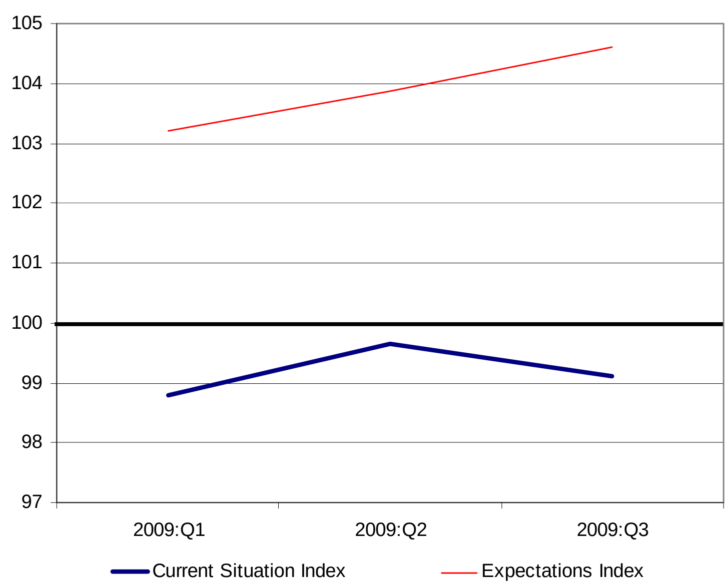
The Expectations Index, which measures salon/spa owners' six-month outlook for five industry indicators (service sales, retail sales, employees, capital expenditures and business conditions), rose 0.7 percent in the third quarter to a level of 104.6. The Expectations Index remains well above 100, which indicates that salon/spa owners are optimistic about 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 Were Mixed in the Third Quarter, with Salon/Spa Owners Reporting Higher Service Sales and Lower Customer Traffic

After rising to a level of 99.7 in the second quarter, the Current Situation Index declined in the third quarter to remain below 100 for the third consecutive quarter in 2009. Four out of the five current situation indicators stood below 100 in the third quarter, with only service sales edging above 100 into the expansion range.

For the first time in 2009, salon/spa owners reported a net increase in service sales, meaning more owners reported higher sales than lower sales. Thirty-eight percent of salon/spa owners reported an increase in same-store service sales between the third quarters of 2008 and 2009, while 36 percent reported a sales decline. In the second quarter, an equal 39 percent of salon/spa owners reported positive and negative service sales.

Although salon/spa owners reported an improvement in service sales in the third quarter, they continued to report soft retail sales. Thirty-six percent of salon/spa owners reported higher retail sales between the third quarters of 2008 and 2009, up from 33 percent who reported a retail sales gain in the second quarter. Forty-seven percent of salon/spa owners reported lower retail sales in the third quarter, compared to 44 percent who reported similarly in the second quarter.

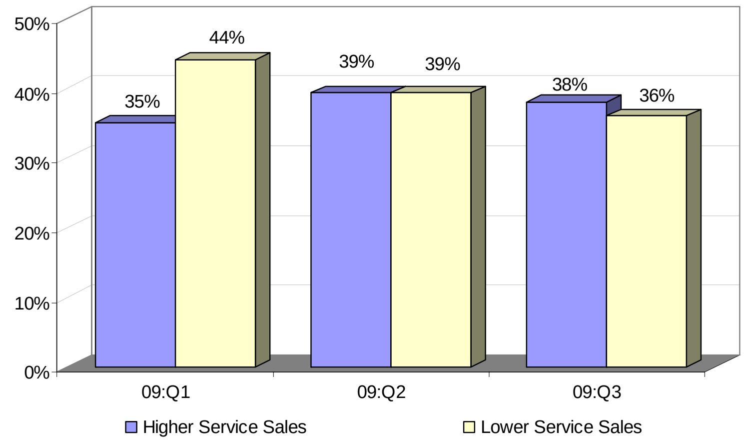
In contrast to the positive trend in service sales, salon/spa owners reported a deterioration in customer traffic levels in the third quarter. Only 30 percent of salon/spa owners reported an increase in customer traffic between the third quarters of 2008 and 2009, while 40 percent reported a decline in customer traffic. In the second quarter, 38 percent of salon/spa owners reported an increase in customer traffic, while 31 percent reported traffic declines.

Labor indicators remained mixed in the third quarter, with salon/spa owners reporting a net increase in staffing levels but a decline in employee hours. Twenty-six percent of salon/spa owners said they added employees between the third quarters of 2008 and 2009, while 22 percent said they cut staffing levels.

