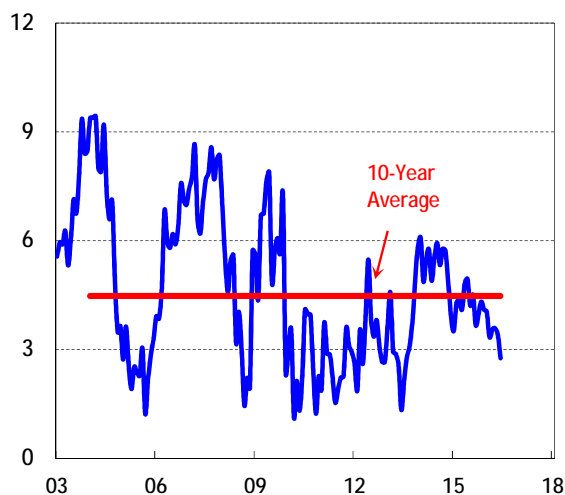


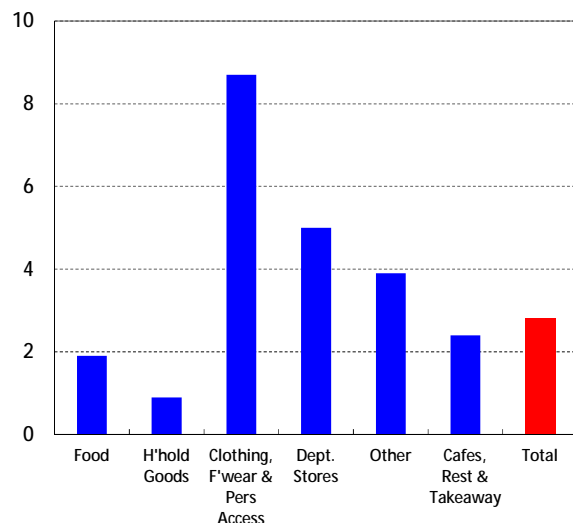
## Retail Sales Struggling To Gain Traction

- Retail sales rose just 0.1% in June following a soft 0.2% result in May. For the year to June, sales rose 2.8%, well below the long run average of 4.5%, and down on the 3.4% sales growth seen in the year to May. In annual terms, this was the weakest growth since July 2013.
- When excluding the impact of prices, retail spending does not look as quite problematic. Spending volumes rose a modest 0.4% in the June quarter, but this was still the weakest quarterly growth in two years. The annual pace of growth at 1.9% was the weakest in three years.
- In annual terms, growth in retail sales was strongest in Tasmania (4.7%) which has seen growth in its population and in tourism. Victoria (4.0%), the ACT (3.8%) and NSW (3.3%), where housing and other construction activity has been strong, also saw relatively firm retail spending. The picture was softer in South Australia (3.1%), Queensland (1.5%), Western Australia (0.5%) and while in the Northern Territory, sales fell 1.3% over the year.
- Can we look forward to an upturn in retail spending? The RBA's rate cut, with possibly more to come, may help as would a pick-up in jobs. Support from higher wages seems unlikely anytime soon. Ongoing population growth in the larger States will boost demand but we are not expecting retail sales figures to shoot out the lights in the near term.

Retail Sales  
(Annual % Change)



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



## Retail Sales - Values

Retail sales rose just 0.1% in June following a soft 0.2% result in May. For the year to June, sales rose 2.8%, well below the long run average of 4.5%, and down on the 3.4% sales growth seen in the year to May. In annual terms, this was the weakest growth since July 2013.

Given the relatively weak inflation numbers seen during the June quarter, and over the year to June, it is reasonable to conclude that the softer result is in part a reflection of the very modest growth in prices.

Today's figures will not create much cheer in retailing circles or much surprise. Slightly better news can be found in the retail volumes (see below).

So what is going on? Retail competition is strong and wage growth is weak. Under these conditions some prices are falling which depresses the takings of retail establishments. This is good news for consumers but potentially bad news for retailers unless they have been able to reduce their costs or capture market share.

