Data Snapshot

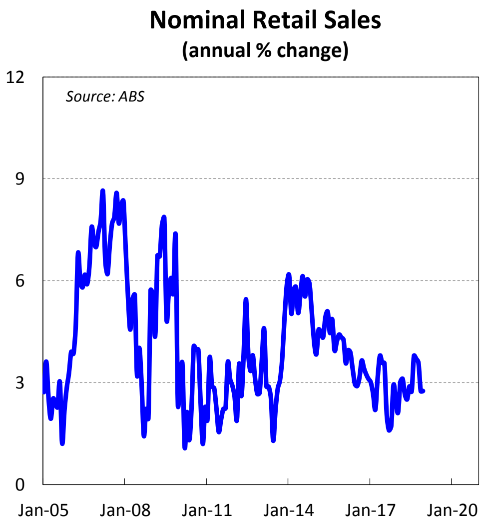
Tuesday, 5 February 2019

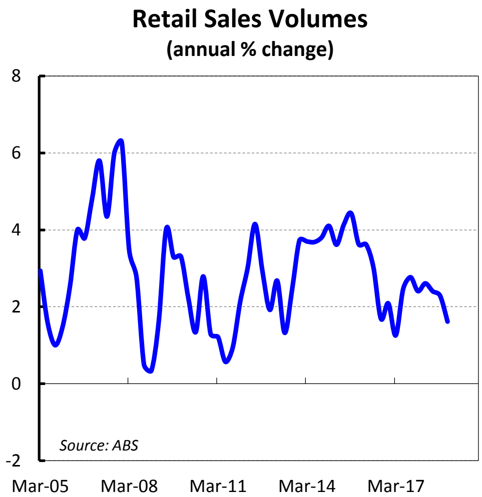
Bank of Melbourne

Retail Sales

Retailing Woes Widen

- **Consumers crawled into their shells as 2018 drew to a close, suggesting conditions in retailing have taken a turn for the worse. Further, it follows a string of weak domestic economic data.**
- **Retail spending values in December fell 0.4%, which is the biggest decline since the previous December, and left the annual growth rate below the long-run average and steady at 2.8%.**
- **Retail sales volumes in the December quarter only rose by 0.1% and annual growth stepped down to 1.6% in the December quarter - the softest annual pace in nearly two years. This data suggests consumption will be weak in the GDP data for the December quarter.**
- **Consumers are grappling with weak wages growth, falling dwelling prices and high household debt. The combination leaves consumer spending fragile in the year ahead.**
- **Some of the fall in December could be attributed to seasonal factors, given sales are starting earlier in October-November. However, even leaving aside potential seasonal-adjustment issues, retailing was undeniably weak in December.**
- **The recent decision by shopping mall giant Vicinity (owns flagship centres such as Victoria's Chadstone Shopping Centre) to drop the value of its shopping centres highlights the woes facing retailers and retailing landlords. Falls in shopping-centre values are historically quite rare, but retail values appear to be falling for the first time since the GFC. Today's data suggests these woes will continue.**
- **Amid this weaker economic backdrop, financial markets are likely to continue to lift the pricing of the next move from the RBA being a rate cut. This is a sharp shift from just a few months ago when the market was placed for the next move eventually being a rate hike.**





Value of Retail Sales

Consumers crawled into their shells as 2018 drew to a close, suggesting conditions in retailing have taken a turn for the worse. Retail spending in December fell 0.4%, which is the biggest fall since the previous December, and left the annual growth rate steady at 2.8%. This annual pace remains well under the long-run average of 3.7%, indicating that retailing is subdued.

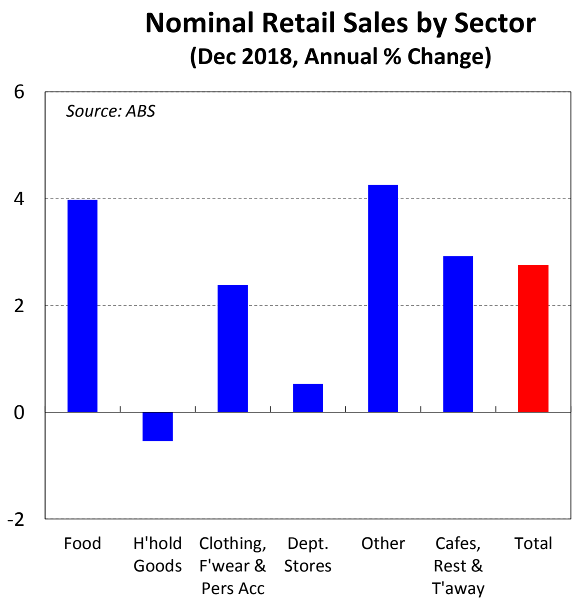
Consumers are grappling with weak wages growth, falling dwelling prices and high household debt. The combination leaves growth in consumer spending fragile in the year ahead.

