Professional Beauty Association
Salon/Spa Performance Index (SSPI)

Third Quarter 2011

Salon/Spa Performance Index Fell to Its Lowest Level in Two Years

Dampened by softer sales and traffic levels and continued deterioration in salon/spa owners' outlook for sales growth and the economy, the Professional Beauty Association's *Salon/Spa Performance Index (SSPI)* fell to its lowest level in two years. 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, down 1.0 percent from the second quarter and the second consecutive quarterly decline. Despite the recent drops, the *SSPI* remained above 100, which represents expansion in the salon/spa industry.

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.

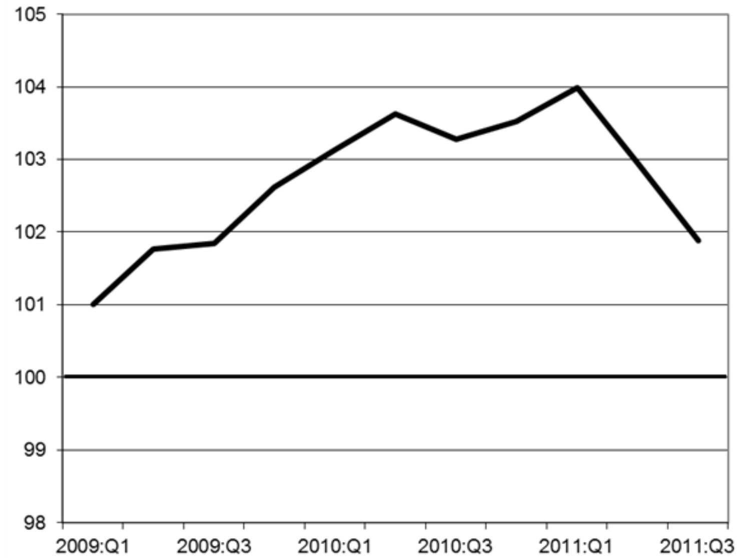
The *Salon/Spa Performance Index* is constructed so that the health of the salon/spa industry is measured in relation to a steady-state level of 100. Index values above 100 indicate that key industry indicators are in a period of expansion, while index values below 100 represent a period of contraction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

Current Situation Index Fell 1.1 Percent to a Level of 100.3; Expectations Index Declined 0.9 Percent to a Level of 103.5

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 100.3 in the third quarter, down 1.1 percent from the second quarter. Despite the decline, the Current Situation Index remained above 100, which represents expansion in the current situation indicators.

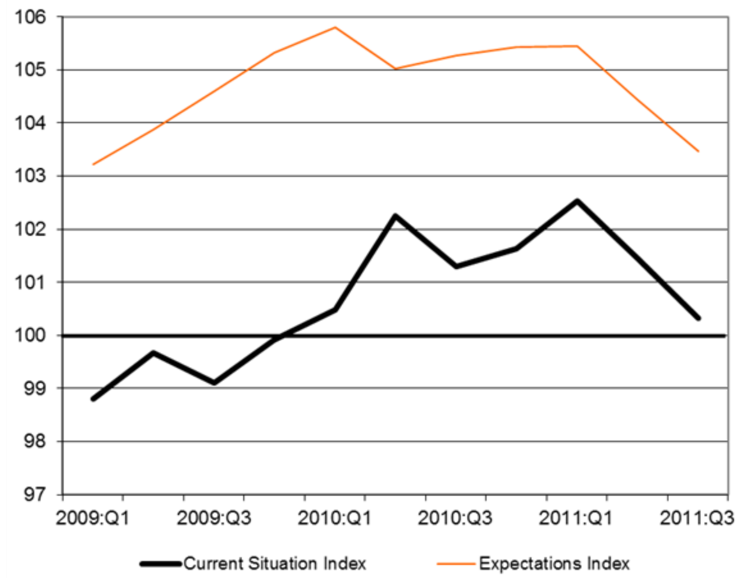
The Expectations Index, which measures salon/spa owners' six-month outlook for five industry indicators (service sales, retail sales, employees, capital expenditures and business conditions), stood at 103.5 in the third quarter, its second consecutive quarterly decline and lowest level since the first quarter of 2009. Despite the declines, salon/spa owners' outlook still remained positive overall.

