



Retailers & recessions

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Live Poll

What are the odds of an Australian recession in 2020?

- High (greater than 75% chance)
- Medium (less than 50% chance)
- Low (less than 25% chance)



Live Poll

If there was a recession, what is the likely impact on the fundamental value of retailing stocks?

- High (greater than 30% decline)
- Medium (greater than 10% decline)
- Low (less than 5% decline)









The Morningstar Time Machine Revisits Australia's Last Recession



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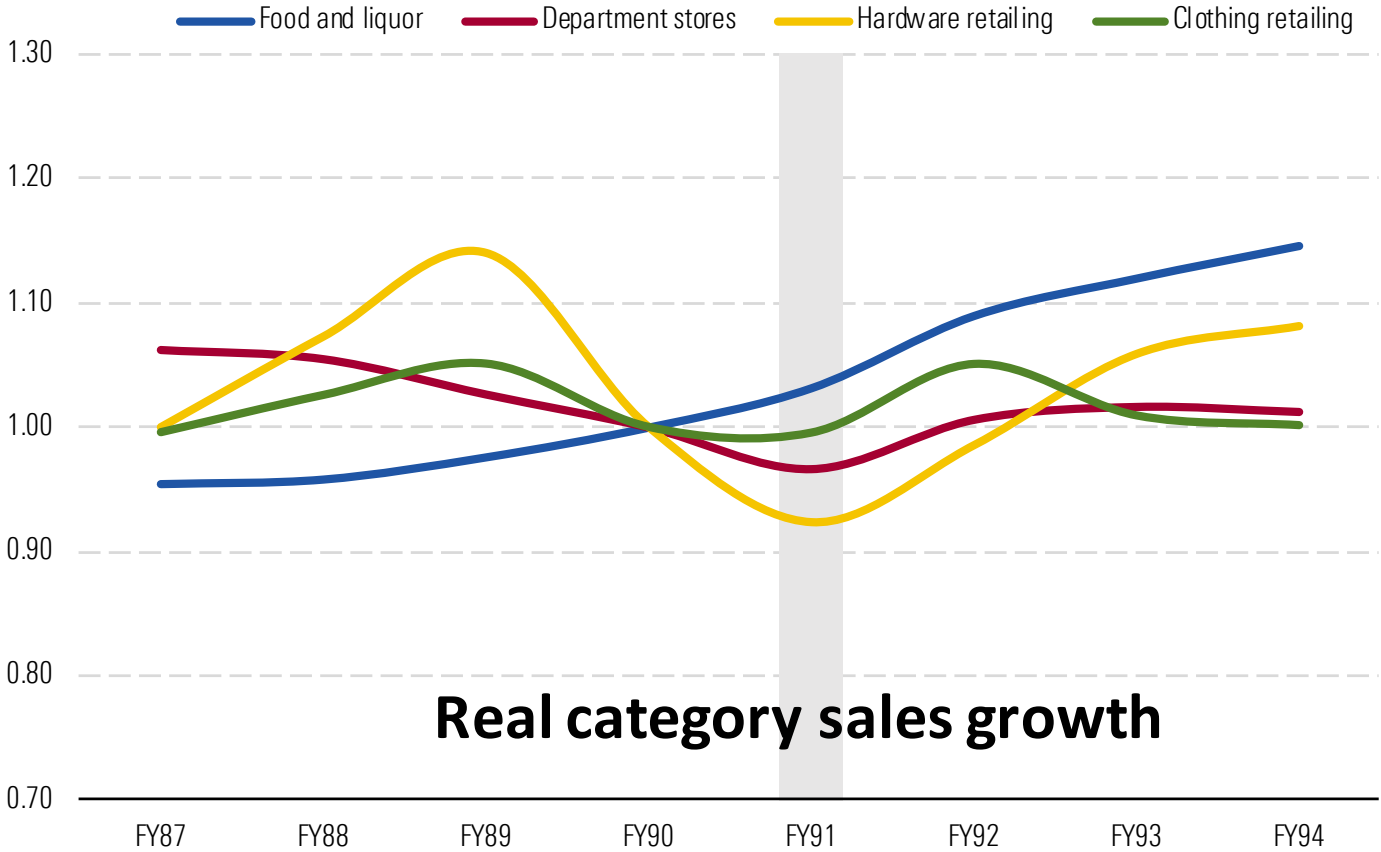
A Mixed Bag of Weak Income and Construction vs Strong Employment and Consumer Confidence

	Relative stage	Fiscal Year1990	Current
GDP growth		1.8%	1.9%
Inflation rate		7.5%	1.6%
Unemployment rate		6.7%	5.3%
Consumer confidence		84	112
Building approvals per capita		10.8	8.7
Household disposable income growth		1.6%	-0.2%

Source: Australian Bureau of Statistics, Roy Morgan, Morningstar estimates.

