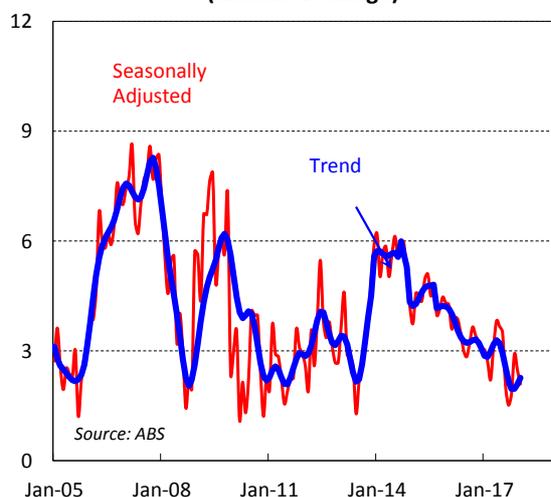


Retail Sales

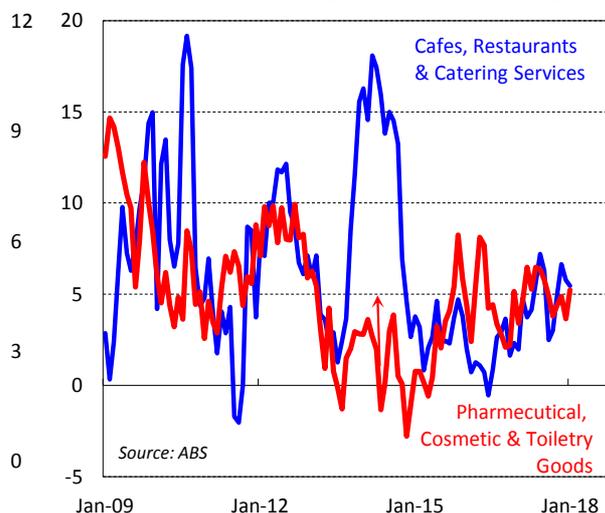
A Nation of Coffee-Sipping Hypochondriacs

- Australian consumers remain fragile, but more of us are becoming coffee-sipping hypochondriacs. The fastest growing sectors are cafes, restaurants & catering services and pharmaceuticals, cosmetics & toiletry goods. Both these categories grew at annual rates above 5% in January.
- The global consumer model is shifting to one of experiences and Australians are living longer through better health. Both these trends are helping to underpin these faster growing sectors.
- The consumer remains fragile beyond these areas. Higher mortgage rates since last year on interest only and investor loans combined with weak wages growth and high household debt levels have sparked caution among consumers. Today's data shows that this caution lingers, despite some modest lift in wages growth and ongoing solid employment growth.
- Retail sales rose only 0.1% in January, after a fall of 0.5% in December. On a year ago, retail sales grew at a 2.1% pace, which is slower than the 2.5% annual pace recorded in December.
- Retailers have responded to softer consumer demand by discounting. This discounting would be more likely occurring in categories like clothing, footwear & personal accessories and department-store sales. The recent arrival of Amazon adds to the discounting pressures.
- Retail spending growth is likely to stay modest in the months ahead. Consumer confidence surveys suggest that consumers continue to be wary of the outlook, spilling over into reticence at the cash register. The softening in housing sales and the recent arrival of Amazon are also factors that are likely to prevent retail spending from recovering rapidly.

Nominal Retail Sales
(annual % change)



Retail Spending
(by selected categories, % annual change)



Retail Values

The consumer remains fragile. Higher mortgage rates over last year on interest-only and investor loans combined with weak wages growth and high household debt levels have sparked caution among consumers. Today's data shows that this caution lingers, despite some modest lift in wages growth and ongoing solid employment growth.

Retail sales rose only 0.1% in January, after a fall of 0.5% in December. On a year ago, retail sales grew at a 2.1% pace, which is slower than the 2.5% annual pace recorded in December. It is also an annual rate well below the long-run average for retail trade.

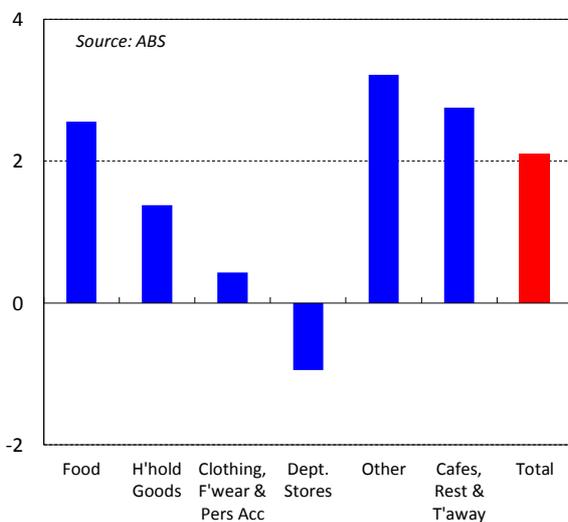
There were mixed results by sectors and regions.

