

Data Snapshot

Wednesday, 5 October 2016

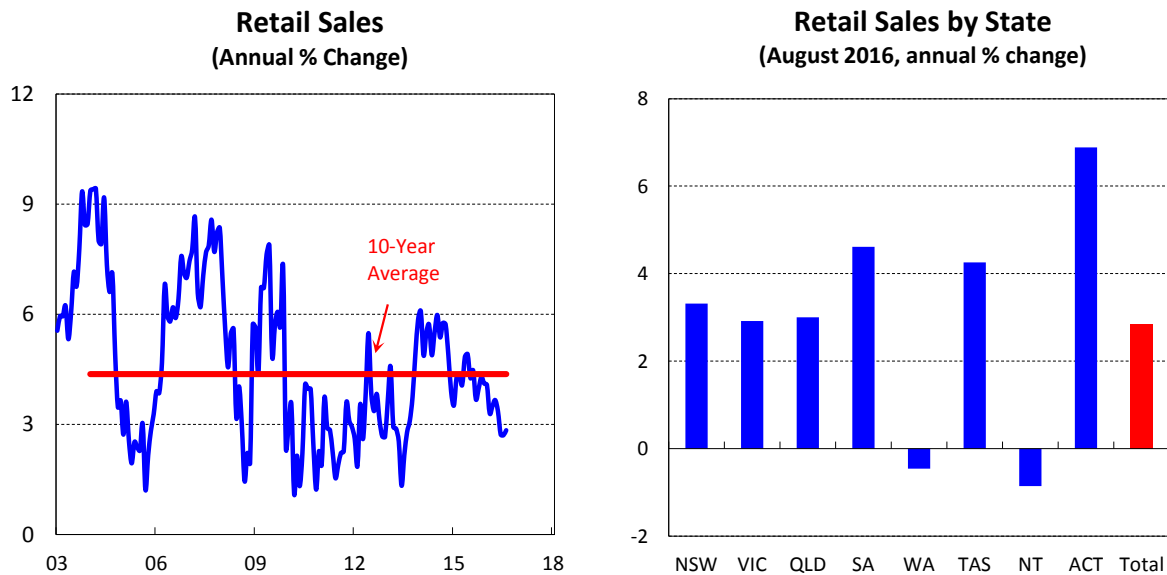


Bank of Melbourne

Retail Sales

Best Month Since October Last Year

- Retail sales rose 0.4% in August after three months of virtual stagnation. For the year to August, sales rose 2.8%, well below the ten year average of 4.4%. Annual growth has averaged 3.3% so far in 2016, well down on the 4.2% growth averaged over 2015.
- Online retail sales contributed 3.3% to total retail sales in original terms and were up 7.6% on a year earlier – although the ABS urges caution in the use of these experimental numbers.
- In annual terms, growth in retail sales was strongest in the ACT (6.9%) which has seen a building boom, some growth in tourism and an improvement in public sector hiring. South Australia (4.6%) and Tasmania (4.3%) also saw above average retail sales over the year. NSW (3.3%), Queensland (3.0%) and Victoria (2.9%), are below their long run averages despite solid population growth and firm construction activity. In the Northern Territory, sales fell 0.9% over the year while in Western Australia they have moved into negative territory, falling 0.5%.
- The August monthly retail sales were an improvement on July and the best since October 2014. However, one would be hard pressed to call them firm – especially when looking at the pace of annual growth. Population growth and job creation point towards firmer sales but weak wages growth and intense competition in the retail sector are likely to keep retail sales subdued.



Retail sales rose 0.4% in August after three months of virtual stagnation. For the year to August, sales rose 2.8%, well below the ten year average of 4.4%. Annual growth has averaged 3.3% so far in 2016, well down on the 4.2% growth averaged over 2015. The RBA noted this slowdown in its Statement yesterday.

Part of the reason for the soft annual growth has been the extensive discounting seen across the retail sector. Price discounting by retailers is also reflected in the weak consumer price inflation numbers seen in recent quarters. That said, today's 0.4% rise for the month of August will be welcomed by retailers and is the strongest result since October last year. However, the annual growth of just 2.8% suggests that retailing margins remain under pressure.

It was noted last month that the flat result for July was largely due to a sharp, 5.6% decline in sales by department stores. In August, there was a rebound of 3.5% which contributed to the overall 0.4% result for the month.

Online retail sales contributed 3.3% to total retail sales in original terms and were up 7.6% on a year earlier. While the ABS describes these as experimental figures, to be used with caution, the proportion of online sales to total sales has risen from 2.1% in August 2013, 2.6% in August 2014 and 3.1% in August 2015. The ABS notes that online sales by non-employing businesses and non-resident retailers overseas which sell directly to the Australian general public via an online stores are not included in the numbers as they are not within the scope of the current ABS Retail Business Survey. The value of online sales in the survey was \$802.4 million, split between pure online sellers and retailers with multiple sales channels.