In contrast, 29 percent of salon/spa owners said they cut employee hours between the third quarters of 2008 and 2009, while 21 percent said they increased employee hours.

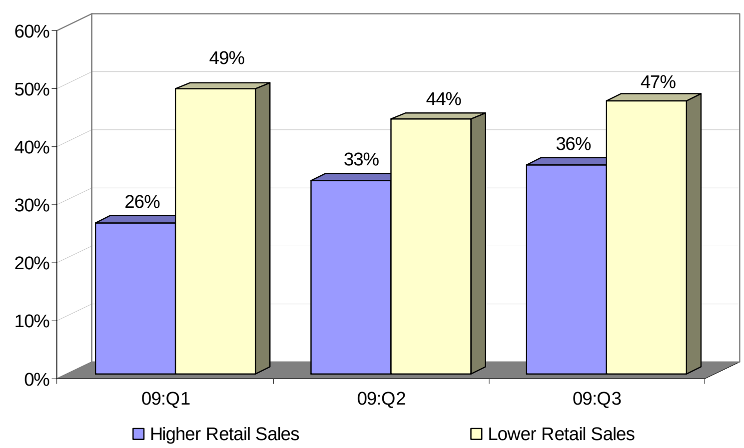
Capital spending activity dropped off somewhat in the third quarter of 2009, compared to the first and second quarters. Twenty-eight percent of salon/spa owners said they made a capital expenditure for equipment, expansion or remodeling in the third quarter, down from roughly one-third of salon/spa owners who reported making capital expenditures in the first and second quarters.

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



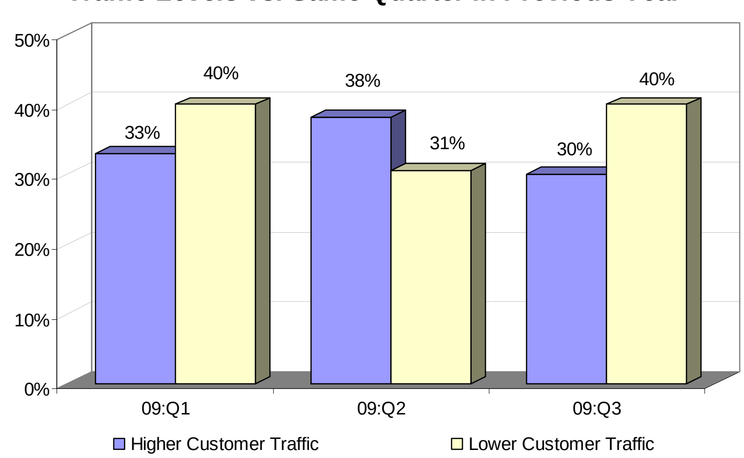
Source: Professional Beauty Association, Salon/Spa Tracking Survey

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 Posted Solid Gains in the Third Quarter, as Salon/Spa Owners are Increasingly Optimistic about Growth in Both the Industry and the Economy in the Months Ahead

The Expectations Index continued to rise in the third quarter, as salon/spa owners are more optimistic about industry growth in the months ahead. Each of the five expectations indicators stood above 100 in the third quarter, which sets the stage for improving industry performance in the months ahead.

Third quarter growth in the Expectations Index was driven by growing optimism for both service and retail sales in the months ahead. Fully seven out of 10 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 60 percent who reported similarly last quarter. Only 8 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 from 13 percent who reported similarly last quarter.

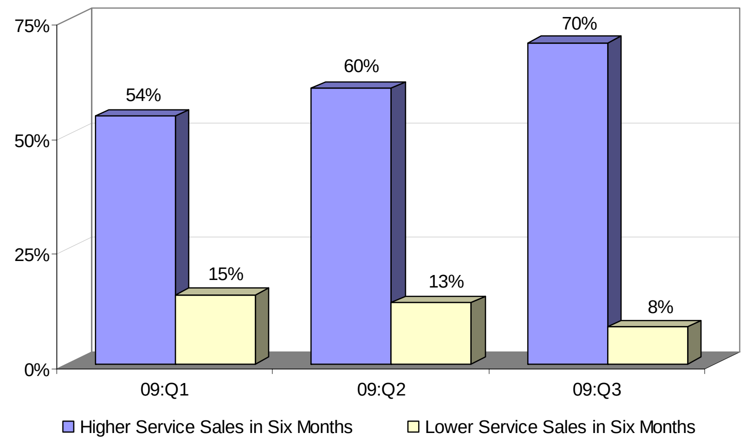
Salon/spa owners are also much more optimistic about stronger retail sales in the months ahead. Sixty-one percent of salon/spa owners said they expect to have higher retail sales in six months (compared to the same period in the previous year), up from 51 percent who reported similarly last quarter. In comparison, just 9 percent expect their retail sales to decline in six months (compared to the same period in the previous year), down from 15 percent who reported similarly last quarter.