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 Declines in the Third Quarter, as Sales and Traffic Levels Continued to Soften

The Current Situation Index fell 1.1 percent in the third quarter, as each of the five current situation indicators declined for the second consecutive quarter. The sales and customer traffic indicators registered the sharpest drops in the third quarter, although both indicators remained above 100 in the expansion range.

Salon/spa owners reported somewhat softer service sales in the third quarter. Fifty percent of salon/spa owners reported an increase in same-store service sales between the third quarters of 2010 and 2011, down from 57 percent of salon/spa owners who reported a service sales gain in the second quarter. Meanwhile, 24 percent of salon/spa owners reported lower service sales in the third quarter, up from 20 percent in the second quarter.

Similarly, salon/spa owners reported softer retail sales in the third quarter. Thirty-nine percent of salon/spa owners reported higher retail sales between the third quarters of 2010 and 2011, down from 47 percent of salon/spa owners who reported a retail sales gain in the second quarter. Thirty-one percent of salon/spa owners reported lower retail sales in the third quarter, up from 25 percent in the second quarter.

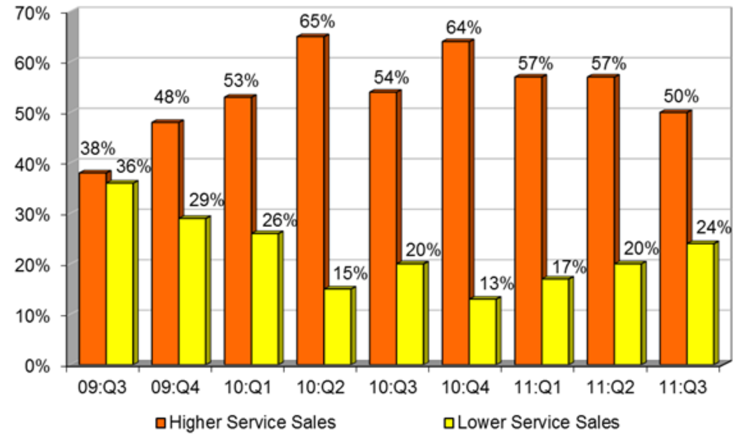
Salon/spa owners also reported a dramatic slowdown in customer traffic growth in the third quarter. Thirty-three percent of salon/spa owners reported an increase in customer traffic between the third quarters of 2010 and 2011, down sharply from 50 percent in the second quarter. Meanwhile, 31 percent of salon/spa owners reported lower customer traffic in the third quarter, up from 23 percent in the second quarter.

Labor indicators were mixed in the third quarter, with salon/spa owners reporting a net increase in staffing levels but a decline in employee hours. Thirty-two percent of salon/spa owners said they added employees between the third quarters of 2010 and 2011, while 18 percent said they cut staffing levels.

In contrast, only 14 percent of salon/spa owners said they increased average employee hours between the third quarters of 2010 and 2011, while 20 percent said they cut employee hours.

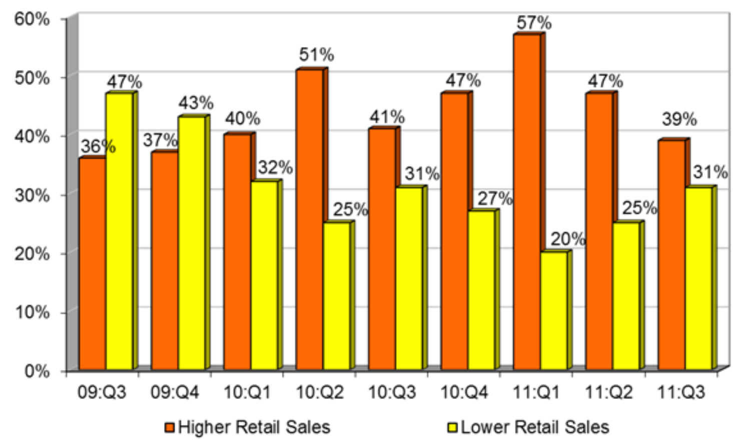
Salon/spa owners cut back on capital spending for the second consecutive quarter. Twenty-eight percent of salon/spa owners said they made a capital expenditure for equipment, expansion or remodeling in the third quarter, down from 31 percent in the second quarter and a record-high 43 percent in the first quarter of 2011.

