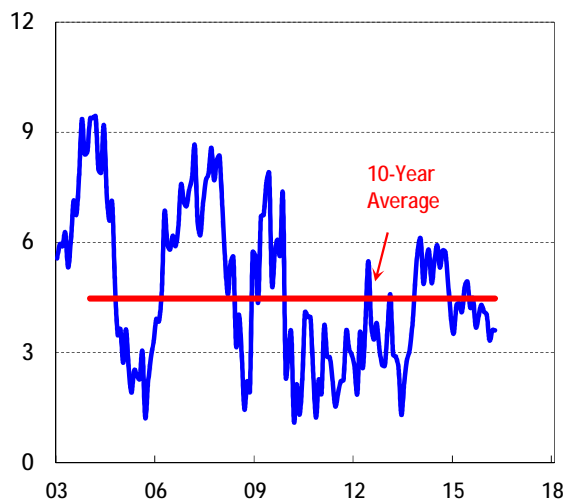


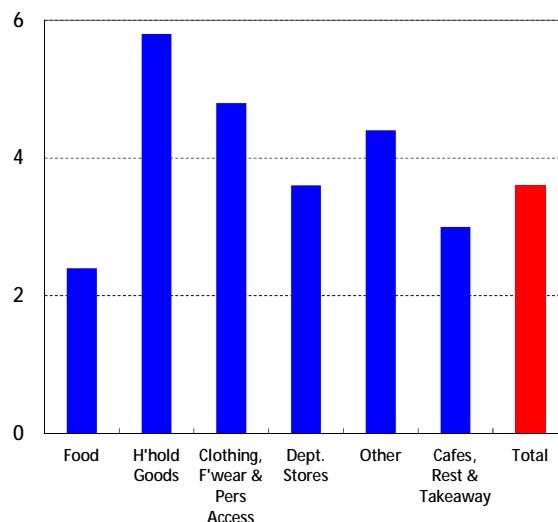
Retail Sales Annual Growth Well Above Inflation.

- Retail sales rose 0.2% in April and were up 3.6% over the year. At face value, today's result looks weak – especially when compared against a ten year average annual growth rate of 4.5%. However, noting that inflation is currently running at 1.3% compared to a ten year average of 2.6% - the retail sales result looks better.
- In annual terms, growth in retail sales was strongest in the ACT (6.8%), Tasmania (5.8%) and NSW (5.0%). Each of these States or Territories has reported sales in excess of their long term averages. Victoria (4.3%) has seen retail sales growth fall below its long term average as has South Australia (3.4%). The weakest outcomes were in the 'mining' States. Western Australia (2.0%), the Northern Territory (1.6%) and Queensland (1.2%) all saw annual growth well below their long run averages.
- All major retail sectors except food (-0.3%) saw growth in the month of April. The decline in sales within the food sector may reflect competition among the major players and subsequent price discounting. It was only the second time in ten months that the value of food sales had declined.
- In our view, low inflation and modest domestic demand leave room for a further rate cut by the RBA. Further data on jobs growth, retail spending, business investment and inflation would assist the RBA in determining their next move. We expect a rate cut in August but it is not a foregone conclusion.

Retail Sales
(Annual % Change)



Retail Sales by Sector
(% Change, Year to April 2016)



Retail Sales

Retail sales rose 0.2% in April and were up 3.6% over the year. Given weakness in consumer prices, the result was not totally surprising but it was a touch weaker than forecast.

At face value, today's result looks weak – especially when compared against a ten year average annual growth rate of 4.5%. However, noting that inflation is currently running at 1.3% compared to a ten year average of 2.6% - the result looks better. In real terms (after adjusting for inflation) retail spending continues to grow moderately. Annual growth in retail spending remains above the pace of inflation, suggesting that this portion of domestic demand continues to expand.