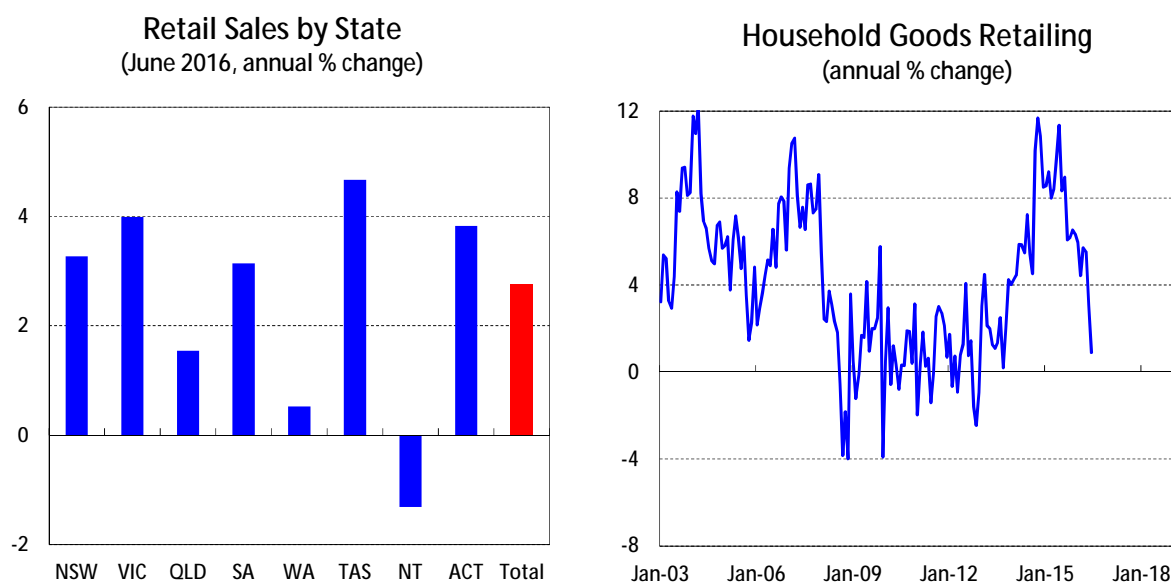
Is it all bad news? By no means. The population continues to grow and job growth is relatively firm. These factors add to retail demand. The RBA rate cut in May and the Federal Election process may have muddied the waters for today's numbers.

### By Sector

The monthly breakdown by sector revealed considerable variation. Sales were strong in clothing, footwear & personal accessories (3.5%) and department stores (0.7%) but weak in food (-0.6%) and cafes, restaurants and takeaway (-0.1%). Sales rose 0.3% in the household goods sector following weak outcomes in April (-0.1%) and May (-1.0%).

A better 'feel' for the bigger picture is achieved by examining the annual rates of growth. Annual growth of sales in the household goods sector saw a recent peak of 11.4% in peak in June 2015. In June 2016 this has fallen to just 0.9%. Housing construction is expected to remain elevated over the next 12 months, and thus support sales of household goods, however the heady days of double digit sales growth are now well behind us.

Clothing, footwear & personal accessories saw sales growth of 8.7% over the year to June while department stores have lifted annual growth to 5.0%. Food sales were up 1.9% over the year a little weaker than that of cafes, restaurants and takeaways at 2.4%. This was a far cry for the double digit growth seen for cafes, restaurants and takeaways through most of 2014.



#### - By State and Territory

By State and Territory, retail spending was strongest in Queensland (1.1%) and WA (0.1%) following weak outcomes in May. Sales were flat in South Australia after a run of 10 consecutive months of growth. The Northern Territory (-1.1%), ACT (-0.7%), NSW (-0.2%), Tasmania (-0.2%) and Victoria (-0.1%) all saw sales fall in June. The decline in sales in NSW came after 10 consecutive months of growth.

In annual terms, growth in retail sales was strongest in Tasmania (4.7%) which has seen growth in its population and in tourism. Victoria (4.0%), the ACT (3.8%) and NSW (3.3%), where housing and other construction activity has been strong, also saw relatively firm retail spending. The picture was softer in South Australia (3.1%), Queensland (1.5%), Western Australia (0.5%) and while in the Northern Territory, sales fell 1.3% over the year.

#### Retail Sales – Volumes

When excluding the impact of prices, retail spending does not look quite as problematic. Spending volumes rose a modest 0.4% in the June quarter, but this was still the weakest quarterly growth in two years. The annual pace of growth at 1.9% was the weakest in three years.

The weak growth in sales volumes suggests that it isn't just the price effect weighing down retail values. Soft growth in wages is more than offsetting the positive impact of low interest rates. However, retail volumes have not been a reliable indicator of consumer spending in recent times. Retail sales make up a little less than 30% of all consumer spending and we expect consumption to make a moderate contribution to GDP growth in the June quarter, which will be due 7 September.

In the State breakdown, there was relatively firm growth in NSW (0.7%), Victoria (0.6%), South Australia (1.0%) and Tasmania (0.8%) suggesting that demand is holding up relatively well in these States. Western Australia (0.5%) is only seeing modest growth, while in Queensland (-0.4%) and Northern Territory (-1.2%) retail volumes declined. Sales slipped 0.2% in the ACT, but this followed solid growth of 2.6% in the previous quarter.

In annual terms, sales volumes were strongest in Tasmania (3.8%) followed by the ACT (3.7%),

Victoria (3.3%), NSW (3.1%) and South Australia (2.2%). Sales volumes however, declined in Queensland (-0.6%), Western Australia (-0.2%) and Northern Territory (-1.5%), reflecting the impact of the downturn in mining investment.

### Outlook & Implications

The June monthly retail sales result was weak. It was held back by weak prices as well as soft demand. In annual terms, sales remain well below their long run trend. Can we look forward to an upturn in retail spending? The RBA's rate cut, with possibly more to come, may help as would a pick-up in jobs. Support from higher wages seems unlikely. Ongoing population growth in the larger States will boost demand but we are not expecting retail sales figures to shoot out the lights in the near term.

Tomorrow's Statement on Monetary Policy should give more detail on the RBA's views on demand and inflation. We now expect further rate cuts to emerge with the first potentially in November.

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### The Detail

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