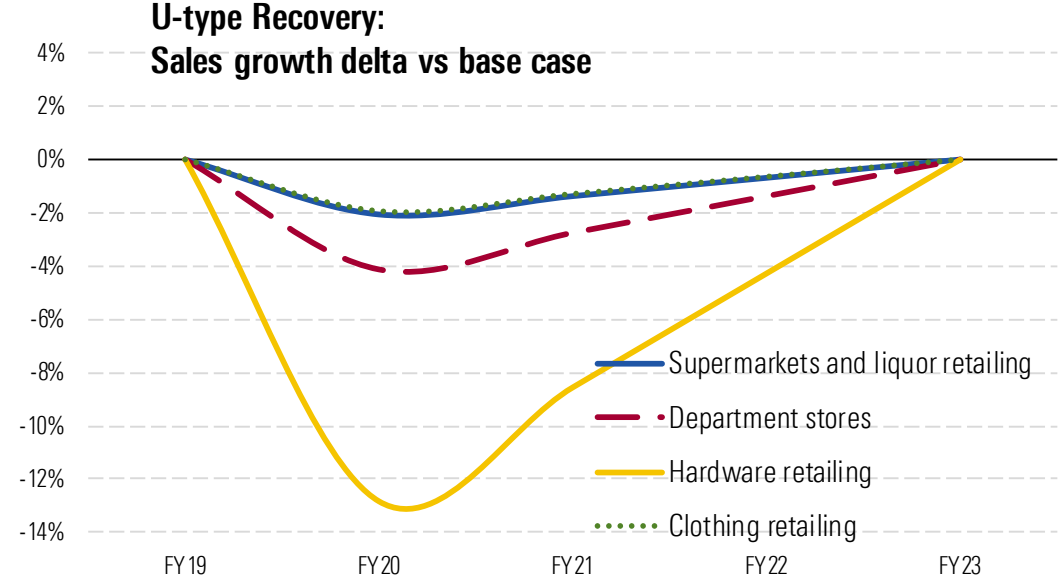
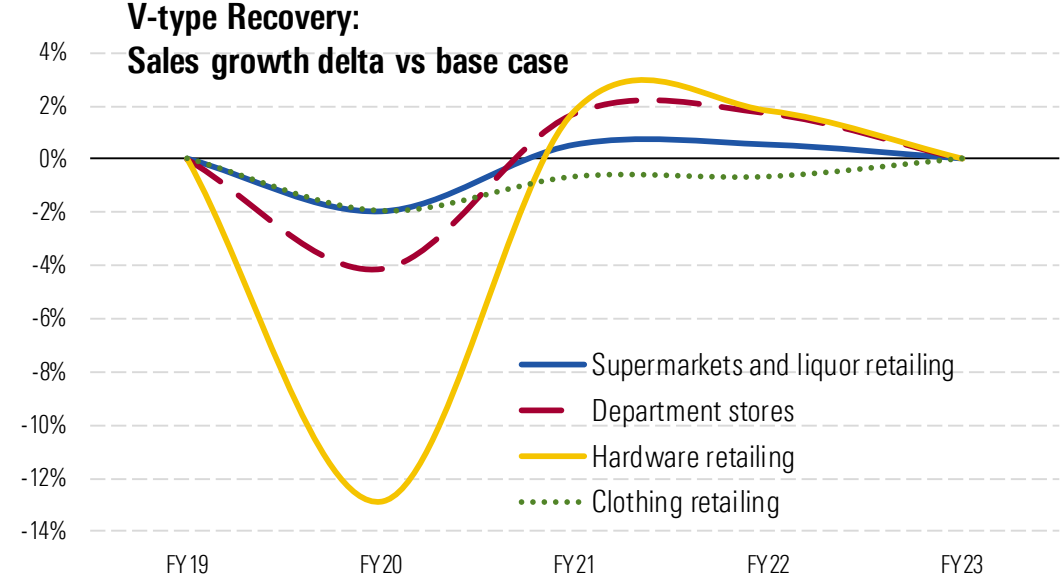
Notes: Household disposable income is before interest payments, including unincorporated enterprises, and deflated by CPI.

Highlighting the Defensiveness of Consumer Staples During an Economic Slowdown: Only Food and Liquor Sales Volumes Increased in 1991



Source: Australian Bureau of Statistics, Morningstar estimates.
 Notes: Fiscal 1990 is the base year.