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



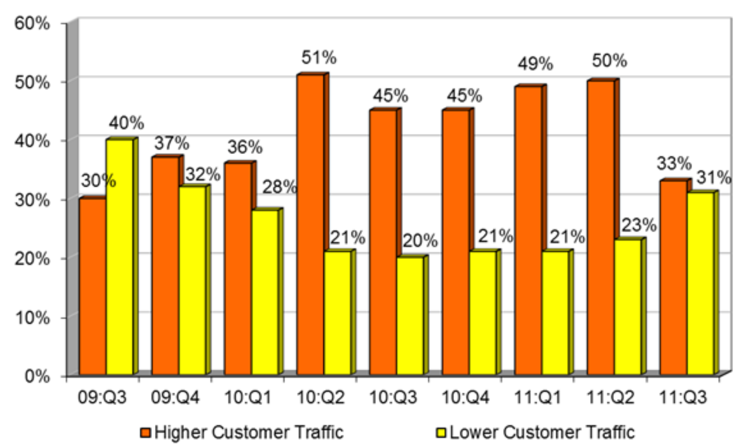
Source: Professional Beauty Association, Salon/Spa Tracking Survey

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 Declined for the Second Consecutive Quarter, as Salon/Spa Owners' Optimism about Industry Growth and the Economy Continued to Erode

Although salon/spa owners remain relatively optimistic about sales growth in the coming months, their outlook for overall economic conditions deteriorated significantly since the beginning of the year.

Salon/spa owners are less optimistic about growth in service sales 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), down 71 percent last quarter and the lowest level since the second quarter of 2009. Meanwhile, 12 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, up slightly from 7 percent who reported similarly last quarter.

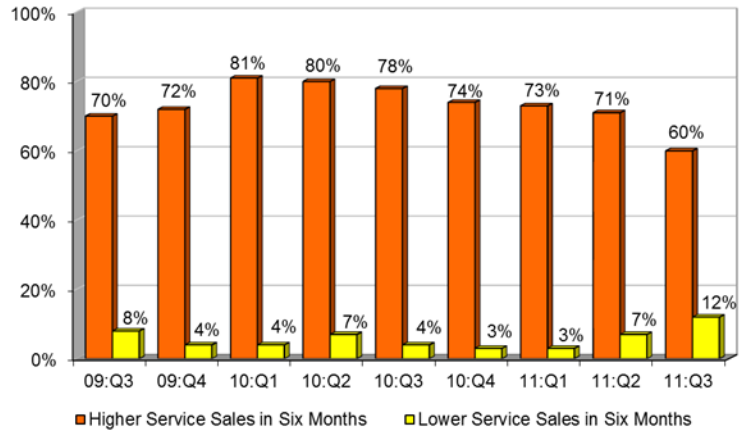
Similarly, salon/spa owners are slightly less optimistic about retail sales growth in the months ahead. Fifty-seven percent of salon/spa owners said they expect to have higher retail sales in six months (compared to the same period in the previous year), down from 63 percent who reported similarly last quarter. In comparison, 11 percent of salon/spa owners expect their retail sales to decline in six months (compared to the same period in the previous year), compared to 10 percent who reported similarly last quarter.

Meanwhile, salon/spa owners are decidedly less optimistic about the direction of the overall economy. Only 36 percent of salon/spa owners said they expect economic conditions to improve in six months, down sharply from 50 percent who reported similarly last quarter and the lowest level in the 11-quarter history of the *Salon/Spa Performance Index*. Twelve percent of salon/spa owners expect economic conditions to worsen in six months, up from 7 percent who reported similarly last quarter.

