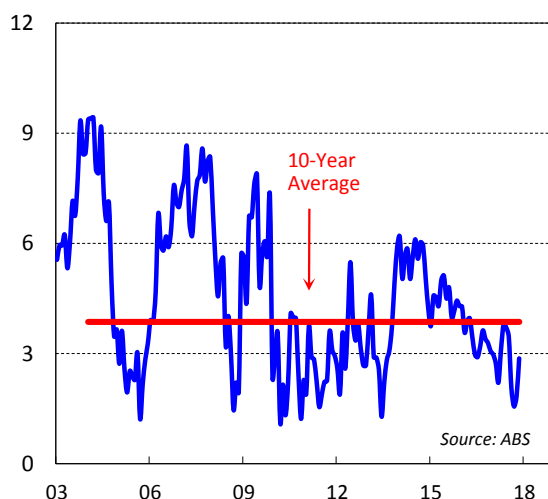


## Retail Sales

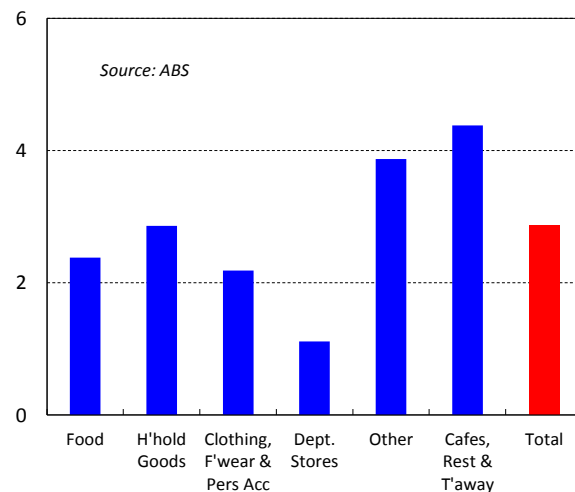
### I Want the New iPhone

- Retail sales jumped 1.2% in November, well above expectations of 0.4%. The spike extends the improvement over recent months and is suggesting a substantial improvement in consumer spending in the lead up to Christmas after a very weak September quarter.
- The annual rate of growth picked up from 1.8% in October to 2.9% in November, which was the strongest pace in four months. However, this pace of growth is still well below the 10-year average of 3.9%.
- The ABS has indicated that sales of the new iPhone X and Black Friday sales have had an impact, which suggests some temporary strength. Indeed, electrical & electronic goods retailing jumped 9.3% in the month, while other retailing and retailing in clothing, footwear & personal accessories also rose strongly.
- There was solid growth across most States and Territories. Victoria and Tasmania had the strongest retailing growth of all States, where housing markets have held up relatively well of late.
- The one-off factors suggest that the spike over November will not be sustainable. Given wage growth remains subdued and household debt levels continue to rise, it is difficult to fathom retail spending growth substantially stronger than 3 percent annually. Nonetheless, there are some positive factors providing support to spending, most notably the improvement in the labour market. On balance, we expect consumer spending to grow at a moderate rate in coming months.

**Retail Sales**  
(Annual % Change)



**Retail Sales by Sector**  
(% Change, Year to November 2017)



Retail sales jumped 1.2% in November, well above our estimate and the consensus of 0.4%. The spike extends the improvement over recent months and is suggesting a substantial improvement in consumer spending in the lead up to Christmas after a very weak September quarter.

