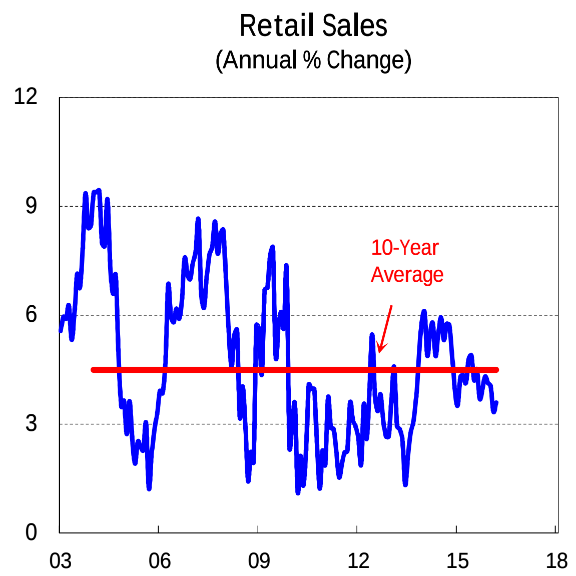
Retail Sales
Softly, Softly. Not a Lot of Joy.

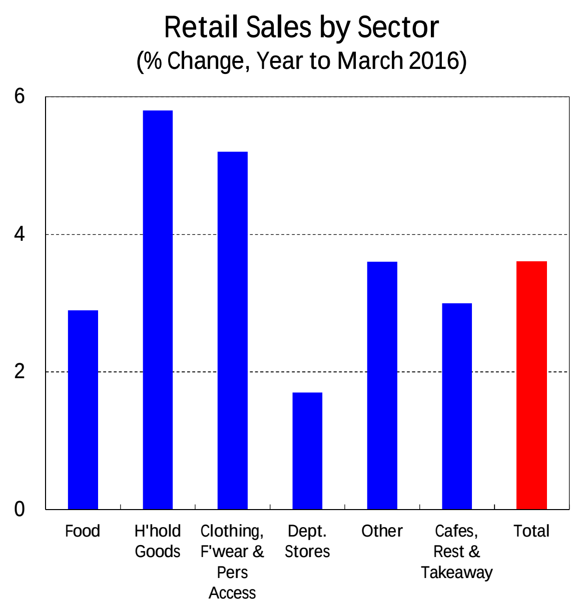
- Retail spending rebounded in March but not at a pace to cause much excitement. Nominal sales rose 0.4% for a 3.6% increase over the year. The 10-year average growth rate for retail spending is 4.5% but this does take in the GFC.

- After adjusting for inflation, retail sales rose 0.5% in the March quarter to be up 2.4% over the year. While we might like the pace of growth to be faster, it remains positive reflecting ongoing growth in jobs, only modest wages rises and growth in the population.

- In annual terms, growth in retail sales was strongest in the ACT (6.9%) and Victoria (5.3%) where there has been reasonable job growth. NSW (4.9%) also reported annual sales above its long term average as did Tasmania (3.8%). The picture was softer in South Australia (3.1%), Western Australia (1.2%) and Queensland (0.9%) while in the Northern Territory, sales grew just 1.1% over the year.

- The March monthly retail sales result was modest. Weak prices would have held down values and in annual terms is below the long run trend. What will change its course? The RBA's rate cut may help, as would a pick-up in jobs. With modest demand and low wage growth, inflation seems set to remain weak and may call for a rate cut, possibly in August after the next CPI release. Tomorrow's Statement on Monetary Policy should give more detail on the RBA's views on inflation and demand.





Retail Sales - Values

Retail sales rose 0.4% in March following a soft 0.1% result in February. For the year to March sales rose 3.6%, well below the long run average of 4.5%, but up on the 3.3% sales growth seen in the year to February.

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

While the March sales were an improvement on February, they were not much to write home about. Consumers may have been buoyed by a pick-up in financial markets and by the ongoing wealth effect of firmer house prices but even so, spending was modest and the level of ‘other personal’ credit – which includes credit card debt, fell in March.