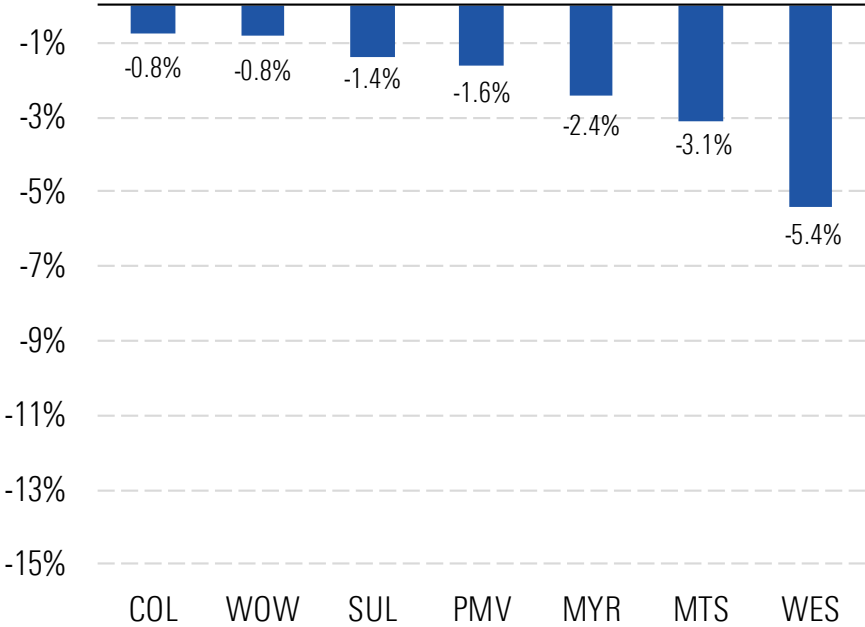
After 1991, the Australian Economy Bounced Back Quickly, But Prolonged U-Shaped Recoveries are Possible



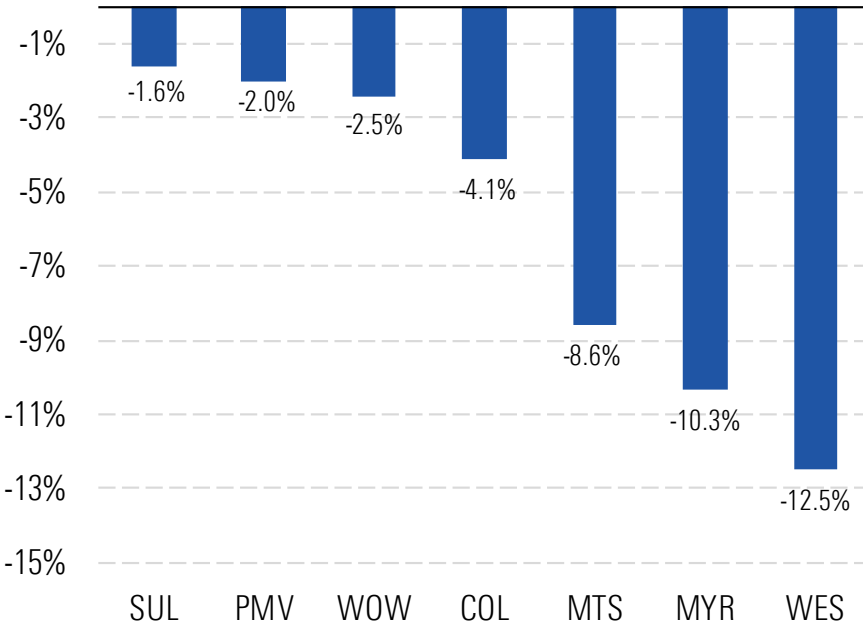
Source: Morningstar estimates.

A Recession Unlikely to Materially Impact Intrinsic Value of Most Leading Australian Retailers

■ Scenario 1 FVE vs base case (V-shaped recovery)



■ Scenario 2 FVE vs base case (U-shaped recovery)



Source: Morningstar estimates.

Not All Retailers Were Created Equal. There Were Winners Within Each Product Category

Retailers winning and losing share in fiscal 1991 to 1994	FY91	FY92	FY93	FY94
Company gained market share				
Company lost market share				
Food and liquor				
Coles	FY91	FY92	FY93	FY94
Woolworths	FY91	FY92	FY93	FY94
Department stores				
Myer and Grace Bros	FY91	FY92	FY93	FY94
Target	FY91	FY92	FY93	FY94
Kmart	FY91	FY92	FY93	FY94
BIG W	FY91	FY92	FY93	FY94
Hardware retailing				
Burns Philp Hardware (BBC)	FY91	FY92	FY93	FY94
Bunnings Building Supplies*	FY91	FY92	FY93	FY94
Clothing retailing				
Woolworths Specialty Retail**	FY91	FY92	FY93	FY94
Katies	FY91	FY92	FY93	FY94

Source: Australian Bureau of Statistics, company filings, Morningstar estimates.

Notes: *Bunnings fiscal 1993 and 1994 figures exclude McEwans (acquired in March 1993).

**Woolworths Specialty Retail Group includes women apparel's retailer Rockmans and consumer electronics retailer Dick Smith.

Guidelines to Successfully Navigate a Downturn

- Consumer staples are defensive investments: **Woolworths and Coles** benefitted from spending shifting towards groceries, in fiscal years 1989 to 1993. However, Aldi's could steal the show next time around.
- **Wesfarmers** isn't a defensive stock: Earnings of the hardware retailers were severely impacted in 1991.
- Cyclical earnings weakness could offer opportunities: But beware of weaker balance sheets such as **Myer's**.
- Seek exposure to category leaders: **Woolworths, JB Hi-Fi, and Super Retail.**