- By State and Territory

There was considerable divergence in the pace of retail spending across the States and Territories. Tasmania (1.0%), the ACT (0.9%), the Northern Territory (0.7%) and Western Australia (0.6%) saw firm sales growth in April. South Australia (0.5%) had one of the stronger outcomes for April racking up its ninth successive month of growth. At 0.3%, NSW also reported its ninth consecutive month of sales growth. Victoria (-0.3%) saw its first decline following three months of positive growth. Sales were also weaker in Queensland (-0.1%) which followed a small, 0.1% rise in March.

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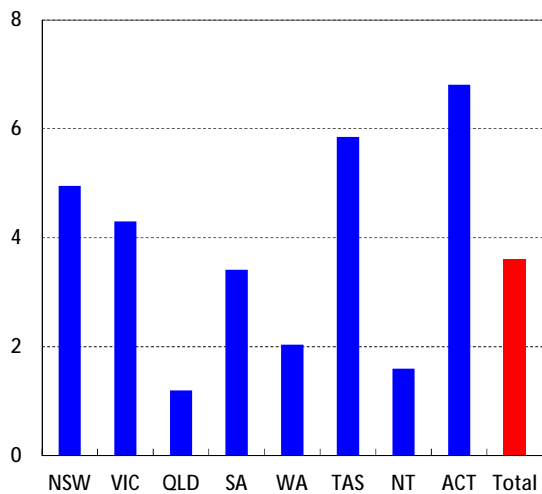
- By Sector

All major retail sectors except food (-0.3%) saw growth in the month of April. The decline in sales within the food sector may reflect competition among the major players and subsequent price discounting. It was only the second time in ten months that the value of food sales had declined. Sales were strong in cafes, restaurants & takeaways (1.0%) and firm in clothing, footwear & personal accessories (0.5%). The household goods sector (0.3%) saw modest growth but sales have risen for the past four months.

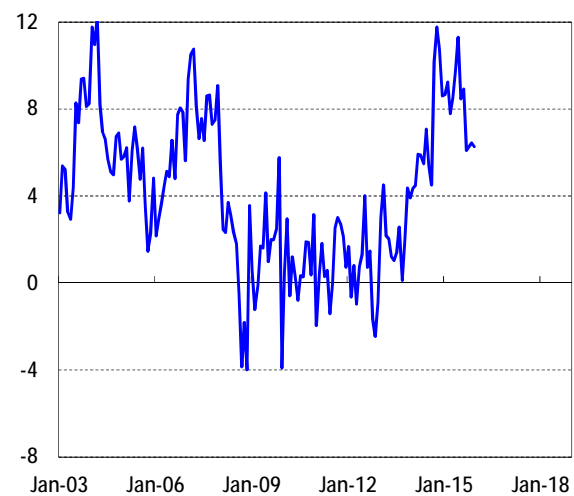
A better 'feel' for the bigger picture is achieved by examining the annual rates of growth. A strong housing sector has seen the household goods retailing sector achieve 5.8% growth in sales over the year. This is down from the double digit growth seen in June 2015 but still respectable.

Clothing, footwear & personal accessories saw sales growth of 4.8% over the year to April while department stores had growth of 3.6%. Food sales were up 2.4% over the year, a touch below that of cafes, restaurants and takeaways at 3.0%. This was a far cry from the double digit growth seen for cafes, restaurants and takeaways through most of 2014.

Retail Sales by State
(April 2016, annual % change)



Household Goods Retailing
(annual % change)



Outlook & Implications

The April monthly retail sales result looks modest at first glance but has a downward bias flowing from discounting and weak prices. A return to more rapid growth may be difficult to achieve. Wages growth remains soft and population growth is lower than in previous years. That said, sales volumes should remain reasonable. Differences among the States and Territories will remain as long as their underlying growth rates and broader levels of activity differ.

In our view, low inflation and modest domestic demand leave room for a further rate cut by the RBA. Further data on jobs growth, retail spending, business investment and inflation would assist the RBA in determining their next move. We expect a rate cut in August but it is not a foregone conclusion.

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The Detail

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