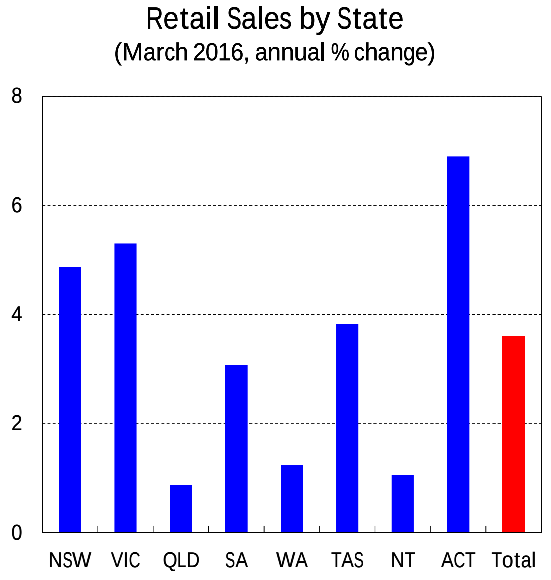
Nonetheless, sales have averaged around 0.3% growth over the past six months, and appear to be stuck in a modest pace of growth.

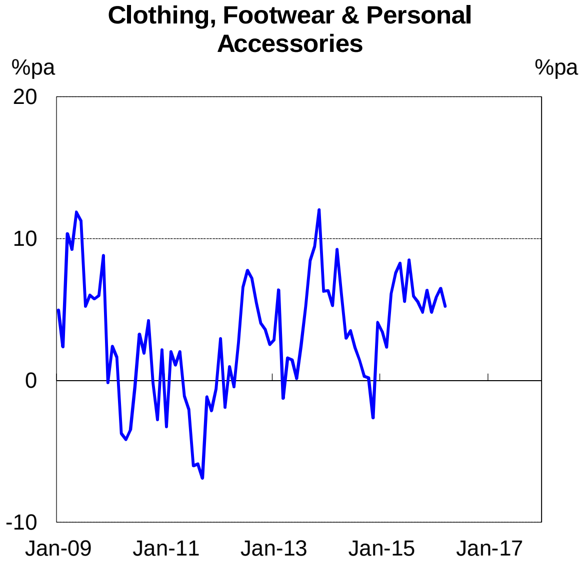
- By Sector

The monthly breakdown by sector revealed considerable variation. Sales were strong in clothing, footwear & personal accessories (1.1%) and food (0.6%) but very weak in department stores (-0.5%). Sales rose just 0.1% in the household goods sector and was flat in cafes, restaurants & takeaways.

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 at times during 2015 but still respectable.

Clothing, footwear & personal accessories saw sales growth of 5.2% over the year to March while department stores had growth of just 1.7%. Food sales were up 2.9% over the year similar to that of cafes, restaurants and takeaways at 3.0%. 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 WA (0.7%) and Tasmania (0.6%) following weak outcomes in February. Victoria posted a second consecutive 0.5% increase while South Australia (0.2%) has recorded eight consecutive months of retail sales growth. Sales rose 0.4% in NSW and 0.2% in Queensland. Sales in the ACT fell 0.6% but this was after very solid monthly growth in the previous five months. Sales in the NT (-0.2%) fell for a second successive month.

In annual terms, growth in retail sales was strongest in the ACT (6.9%) and Victoria (5.3%) where there has been reasonable job growth. NSW (4.9%) also reported annual sales above its long term average as did Tasmania (3.8%). The picture was softer in South Australia (3.1%), Western Australia (1.2%) and Queensland (0.9%) while in the Northern Territory, sales grew just 1.1% over the year.

Retail Sales – Volumes

When excluding the impact of prices, retail sales rose a modest 0.5% in the March quarter to be up 2.4% over the year. While we might like the pace of growth to be faster, it remains positive, reflecting ongoing growth in jobs, only modest wages rises and growth in the population.

In real terms i.e. after adjusting for inflation, sales growth was strongest over the year in the ACT (6.5%) and Victoria (3.9%). At the other end of the scale, real retail sales fell 0.7% in Western Australia and by 0.1% in Queensland. Both are suffering from a downturn in mining construction as is the Northern Territory which reported growth of just 0.8%. Annual growth of sales in South Australia was 2.2% in the year to March and above its long run average of 1.9%.

Although retail sales make up a little less than 30% of consumer spending, today's results indicate that household spending should provide a positive contribution to the March quarter national accounts due out on 1 June.

Outlook & Implications

The March monthly retail sales result was modest. It was held back weak prices and in annual terms is below the long run trend. What will change its course? The RBA's rate 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 few are expecting sales figures to shoot out the lights.

With modest demand and low wage growth, inflation seems set to remain weak and may call for a rate cut, possibly in August after the next CPI release. Tomorrow's Statement on Monetary Policy should give more detail on the RBA's views on inflation and demand.

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