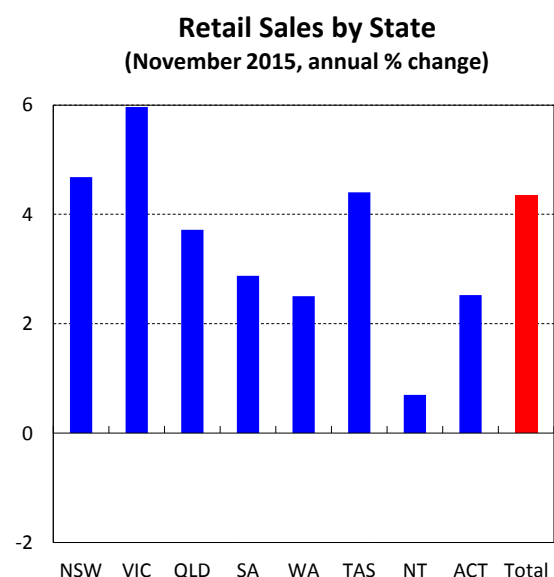
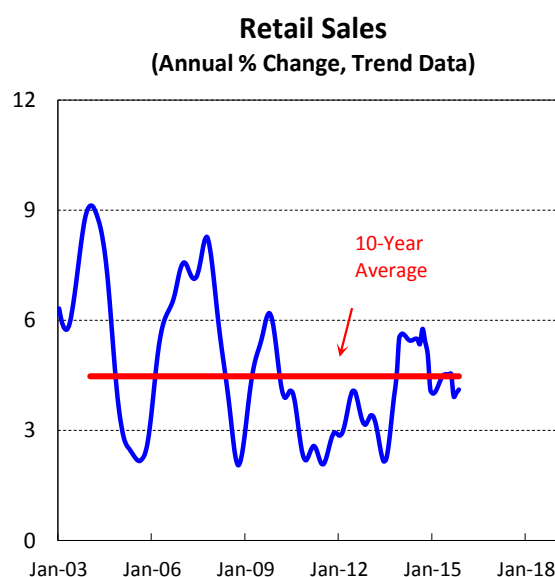


Retail Sales

The Sensible Shopper

- Retail sales grew 0.4% in November, in line with our expectations and those of the market. It followed a relatively strong 0.6% outcome in October and suggests that retail spending maintained its pick-up in momentum following a soft period in the first half of 2015. Sales were up 4.3% over the year.
- An improved labour market appears to be sustaining sales but soft wage growth is keeping a lid on spending. An aversion to additional credit card debt remains in place with no growth in 'other personal' credit report by the RBA for November.
- Spending remains firm in sectors associated with housing activity while sales of clothing, footwear and personal accessories continues its roller coaster ride.
- There remains scope for consumers to lift spending in 2016, given the high rate of household savings and the recent rise in jobs. However, this would require a sustained lift in consumer confidence. We continue to expect retail spending will grow at a moderate pace during the year ahead.



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Over the year to November, retail sales grew 4.3%. This was up from 3.9% in the year to October but remains below the 10 year average growth of 4.5%. The lift in spending is still restrained and reflects a mix of improvements in the labour market in the second half of 2016 with only slow growth in wages.

Consumers are not getting carried away in their retail spending patterns and appear to be showing an aversion to credit card debt. The Reserve Bank reported that in the year to November, there was no growth in 'other personal' credit, of which personal credit cards are a major component.

- By Sector

Spending across categories was mixed in November. Cafe, restaurant & takeaway food sales rose 1.0% but this followed a weak result in October. Sales of household goods rose 0.9% and continued to benefit from strong activity in the housing market. Spending on clothing, footwear & personal accessories was up 0.8% but this was after three months of weakness. Department stores (-0.8%) was the only major sector to see a decline in sales, however, this did come after a bumper 3.6% lift in sales during October.

On an annual basis, the strongest growth in sales was in household goods which saw sales rise 6.6%. While this is down from the heady growth of 11.9% seen in the year to October 2014, it still represents a solid gain. Growth of 6.1% was seen over the year in sales of clothing, footwear & personal accessories. Sales in this sector have been on somewhat of a roller coaster ride for the past two years with patches of weak and strong sales. The weakest growth in 'non-food' sales over the year came in the cafes, restaurants & takeaway food sector (3.8%) followed by department stores (4.2%). Sales of food, which make up 40% of total retail sales, rose 2.8% over the year to November.

- By State and Territory

In November, growth in retailing was strongest in the ACT (0.9%) and Queensland (0.8%). NSW (-0.2%) had the weakest month while Tasmania, Western Australia and the Northern Territory all saw retail sales rise 0.3%. In Victoria, sales were up 0.5% and sales were up 0.4% in South Australia.

Annual growth remains strongest in Victoria (6.0%) which is benefiting from an improving labour market and rising house prices. Sales in NSW picked up to 4.7% annual growth from 4.4% previously, but it remains well down from a recent peak of 9.9% annual growth in October 2014. Tasmania saw fairly healthy growth of 4.4%, possibly on the back of improved tourist activity. There was modest growth in Queensland (3.7%), South Australia (2.9%), Western Australia (2.5%), and the ACT (2.5%). Annual sales growth in the Northern Territory was only 0.7% reflecting softening within its construction industry.

Outlook & Implications

Recent jobs growth, the lift in house prices over the year (wealth effects), relatively high savings rates and low mortgage rates suggest that retail sales will continue to see growth during 2016. Keeping a lid on spending are soft growth in wages and fragile consumer sentiment. We expect interest rates to remain stable and low during 2016 and also expect ongoing growth in jobs (with the usual monthly volatility in the numbers). These should support retail activity.

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