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10 riskiest industries for 2009 revealed

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James Thomson

Car retailing, investment banking, bricklaying and catering will be some of the industries most at risk during 2009, according to a new report by research company IBISWorld.

Richard Jeremiah, an industry analyst with IBISWorld, says the deteriorating state of the economy will put pressure on those sectors leveraged to big-ticket household items, such as cars, homes, international travel and construction.

Australia's beleaguered automotive industry looks set for another shocking year, with car dealers and tyre manufacturers at the top of IBISWorld's list.

"Anything to do with cars is bad," Jeremiah says. "Car dealers are going to see sales continue to fall, which means they are going to have a glut in the number of cars they are stuck with. That will lead to falling prices and falling profitability.

"You will see some dealers that will give up and pull out, and others that will put themselves up for sale. It will be very interesting to see what happens in that sector."

He expects to see mergers and acquisitions in many of the industries as companies try and band together to reduce overall costs.

"It might only be a few more basis points of margin, but that could be enough to survive."

Jeremiah says companies stuck in the at-risk industries must act quickly. "If you are in one of the industries, being honest about the state of your industry and your business is the first thing." He says managers must then immediately start taking decisions – such as trimming labour costs – in order to survive.

If you supply one of these industries, Jeremiah says it you should quickly review your customer base.

“It’s time to really cement those relationships you have with your customers, because the first thing they are going to do is look for a lower-cost supplier. Is there any way you can help them cut costs a little bit?”

He also says it is important not to panic. “Can your product be used by another industry? Can you look towards export markets? By being realistic about your position, businesses can identify opportunities in difficult times.”

Top 10 riskiest industries

Car retailing

The exit of the two largest car financiers (GE Money and GMAC) in December has left hundreds of dealers without financing, and facing the very real prospect of either closing or selling their business at a hugely discounted price. Add to that declining demand for new cars, which IBISWorld predicts will be down 5.3% by June 2009 with total revenue falling by more than 6%.

Tyre manufacturing

IBISWorld says weakening downstream demand from the car manufacturing industry on the back of falling discretionary spending and less credit will threaten the industry in 2009. Replacement tyres will suffer most as people put off changing tyres for as long as possible to either save the money or spend it on “essentials”. The industry also faces significant import competition from low-cost Asian countries, such as India, where production costs are around six times lower than in Australia.

Real estate agents

Despite falling interest rates and the enlarged first home owners’ grant, IBISWorld finds that Australians will, by and large, put off buying property in 2009. The result will be a serious drop in sales for real estate agents, with transaction values (and therefore agent’s fees and profit margins) also waning along with depreciating house prices. This financial year, industry revenue will be 7.5% lower than last year, and so far rate cuts haven’t resulted in higher auction clearance rates, particularly in Sydney and Melbourne.

International airlines

IBISWorld says an economic downturn in the key markets of the US, New Zealand, Japan, most of Europe and the accelerating slowdown in China will severely curb international travel to and from Australia in 2009, despite the low dollar. The global financial crisis is also putting a squeeze on business travel abroad, with forecast rises in jet fuel prices further compounding the industry’s woes.

Boatbuilding

With people not buying cars and delaying buying houses, it's no surprise that boatbuilding will suffer in 2009, with its major customer segment being cash-rich retirees and wealthy business people – many of whom have incurred significant losses on the sharemarket in the last 12 months.

Silver, lead and zinc ore mining

The end of the resources boom and plunging commodities prices are putting this sector at risk, with zinc and lead prices particularly hard hit in 2008. IBISWorld is predicting a 30% drop in revenue this financial year.

Investment banking and securities brokerage

With revenue forecast to decrease by 15% this financial year, the glory days of our banking sector have truly come to an end.

Bricklaying

A sharp reduction in dwelling approvals will reduce demand for bricklaying services, while competition and revenue volatility will remain high due to the sector's dependence on the construction cycle.

Catering and food service contractors

Much lower demand for catering services from the financial and resources industries will hit this sector hard, as well as poor demand for catering at sports and other major events as attendances fall in 2009.

Prawn fishing

Rising import competition and falling prices due to oversupply will affect this industry in 2009, as well as the fact seafood and prawns are viewed as discretionary items.

Others

Additional high-risk industries for 2009 will be; computer manufacturing, machine tool and part manufacturing, and tool and hardware manufacturing. IBISWorld says all of these are struggling against low-cost importers, fierce competition and a downturn in the construction cycle. Jewellery and watch retailers will also struggle since these are highly discretionary items.

Top 5 low-risk industries

Nursing homes

No matter what is happening in the global economy, people will still age and require care with demand outstripping supply over the short term in Australia.

Veterinary services

Looking after pets is an emotional expense, which means most people are willing to sacrifice something else to seek treatment for their pets during difficult times.

Diagnostic imaging services

This industry's services are largely required by the over-65s, so IBISWorld says the sector will benefit from our rapidly ageing population and remain largely independent of economic conditions.

Community health centres

In this sector competition is extremely low and government assistance is high, and growing, which insulates the industry against external variables to a large extent.

Residential property operators and developers

IBISWorld says poor housing affordability and high population growth will benefit the industry next year, along with government assistance in the form of rent assistance to low-income tenants.

Others

According to IBISWorld, other sectors which will be low risk in 2009 include childcare and cosmetics.