Despite the softer outlook for sales and the economy, a majority of salon/spa owners said they plan to expand staffing levels in the months ahead. Fifty-five 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 52 percent who responded similarly last quarter. Meanwhile, only 6 percent of salon/spa owners expect to reduce staffing levels in six months, compared to 4 percent who responded similarly last quarter.

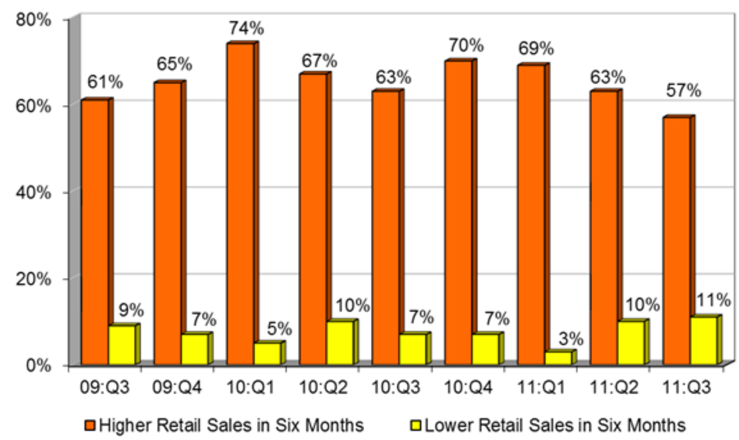
Salon/spa owners' outlook for capital spending activity continued to slide in the third quarter. Forty-three percent of salon/spa owners plan to make a capital expenditure for equipment, expansion or remodeling in the next six months, down from 47 percent last quarter and the third consecutive quarterly drop.

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



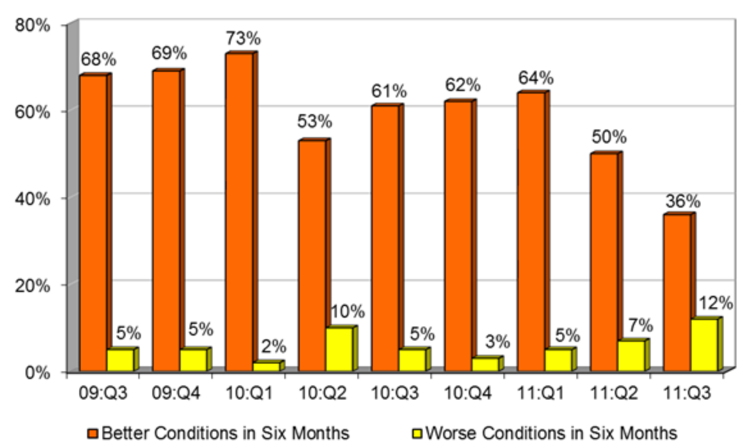
Source: Professional Beauty Association, Salon/Spa Tracking Survey

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

	Third Quarter 2010	Fourth Quarter 2010	First Quarter 2011	Second Quarter 2011	Third Quarter 2011	11:Q3 over 11:Q2
Salon/Spa Performance Index	103.3	103.5	104.0	103.0	101.9	-1.0%
Current Situation Index	101.3	101.6	102.5	101.5	100.3	-1.1%
Current Situation Indicators:						
Same-Store Service Sales	103.4	105.1	104.0	103.7	102.6	-1.1%
Same-Store Retail Sales	101.0	102.0	103.7	102.2	100.8	-1.4%
Customer Traffic	102.5	102.4	102.8	102.7	100.2	-2.4%
Labor	100.4	100.3	101.6	100.5	100.4	-0.1%
Capital Expenditures	99.2	98.4	100.6	98.2	97.6	-0.6%
Expectations Index	105.3	105.4	105.4	104.4	103.5	-0.9%
Expectations Indicators:						
Same-Store Service Sales	107.4	107.1	107.0	106.4	104.8	-1.5%
Same-Store Retail Sales	105.6	106.3	106.6	105.3	104.6	-0.7%
Staffing	105.7	104.6	105.1	104.8	104.9	0.1%
Capital Expenditures	102.4	103.2	102.6	101.4	100.6	-0.8%
Business Conditions	105.6	105.9	105.9	104.3	102.4	-1.8%

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