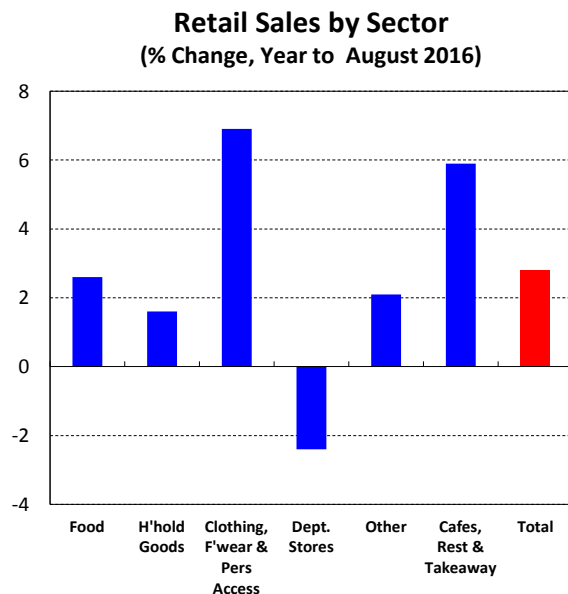
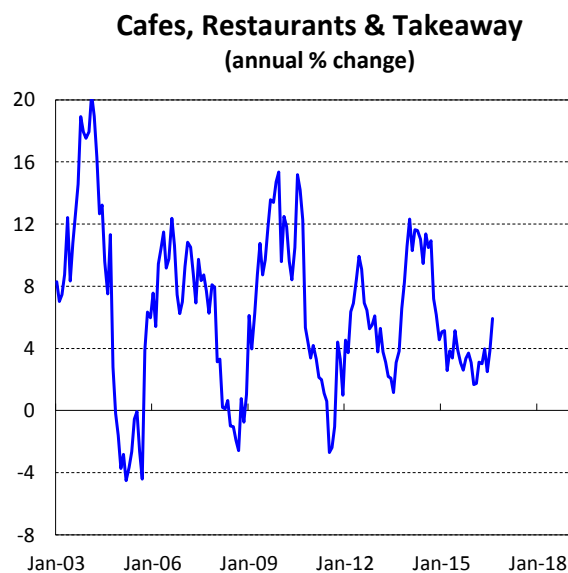
By Sector

Most of the major retail sectors reported growth in sales during August. The strongest sector was department stores (3.5%) followed by cafes, restaurants and takeaway (1.2%), food (0.3%) and household goods (0.2%). Clothing, footwear and personal accessories (-0.4%) and 'other' (-0.6%) saw sales decline in August.

A better 'feel' for the bigger picture is achieved by examining the annual rates of growth. Annual growth of sales in the clothing, footwear & personal accessories sector was a solid 6.9%. This was

an increase on the previous month and it remains the current 'stand out' sector. Cafes, restaurants and takeaways posted growth of 5.9% over the year with the growth rate accelerating over the past three months. While this growth is well down on the 10% plus rates seen in 2014, it suggests that they are holding onto their sales levels and also able to expand.

Food (2.6%) and household goods (1.6%) also saw modest annual growth whereas department store sales were down 2.4% over the year. It is suspected that the warmer winter may have affected department stores sales although this did not appear to impact upon sales in the specialised clothing sector which saw growth of 8.2%.



- By State and Territory

By State and Territory, retail spending in August was strongest in the ACT (0.7%), Queensland (0.7%) and Victoria (0.7%) followed by NSW (0.5%) and South Australia (0.4%). Sales went backwards during August in Western Australia (-0.5%), the Northern Territory (-0.5%) and Tasmania (-0.1%).

In annual terms, growth in retail sales was strongest in the ACT (6.9%) which has seen a building boom, some growth in tourism and an improvement in public sector hiring. South Australia (4.6%) and Tasmania (4.3%) also saw above average retail sales over the year. NSW (3.3%), Queensland (3.0%) and Victoria (2.9%), are below their long run averages despite solid population growth and firm construction activity. In the Northern Territory, sales fell 0.9% over the year while in Western Australia they have moved into negative territory, falling 0.5%.

Outlook & Implications

The August monthly retail sales were an improvement on July and the best since October 2014. However, one would be hard pressed to call them firm – especially when looking at the pace of annual growth. Population growth and job creation point towards firmer sales but weak wages growth and intense competition in the retail sector are likely to keep retail sales subdued.

The RBA's rate cut in August might, over time, boost sales associated with the housing sector but the reduced spending power of those who rely on interest income is likely to work in the opposite

direction.

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