- By Sector

Retailers have responded to softer consumer demand by discounting. This discounting is more likely to be occurring in categories like clothing, footwear & personal accessories and department-store sales. The arrival of Amazon late last year would have further stepped up competition and squeezed margins.

The softest sectors in January were clothing, footwear & personal accessories and department-store sales. These sectors recorded declines of 0.7% and 0.6%, respectively, in the month. In terms of annual percentage changes, these sectors were also the weakest. Clothing, footwear & personal accessories rose only 0.4% on a year ago and department-store sales fell 0.9% on the same time a year ago.

Retail Sales by Sector
(January 2018, Annual % Change)



The fastest growing sectors remain other retailing (includes recreational goods, chemists, gardening) and cafes, restaurants & takeaway services. Other retailing jumped an outsized 1.0% in the month. While cafes, restaurants & takeaway services expanded only 0.1% in the month, annual growth in this sector is one of the firmest.

A contraction in takeaway services dragged on the overall outcome for cafes, restaurants & takeaway services. The cafes, restaurants & catering services category alone rose 0.5% in January and on a year ago grew at a healthy 5.5%, as the trend of Australians eating out deepens. The consumer model is moving away from owning and having things to experiencing things. Eating out is part of this shift.

But Australians are also living longer and becoming more health conscious or as we jest, Australians are becoming a nation of hypochondriacs. Retailing for pharmaceuticals, cosmetics & toiletry goods expanded an annual pace of 5.2%.

Food retailing was flat in January and household-goods retailing rose 0.1%, which led to annual growth rates of 2.6% and 1.4%, respectively.

- By States and Territories

The biggest State, NSW, witnessed a contraction in retailing in January of 0.2%. NSW has the biggest mortgages and the highest levels of household debt.

Victoria continued to be the fastest growing State for retailing in terms of the annual pace. Retailing expanded by 0.3% in January and by 3.8% in the year to January. The strong rate of population growth in the Garden State is helping to underpin demand for goods and services.

The strongest retailing figures for the month of January only were recorded in Queensland. This State is one that is gathering momentum in terms of economic activity and jobs, which is spilling over into improving retail sales. Retail sales are only up 1.8% on a year ago in Queensland, but it is the third consecutive monthly improvement and compares to a contraction of 0.2% just four months ago.

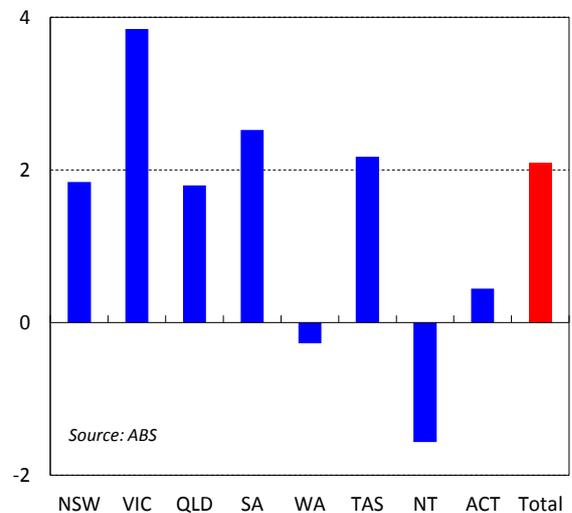
Growth in retailing in the month was also recorded in WA (0.3%) and Tasmania (0.3%). Canberra retailing was flat in the month while the Northern Territory recorded another sharp decline in retailing of 0.5% in January.

Outlook

Retail spending growth is likely to remain modest in the months ahead. Consumer confidence surveys suggest that consumers continue to be wary of the outlook, spilling over into reticence at the cash register. High household debt, soft wages growth and the recent softening in house prices will keep consumers focussed on their household budgets. The softening in housing sales and the recent arrival of Amazon are also factors that are likely to prevent retail spending from recovering in a hurry.

Interest rates remain low and the ongoing strength in the jobs market will help prevent the caution turning from the colour amber to the colour red.

Nominal Retail Sales by State
(January 2018, Annual % Change)



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The Detail

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