Data snapshot

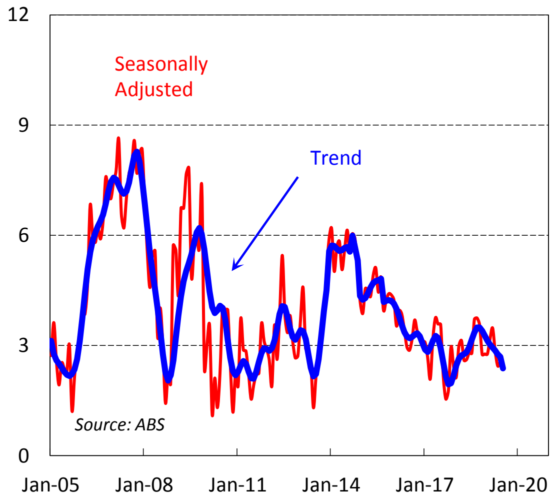
Tuesday, 3 September 2019

Retail Sales

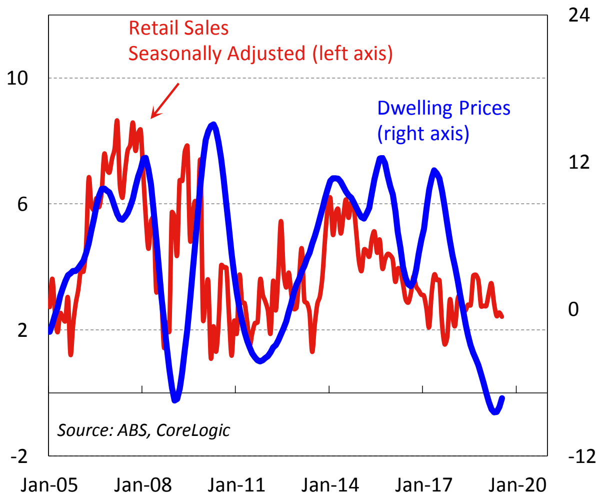
Consumers' Purse Strings Remain Tight

- **Retail sales fell by 0.1% in July, despite recent rate cuts and tax breaks. Consumers appear to be opting for a cautious approach to spending amid high levels of household debt and sluggish income growth. On an annual basis, the rate of retailing growth slowed to 2.4%.**
- **The decline in spending was relatively broad-based across the country. South Australia recorded the biggest fall among the states of -0.7% amid proposed changes to land tax rules and a pickup in unemployment. Western Australia was the only State to record an increase, building on last month's gain with a 0.9% rise. There were mixed results among the territories, with the ACT standing out with a 0.7% fall.**
- **Discretionary purchases were particularly soft in July. Spending on clothing and accessories (-1.4%), department store spending (-0.3%) and cafes, restaurants and takeaway (-0.7%) pulled back. Of the major categories, only food (0.3%) and household goods (0.1%) increased.**
- **Following the slight uplift in retailing in June, and the subsequent rate cut and tax breaks in July, there was some optimism that the tide of sluggish spending was beginning to abate. The latest result suggests that the retailing environment remains weak. Further evidence of the difficulties in the sector comes from David Jones' store rationalisation program announced last Friday.**
- **Looking ahead, the outlook for retail spending is less downbeat. Lower interest rates and increased tax rebates, which are still being paid out, along with improving house prices, should provide support over the second half of 2019. However, high household debt and weak wages growth remain headwinds.**

Nominal Retail Sales
(annual % change)



House Prices & Retail Sales
(annual % change)



Retail sales fell by 0.1% in July, despite a rate cut and tax relief during the month. Consumers appear to be opting for a cautious approach to spending amid high levels of household debt and sluggish income growth. The latest fall was the first since April.

On a year-on-year basis the rate of growth slowed to 2.4% following 2.5% growth recorded in June. In trend terms, annual retail sales growth was also 2.4%, which is the slowest since December 2017.

Discretionary purchases remained quite soft. There was a reversal of last month's gain in clothing and accessories outlays (-1.4%) and spending at department stores (-0.3%) continued to fall, registering the third consecutive month of decline. Highlighting the difficulties faced by companies in the sector, David Jones announced on Friday that it would begin closing some of its 47 Australian outlets.

Spending on eating out at restaurants and cafes fell 0.7% in the month while food spending rose 0.3% and household goods purchases rose 0.2%. The 'other' category of retailing saw a 0.5% decline, led by reduced sales of recreational goods.

The decline in spending was relatively broad-based across the country. South Australia recorded the biggest fall among the states of -0.7% amid proposed changes to land tax rules and a pickup in unemployment. Western Australia was the only State to record an increase, building on last month's gain with a 0.9% rise. Queensland (-0.4%), NSW (-0.2%) and Victoria (-0.1%) all reversed last month's gains while Tasmania recorded no change in retail spending in July.

There were mixed results among the territories. The ACT recorded a fall of 0.7%, while the Northern Territory saw a 0.2% gain.

Following the slight uplift in retailing in June, and the subsequent rate cut and tax breaks in July, there was some optimism that the tide of sluggish spending was beginning to abate. The latest result suggests that the retailing environment remains weak. Consumers appear to be using their increased disposable incomes to repair their balance sheets following an erosion of household savings rates in recent years.

Outlook

The outlook for retail spending over the second half of 2019 is more upbeat, albeit modest. Lower interest rates and increased tax rebates, which are still being paid out, along with further signs of a recovery in house prices in Sydney and Melbourne will provide support. However, only a muted pickup in growth is likely. High levels of household debt and persistent slow wages growth remain major drags on the sector.

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