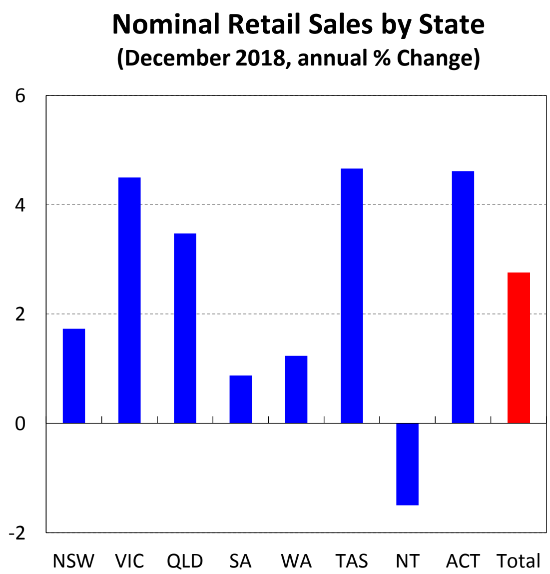
Some of the fall in December could be attributed to seasonal factors, as sales are starting early in October-November. The last two years has seen a pattern of strong gains in the October-November period only to be followed by a contraction in December; this trend has been prevalent in previous years, but not as strong.

However, even leaving aside potential seasonal-adjustment issues, retailing was undeniably weak in December. Today's trade data indicated a sharp fall in the import of consumption-goods in December and the AiG's performance of services index retailing component was weak. Both of these other data releases suggest retail-spending growth will remain subdued in the near term.

In terms of **sectors**, the declines were greatest in household-goods retailing (-2.8% in December), clothing, footwear & personal accessories (-2.4%) and department-store sales (-1.1%). Other retailing also fell, by 0.1%. The categories that rose in the month were food (+0.5%) and cafes, restaurants & takeaway food services (+1.1%).

On an annual basis, most categories still recorded growth. The exception was household-goods retailing, which fell by 0.5% in 2018. And in the month, the size of the fall in this segment was the largest since 2012.





The declines were broad-based with all **States and territories** recording declines in retailing in December except for WA (+0.1%).

ACT (-1.8%) and NSW (-0.6%) led the declines in December, followed by Victoria (-0.5%). The downturn in dwelling prices is deepest in NSW and Victoria. NSW and Victorian consumers must invariably be feeling the pinch from the drop in house prices.

NSW annual retailing growth of 1.7% in December is now at its slowest since June 2013. Victoria's annual pace slowed to 4.5% in December, but is only the weakest since May 2018, as strong population growth in Victoria has provided some support.

In other States and territories, on an annual basis, growth was 3.5% in QLD, 0.9% in SA, 1.2% in WA, 4.7% in Tasmania. Retail sales in NT fell 1.5% in the year to December 2018, as the unwinding of the mining investment boom (centred on LNG) continues to bite.

Volumes of Retail Sales

Retail sales adjusted for inflation (i.e. real retail sales) rose just 0.1% in the December quarter. The annual growth rate stepped down from 2.3% in the September quarter to 1.6% in the December quarter, which is the softest annual rate in nearly two years.

Growth in the quarter was only recorded in clothing, footwear & personal accessories (+2.7%) and department-stores retailing (+0.7%). Other categories recorded declines with the biggest falls occurring in other retailing (-0.5%) and cafes, restaurants & takeaway services (-0.5%).

Implications

There has been a string of subdued data on economic activity over the past month. The quarterly real retail sales data suggests consumption will be weak in the GDP data for the December quarter.

The wealth effect from the deepening downturn in housing combined with weak wages growth and high household debt is hurting the consumer. Job gains are still firm, as is population growth, giving some support to the outlook for retailing.

The recent decision by shopping mall giant Vicinity (owns flagship centres such as Victoria's Chadstone Shopping Centre) to drop the value of its shopping centres highlights the woes facing retailers and retailing landlords. Falls in shopping-centre values are historically quite rare, but retail values appear to be falling for the first time since the GFC. Today's data suggests these woes will continue.

Slower retail sales growth is placing income security and thus values for some centres under pressure, particularly at high occupancy costs. Strong investor activity in recent years had driven property yields down to record lows, but with the lower income security and lack of potential income growth in the weaker retail environment these yields are now being re rated upwards (and values down).

Amid this weaker economic backdrop, financial markets are likely to continue to lift the pricing of the next move from the RBA being a rate cut. This is a sharp shift from just a few months ago when the market was placed for the next move eventually being a rate hike.

Besa Deda, Chief Economist
Ph: 02-8254-3251

Contact Listing

Chief Economist	Senior Economist	Senior Economist
Besa Deda	Josephine Horton	Janu Chan
dedab@bankofmelbourne.com.au	hortonj@bankofmelbourne.com.au	chanj@bankofmelbourne.com.au
(02) 8254 3251	(02) 8253 6696	(02) 8253 0898