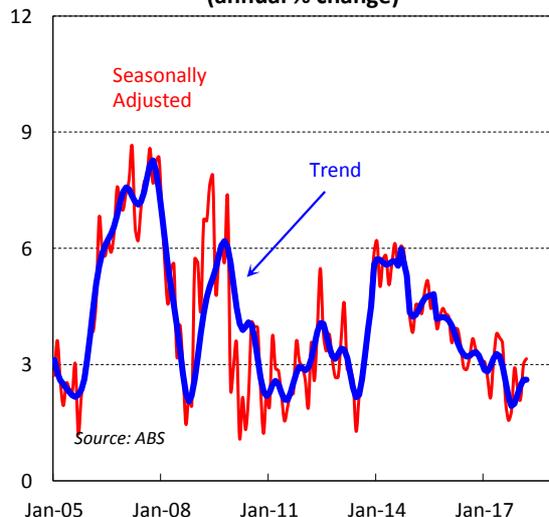


Retail Sales

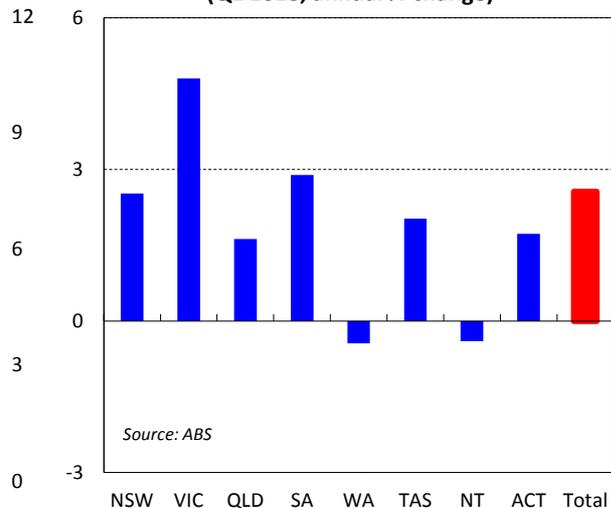
Consumers Treading Cautiously

- Retail spending disappointed in March, reporting no growth for the month. This followed stronger growth of 0.6% in February.
- Food was the only retailing category to increase in March, rising 0.7%. All other categories, including clothing, footwear & personal accessories (-0.2%), household goods (-0.3%), department stores (-0.5%), other retailing (-0.6%), cafes, restaurants & takeaway (-0.8%) declined in the month. This highlights soft conditions in areas of discretionary spending.
- Retail sales growth was strong in the ACT, rising by 1.5% in March, the largest monthly increase since December 2015. Retail sales also rose in Victoria (0.2%), South Australia (0.2%) and the Northern Territory (0.1%) in March.
- After adjusting for the impact of prices, retailing volumes rose a meagre 0.2% in the March quarter, a lacklustre result following the 0.8% increase in the December quarter.
- Today's data points to a rather dismal quarter of consumer spending, after relatively firm growth in the December quarter. Limited wage growth, high household debt burdens and the softening in the housing market are keeping a lid on household spending. That said, solid employment gains should be supportive.

Nominal Retail Sales
(annual % change)



Retail Sales Volumes by State
(Q1 2018, annual % change)



Retail Values

Retail spending disappointed in March, reporting no growth for the month.

It points to a rather dismal quarter of consumer spending, after relatively firm growth in the December quarter.

On an annual basis, retail spending managed to pick up slightly to 3.1% in March, from 3.0% in February. It was the strongest in eight months but it was still below the long-run average of 3.7%.

Limited wage growth, high household debt burdens and the softness in the housing market are keeping a lid on household spending. That said, solid employment gains should be supportive.

- By Sector

Food was the only retailing category to increase in March, rising 0.7%. All other categories, including footwear & personal accessories (-0.2%), household goods (-0.3%), clothing, department stores (-0.5%), other retailing (-0.6%), cafes, restaurants & takeaway (-0.8%) declined in the month. This highlights soft conditions in areas of discretionary spending.

Food retailing (4.2%) was also strongest on an annual basis. There was moderate growth in retailing of clothing, footwear & personal accessories (3.9%), household goods (3.0%), cafes restaurants & takeaway (2.8%), while other retailing growth eased to 1.6%. Spending growth at department stores (0.4%) continued to lag behind other forms of retailing.

By States and Territories

Retail sales growth was strong in the ACT, rising by 1.5% in March, the largest monthly increase since December 2015. Retail sales also rose in Victoria (0.2%), South Australia (0.2%) and the Northern Territory (0.1%) in March. Retail sales declined in Tasmania (-0.3%), Queensland (-0.2%), NSW (-0.1%) and Western Australia (-0.1%).

In annual terms, Victoria continued to be the fastest growing State for retailing (5.5%), followed by South Australia (4.1%), the ACT (3.0%), Tasmania (3.0%), NSW (2.8%), Queensland (2.5%) and the Northern Territory (1.8%). Annual growth remained in decline in Western Australia (-0.5%).

Retail Volumes

After adjusting for the impact of prices, retailing volumes rose a meagre 0.2% in the March quarter, a disappointing result following the 0.8% increase in the December quarter.

While there was price discounting for household goods, department stores and clothing, footwear & personal accessories, overall prices were stronger in the March quarter. Retailers were able to lift their prices in the quarter, which is an encouraging sign of business confidence, following a period of squeezed margins in the industry. The lacklustre retailing volumes growth in the quarter, however, brings into question consumers' ability to absorb price increases in the current environment. The quarterly increase in prices was led by cafes, restaurants & takeaway food services, but this was also the sector which saw the largest decline in retail volumes in the March quarter.

By State and territory, the strongest growth in retail sales volumes in the March quarter was in Victoria (0.9%), followed by Queensland (0.4%) and NSW (0.2%). Retail sales volumes fell in Tasmania (-0.9%), Western Australia (-0.6%), South Australia (-0.5%) and the Northern Territory (-

0.3%) in the March quarter. Retail volumes were unchanged in the ACT in the March quarter.

We estimate that household consumption will provide a smaller contribution to growth in the March quarter, compared to the solid 0.6 percentage point contribution in the December quarter.

Outlook

Retail spending was disappointing given the strength of the labour market over the past year. Nonetheless, the weak pace of wage growth, softer conditions in the housing market and high household debt burdens suggest that retailing growth is unlikely to pick-up substantially, and is expected to maintain a moderate rate of growth.

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The Detail

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