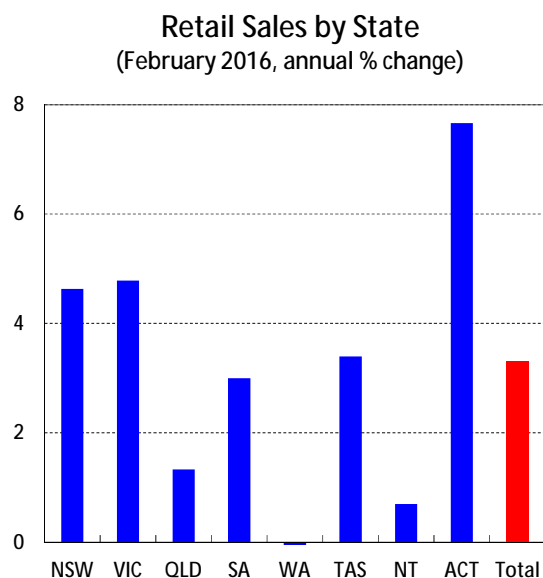
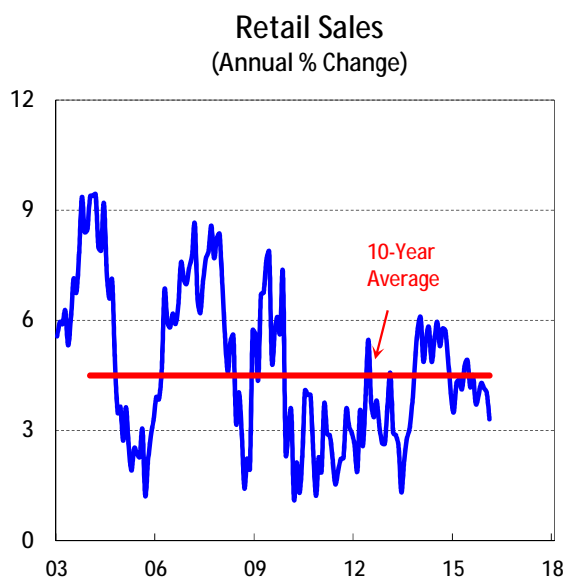


## Retail Sales & Building Approvals

### Shopping Stalls. Approvals Advance.

- Retail sales were flat in February and up only 3.3% over the year. Annual growth of 3.3% in retail sales is below the 4.5% ten year average, but still represents an expansion in spending. Consumer spending should still make a positive contribution to growth in the March quarter national accounts.
- Retail spending (excluding food) rose 4.0% over the year. Perhaps the nation has gone on a diet. Low interest rates, jobs growth and a further dip in the savings rate should keep retail growing but not at a pace that is likely excite the retail sector.
- Building approvals rose 3.1% in February following a 6.6% decline in January. Despite the lift in February, approvals for the month (18,252) were down 12.1% from a peak of 20,774 in March 2015, and also 9.0% lower over the year.
- Demand for housing has fallen from its 2015 peak but remains firm compared to activity over the past 30 years. The surge in housing approvals during 2015 was the strongest on record and activity appears set to fall to more normal levels. That said, forecasts of housing oversupply in all capital cities except Sydney are emerging. We expect that low interest rates and a rising population will continue to provide support to housing construction but dwelling investment will have less of a favourable impact on economic growth over the year ahead.



## Retail Sales

Retail sales were flat in February and up only 3.3% over the year. The result was below our expectations and those of the market. Annual growth of 3.3% in retail sales is below the 4.5% ten year average, but still represents an expansion in spending. Consumer spending should make a positive contribution to growth in the March quarter national accounts.

Many factors influence retail spending. Positive factors currently include solid growth in employment, low interest rates and relatively strong activity in the housing sector. Working in the opposite direction during the first two months of the year, were financial market volatility and weak growth in wages. Australians have recently reduced their rate of saving to support consumption.

### - By Sector

Sales during February were relatively firm in household goods (0.4%) and department stores (0.4%) but soft or negative in clothing, footwear & personal accessories (0.1%), food (0.0%) and cafes, restaurants & takeaway (-0.2%).

Annual rates of growth in retailing provide a better 'handle' on how each segment is traveling. Despite the soft annual rate of retail sales growth, some sectors continue to perform well. Strength in the housing sector of the economy has seen better retail sales in household goods (4.4%) although this pace is well down on the 11.3% annual growth seen in June 2015. Department stores saw 7.0% growth in the year to February while sales of clothing, footwear & personal accessories are up 6.5% on a year ago. The weaker sectors were cafes, restaurants & takeaway (1.8%) and food (2.3%). Retail spending (excluding food) rose 4.0% over the year. Perhaps the nation has gone on a diet.

### - By State and Territory

Retail spending outcomes by State and Territory were mixed in February. Sales rose in the ACT (1.0%), Victoria (0.4%), South Australia (0.3%) and NSW (0.2%), but fell in the Northern Territory (-1.6%), Western Australia (-0.6%) and Queensland (-0.4%).