Salon/spa owners also remain optimistic about the direction of the overall economy. Sixty-eight percent of salon/spa owners said they expect economic conditions to improve in six months, while only five percent expect economic conditions to worsen in six months. This sentiment was generally on par with the previous two quarters.

As was the case in the first two quarters of 2009, salon/spa owners are planning to expand staffing levels in the months ahead. Forty-nine 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), compared to 52 percent who responded similarly last quarter. In contrast, only two percent of salon/spa owners expect to reduce staffing levels in six months, down from six percent who responded similarly last quarter.

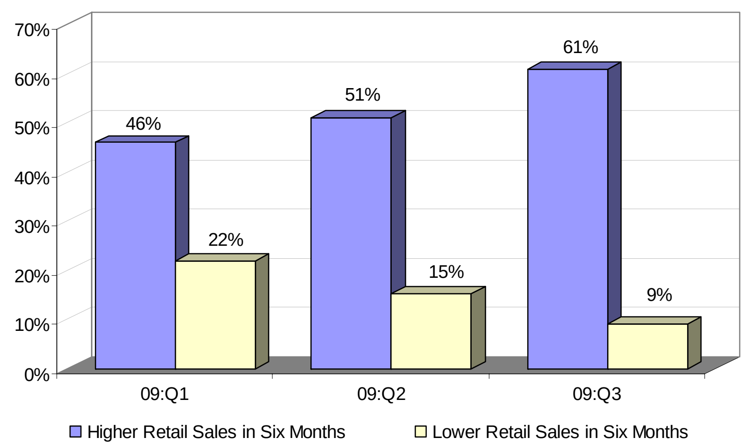
Along with a positive sales outlook, salon/spa owners also stepped up plans for capital expenditures in the months ahead. Forty-six percent of salon/spa owners plan to make a capital expenditure for equipment, expansion or remodeling in the next six months, up from 42 percent who reported similarly last quarter.

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



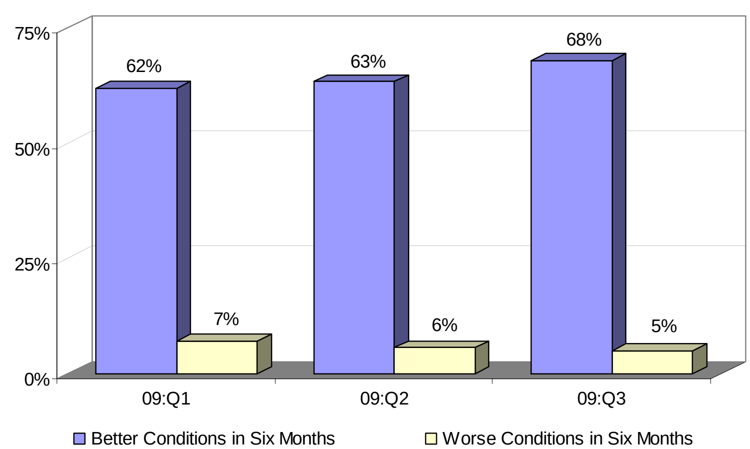
Source: Professional Beauty Association, Salon/Spa Tracking Survey

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	Third Quarter 2009	09:Q3 over 09:Q2
Salon/Spa Performance Index	101.0	101.8	101.9	0.1%
Current Situation Index	98.8	99.7	99.1	-0.6%
Current Situation Indicators:				
Same-Store Service Sales	99.1	100.0	100.2	0.2%
Same-Store Retail Sales	97.7	99.0	98.9	-0.1%
Customer Traffic	99.3	100.8	99.0	-1.8%
Labor	99.3	99.8	99.8	0.0%
Capital Expenditures	98.6	98.8	97.6	-1.2%
Expectations Index	103.2	103.9	104.6	0.7%
Expectations Indicators:				
Same-Store Service Sales	103.9	104.7	106.2	1.5%
Same-Store Retail Sales	102.4	103.6	105.2	1.6%
Staffing	104.1	104.6	104.7	0.1%
Capital Expenditures	100.2	100.4	101.2	0.8%
Business Conditions	105.5	105.8	106.3	0.5%

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 or call 800.468.2274 (480.281.0424) to learn more.

PBA Board of Directors

PBA Staff Contact

Sam Leyvas
Director – Government Affairs
800.468.2274, x.3437
480.455.3437 direct
sam@probeauty.org