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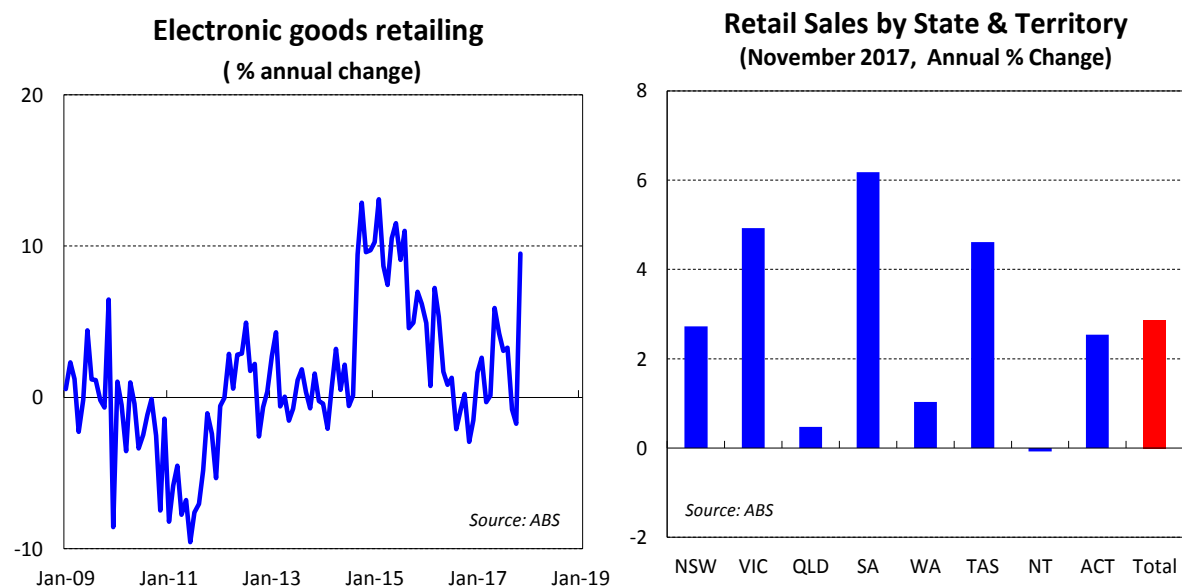
#### - By Sector

The ABS has highlighted that the sales of iPhone x drove the increase in November. Household good retailing rose 4.5% in November, and within this category, electrical & electronic goods retailing jumped 9.3%.

Other retailing (2.2%) and retailing in clothing, footwear & personal accessories (1.6%) appear to have benefited from an increasing number of Black Friday sales promotions in November.

Among other categories, cafés, restaurants & takeaway rose a moderate 0.4% in November, food retailing was flat, while department store sales (-1.1%) declined.

On an annual basis, cafes, restaurants & takeaway continued to be the strongest of all categories, rising 4.4%. Other discretionary areas of spending saw annual growth rates improve including other retailing (3.9%), clothing, footwear & personal accessories (2.2%), and household good retailing (2.9%). The exception was department store sales which grew at an annual rate of just 1.1%. Food retailing grew at a modest annual pace of 2.4%.



#### - By States and Territories

There was strength across most States and Territories. Victoria (1.8%) and Tasmania (1.8%) had the strongest retailing growth of all States, where housing markets have held up relatively well of late. Western Australia (1.4%) saw an encouraging rebound, suggesting some recovery after the dampening impact of the mining investment downturn. There was firm growth in the ACT (1.2%), NSW (1.0%) and Queensland (0.7%). Retailing in the Northern Territory (0.2%) was weakest in the month.

On an annual basis, South Australia (6.2%) and Victoria (4.9%) led the way and were the only States with growth above their long-run averages. NSW (2.7%) and the ACT (2.5%) saw more modest growth. Annual growth in retailing in Western Australia (1.0%) and Queensland (0.5%) remain weak but improved from a contraction in the previous month. The Northern Territory (-0.1%) was the only State or territory with annual growth in contraction.

### **Outlook**

The strong increase in November reflects some one-off factors. The ABS has indicated that sales of the new iPhone X and Black Friday sales have had an impact. Additionally, the month's strong growth might reflect some catch up for an extremely disappointing September quarter.

These one-off factors suggest that the strength of spending over November will not be sustainable. Indeed, it is difficult to fathom retail spending growth substantially stronger than 3 percent annually. Given wage growth remains subdued, much stronger growth in consumer spending would likely require an increase in debt levels. We do not believe households have a strong appetite to increase borrowing for consumption, nor would this be ideal over the long-term given household debt levels are already at lofty levels.

Nonetheless, there are some positive factors providing support to spending, most notably the improvement in the labour market. That suggests in aggregate, more Australians will be employed and able to increase spending, despite wages not growing substantially. A recent lift in consumer sentiment also adds to encouraging evidence that consumer spending may not be as weak as previously feared.

On balance, we expect consumer spending to grow at a moderate rate in coming months.

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