In annual terms, growth in retail sales remains strongest in the ACT (7.7%) with Victoria in second place at 4.8% and NSW third at 4.6%. Sales grew 3.4% over the year in Tasmania and by 3.0% in South Australia. Annual sales were very soft in Queensland at 1.3% and the Northern Territory (0.7%) and they contracted in Western Australia (-0.2%). Well publicised slowdowns in investment activity and population growth in the resource rich States of Western Australia and Queensland are being felt in the retail sphere while the low AUD and solid infrastructure spending appear to be giving the ACT, NSW and Victoria a boost.

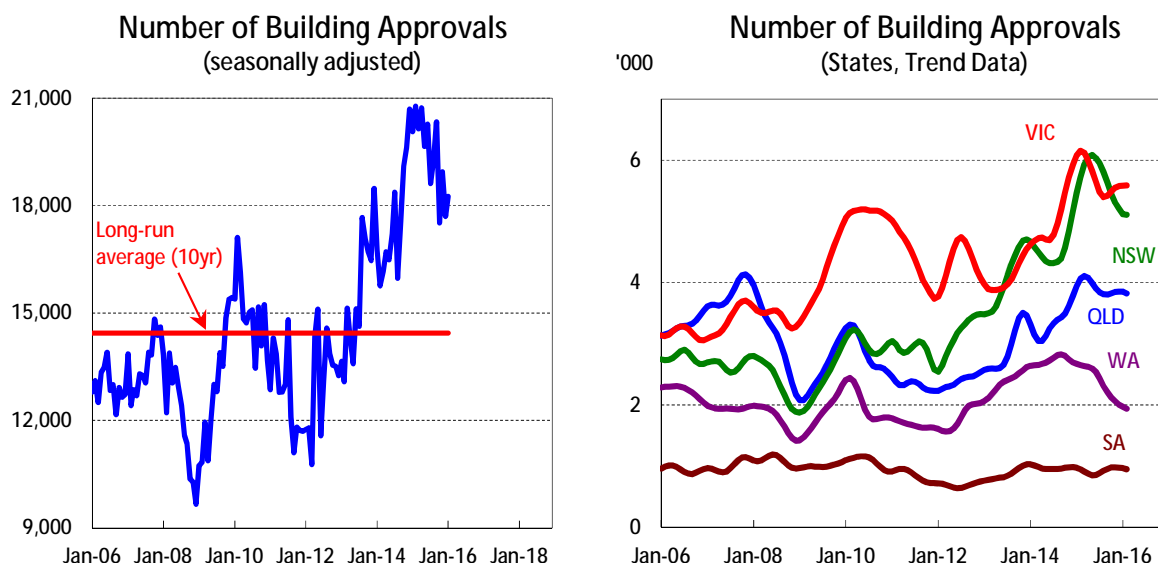
Low interest rates, jobs growth and a further dip in the savings rate should keep retail growing but not at a pace that is likely excite the retail sector.

## Building Approvals

Building approvals rose 3.1% in February following a 6.6% decline in January. Despite the lift in February, approvals for the month (18,252) were down 12.1% from a peak of 20,774 in March 2015, and also 9.0% lower over the year. A downward trend has emerged over the past year. This suggests that the contribution to economic growth from dwelling investment will be limited over the coming year.

Building approvals, however, remain at an elevated level, and above their long-run average.

Residential construction is still being supported by firm demand for housing and low interest rates. The improvement in February was driven by apartments (up 7.7%) as the number of houses approved fell 1.0%. Over the year, the number of apartments approved has fallen 12.3% while house approvals are down 5.6%.



### By State

The rise in approvals in February was driven by NSW where approvals rose 14.3% - but this did follow a 19.7% decline in January. Victorian approvals declined (-12.8%) for the first time in three months while South Australia (-10.9%) and Western Australia (-7.6%) also saw declines. Queensland (9.5%) and Tasmania (24.5%) joined NSW in reporting increases in the month. Monthly State figures are highly volatile and the trend annual data (see chart above) provides the best feel for the data over time.

On a trend annual basis, approvals were down in all States but rose in the ACT (22.7%). The largest trend declines were in Western Australia (-27.0%) followed by NSW (-10.6%) and Victoria (-9.2%). The declines in South Australia (-0.2%), Queensland (-6.1%) and the Northern Territory (-4.4%) were more modest.

### Outlook

Demand for housing has fallen from its 2015 peak but remains firm compared to activity over the past 30 years. The surge in housing approvals during 2015 was the strongest on record and activity appears set to fall to more normal levels. That said, forecasts of housing oversupply in all capital cities except Sydney are emerging. We expect that low interest rates and a rising population will continue to provide support to housing construction but dwelling investment will have less of a favourable impact on economic growth over the year ahead.

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