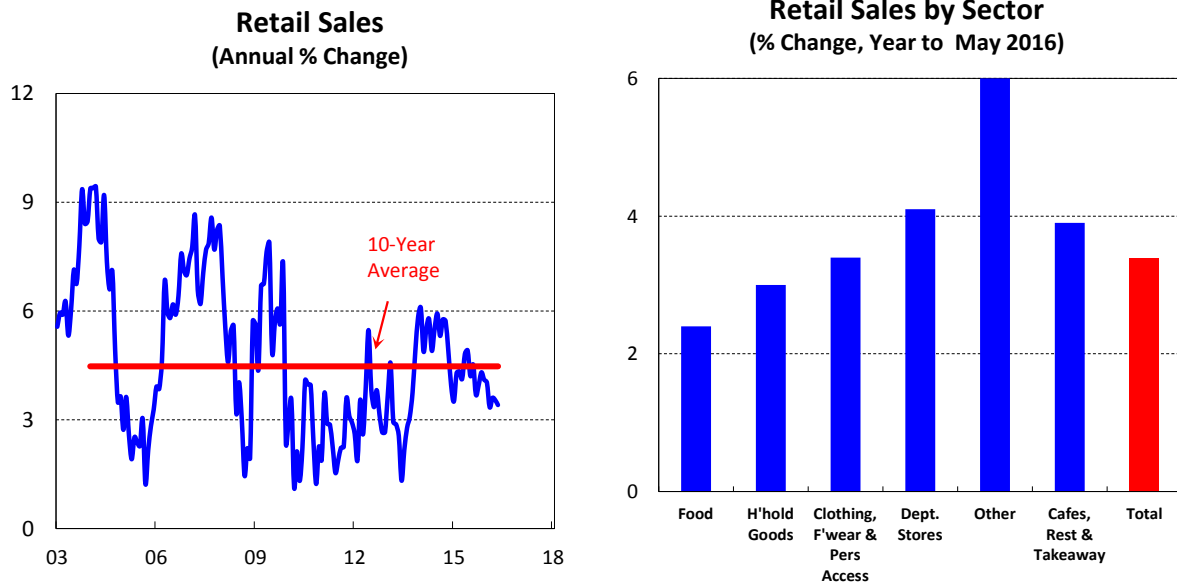




## Retail Sales

### Annual Growth Still Above Inflation.

- Retail sales rose 0.2% in May and were up 3.4% 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 a little better.
- In annual terms, growth in retail sales was strongest in Tasmania (5.2%) followed by Victoria (4.9%), NSW (4.9%) the ACT (4.7%) and South Australia (3.8%). Both NSW and Victoria have seen solid population growth and strong housing activity. Growth in South Australia is in-line with its 10 year average. The weakest outcomes were in the 'mining' States. Queensland (0.4%), Western Australia (0.8%), the Northern Territory (1.2%) and all saw annual growth well below their long run averages.
- The strongest retail sales growth over the year to May was in department stores (4.1%) although the miscellaneous 'other' sector did see sales rise by 6.0%. Cafes, restaurants and takeaways saw sales growth of 3.9% over the year to May while sales in clothing, footwear & personal accessories grew 3.4%. Food sales were up 2.4% over the year.
- 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

Retail sales rose 0.2% in May and were up 3.4% 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, as it did last month – 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 a little better. 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. But not at a pace that will get anyone's heart racing.

### - By State and Territory

There was considerable divergence in the pace of retail spending across the States and Territories. NSW (0.7%), Victoria (0.6%) and South Australia (0.3%) all saw growth in retail sales during May. In Tasmania sales were flat while in Western Australia (-0.7%), the Northern Territory (-0.6%), Queensland (-0.4%) and the ACT (-0.3%) they fell.

NSW and South Australia have now seen 10 consecutive months of retail sales growth while in Victoria 8 out of the past 10 months have been positive. Results across other State and Territories have been less consistent.

In annual terms, growth in retail sales was strongest in Tasmania (5.2%) followed by Victoria (4.9%), NSW (4.9%) the ACT (4.7%) and South Australia (3.8%). Both NSW and Victoria have seen solid population growth and strong housing activity. Tasmania's growth may be put down to tourism spending while in the ACT, solid construction activity has created employment opportunities. Growth in South Australia is in-line with its 10 year average. The weakest outcomes were in the 'mining' States. Queensland (0.4%), Western Australia (0.8%), the Northern Territory (1.2%) and all saw annual growth well below their long run averages.

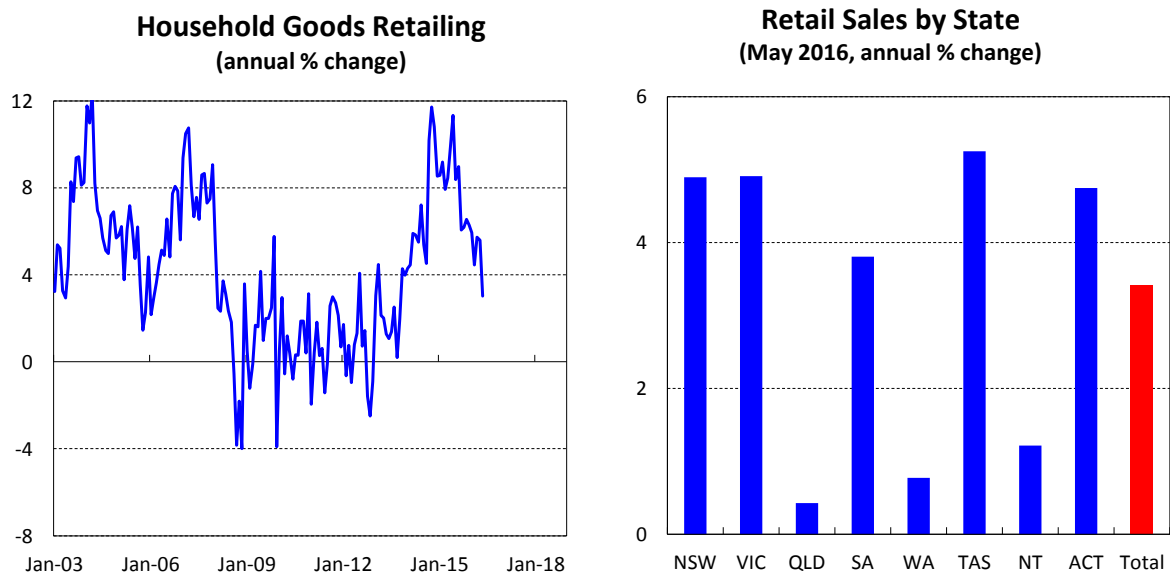
### - By Sector

There were major variations in sales results among the major retail sectors during May. Food (0.7%) saw a strong rebound from a soft April result while the household goods (-1.1%) and

clothing, footwear & personal accessories sectors (-1.2%) saw sales decline. The monthly decline in sales in the clothing, footwear & personal accessories sector during May was the first decline in nine months. Sales in department stores were flat in May while cafes, restaurants & takeaways saw growth of 0.3%.

A better 'feel' for the bigger picture in retail sales is achieved by examining the annual rates of growth. A strong housing sector has seen the household goods retailing sector achieve solid growth in recent years. However, with annual sales growth in the year to May of 3.0%, the gloss is fading in that sector. The strongest retail sector over the year to May was in department stores (4.1%) although the miscellaneous 'other' sector did see sales rise by 6.0%.

Cafes, restaurants and takeaways saw sales growth of 3.9% over the year to May while in clothing, footwear & personal accessories growth of 3.4%. Food sales were up 2.4% over the year.



## Outlook & Implications

The May 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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