Shoppers make a return

But department stores remain out of favour

JANE HARPER
RETAIL

LOW interest rates and rising house prices helped convince shoppers to loosen the purse strings last year but the benefits will begin to tail off, researchers have warned.

Retail sales jumped 3.3 per cent in the year to June, adjusted for inflation, in the best year since 2008, according to the latest Deloitte Retail Forecasts report.

But Deloitte partner and report author David Rumbens warned that the past year was the "peak of the cycle" for retail, with lower sales growth forecast.

He said growth was expected to fall to 2.7 per cent this year, and 2.4 per cent in 2017.

Mr Rumbens said retailers could no longer simply rely on higher home prices to encourage spending.

"Housing momentum should see retail growth in both Victoria and New South Wales continue to perform well in 2016, though less reliance should be placed on wealth gains and rising housing activity to drive retail spending thereafter," he said.

Mr Rumbens said the decision by the Reserve Bank in May to lower the official cash rate to a record low 2 per cent had also given the retail sector a boost.

But he warned that retailers could be among the first to feel the impact of corrections in the property market.

"Unfortunately, low interest rates and the housing market won't be able to support retail spending forever.

"As housing risks take hold, retail spending may suffer some collateral damage.

"Extreme share market volatility over recent weeks won't help, both by undoing some of the wealth gains seen earlier, and in keeping consumer confidence in pessimism territory."

Mr Rumbens said a fall in retail sales during July was a reflection of the build-up of pressures.

But some retail categories had enjoyed a surge last year as consumers felt more confident.

"The recent strength of retail sales owes a lot to a continued boom in household goods retailing where growth has been running in double digits," he said.

"The good news is that household goods retailers have recently been joined by clothing retailers where sales growth has picked up considerably."

Food retailing was slower, the research said, while department stores — which have been struggling — continued to underperform.

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VILLAGE LOSES A LITTLE GLAMOUR

LEISURE

VILLAGE Roadshow shares have fallen after the group warned it would take a hit of about $20 million tied to a refinancing program at offshoot Village Roadshow Entertainment.

In a statement to investors yesterday, the film and theme park company said the "accounting loss" would be included in the group's results for the year to next June.

It comes after Village Roadshow Entertainment secured a new $US325 million ($458 million) debt package following a move to refinance its borrowings.

Village owns almost half of Village Roadshow Entertainment, which co-produces films with US studios including Warner Bros and Sony. It has plans to increase annual output from seven films to as many as 12.

The company said it had contributed $US15 million of so-called subordinated debt towards the package.

Subordinated debt ranks lower for repayment in the event a company is wound up.

Village said its contribution would need to be written off immediately under accounting rules, "despite the company's confidence in the underlying value of this ... investment".

Films produced by Village Roadshow Pictures — which is part of the entertainment division — include *The Lego Movie* and *The Great Gatsby*.

Village Roadshow, which is based in South Yarra, also owns the Village Cinemas chain as well as theme parks including Sea World.

The group's shares fell 3.6 per cent, closing at $6.71.

Leonardo DiCaprio, Carey Mulligan and Joel Edgerton in *The Great Gatsby*, a Warner Bros and Village Roadshow release.

Record tip on iPhone purchases

TECHNOLOGY

ADVANCE orders for the latest iPhone have been so strong that technology giant Apple expects to surpass last year's record, when it sold 10 million phones in the first weekend of sales.

Apple began taking pre-orders for the iPhone 6s and iPhone 6s Plus on Saturday.

The new models, which go on sale on September 25, have more memory and faster processors, along with a new 12-megapixel camera. The phones have not gone up in price, but last year's record-selling iPhone 6 and 6 Plus models will sell for $140 less.

"As many customers noticed, the online demand for iPhone 6s Plus has been exceptionally strong and exceeded our own forecasts for the pre-order period," Apple said.

"We are working to catch up as quickly as we can, and we will have iPhone 6s Plus as well as iPhone 6s units available at Apple retail stores when they open next Friday."

The iPhone is still Apple's most important product, making up two-thirds of the company's sales.

Content king for networks, but costly if you don't own it

THE SHORT CUT
with ANDREW MACKEN

ON page number lucky 13 of Seven West Media's 2015 annual report, the reasons for incurring a $2 billion impairment charge were succinctly articulated by chairman Kerry Stokes.

"This adjustment reflects revisions to our future growth forecasts, accounting for recent advertising market conditions, prominence of new entrants and changes in future cost assumptions," he said.

This statement perhaps sums up much of the free to air television space in Australia right now. The challenges for free to air distributors are essentially threefold: 1) television viewership in its traditional form is starting to wane, particularly among younger generations; 2) advertising demand on the medium is starting to wane in light of this; and 3) competition for content is driving up costs.

We can observe some of these headwinds in the recently filed annual results of Seven West Media.

Revenues were down four per cent in the year and substantially all of that decline related to advertising. Against these declining revenues, reported earnings before interest and tax were down nearly 13 per cent for the year.

Seven West Media also announced its participation in a new six year $2.5 billion AFL deal for seasons 2017 to 2022.

Consider that the existing five year deal that expires in 2016 was struck by the AFL at just $1.5 billion.

Even taking into account the different terms between the two, it appears pretty safe to conclude that the new amount reflects a significant increase in content costs. And therein lies the fundamental problem for all distributors of unowned content.

Popular content attracts the highest viewership and comes with the highest advertising demand. Yet this content naturally costs the most — and so the value ultimately accrues to the owner of the content, not the distributor.

And the playing field for content distribution has now been levelled thanks to the internet. Content distribution is slowly becoming a global game.

So local content distributors are now effectively competing with the likes of Netflix for the rights to distribute popular content in Australia.

These pressures are putting Seven West Media and the like in a very challenging position.

The temptation might be to save a buck on content to boost short term earnings, yet this would spell trouble down the track with respect to viewership and related advertising demand.

Seven West Media, to their credit, have not been afraid to buy distribution rights to universally popular content — namely rights to the AFL and the Rio Olympics.

This strategy will help preserve viewership and advertising revenue. But the same cannot be said necessarily for economic profitability.

Finally, as earnings decline, investors need to be weary of the financial leverage on the balance sheet of Seven West Media.

With total debt around $700 million, net of cash, this implies that for every one per cent fall in the value of the company's assets; the value in shareholder equity falls by about 1.7 per cent.

This helps us understand why the stock price has nearly halved since just the beginning of the year.

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