Retail Trade – May 2013

- Retail trade grew by 0.1% in May to stand at a lacklustre 2.3% higher through the year.
- Spending was strongest at department stores and on clothing and footwear.
- Subdued retail trade growth reflects weakness in the nominal economy.

Retail trade rose by 0.1% in May, which was slightly less than market expectations which centred on a rise of 0.3% {CBA (f) +1.0%}. The result was made more disappointing by downward revisions to March and April's figures (for example, April was revised down to a decrease of 0.1% over the month from a previously reported increase of 0.2%). Spending is growing at a subdued 2.3% in annual terms, which is below trend.

The retail sector has had a mixed 2013, so far. Spending was up solidly in the few two months of the year, but has since tapered off. In particular, sales over the last few months have been sedate. Some of the recent retail trade outcomes are reflecting the divergence between the real and nominal economies. Over the first quarter of 2013, *real* retail trade was growing at a faster rate than *nominal* sales, which is rare. The divergence was reflecting discounting in some parts of the retail sector, particularly the household good retailing category which largely comprises imported goods. These goods have been made cheaper by a strong Aussie dollar. But the currency has depreciated by around 10% since its peak over the last two months, so we are unlikely to see the divergence between nominal and real outcomes continue.

Over May, retail trade was strongest in *department stores* (+0.8%) and *other** (+0.8%). This was followed *by clothing, footwear and personal accessory retailing* (+0.4%) and *food retailing* (+0.2%). There were falls in *household goods* (-0.3%) and *cafes, restaurants and takeaway food services* (-0.6%).

On a State basis, the results were mixed. There were increases in WA (+1.6%), NT (+0.8), SA (+0.6%), Tas (+0.6%) and Qld (+0.5). The two largest States, NSW and Victoria, both recorded a fall in retail trade over May. Sales were down by 0.4% in NSW and 0.3% in Victoria. Retail trade also declined in ACT (-1.7%).

The consumer spending story has been a mixed one. The broader picture is that while consumers are spending, they are selective with where they spend their money. And retailing has been missing out. In particular, the retail sector has had to compete against consumers spending a greater proportion of their disposable income on overseas holidays, which have been made cheaper by a strong Aussie dollar. But the outlook is more positive for the local retail sector. The non-trivial 10% fall in the Australian dollar makes overseas holidays less attractive. And it also means purchasing online from international retailers is more expensive. Both of these shifts in relative prices support domestic retail trade. In addition, household disposable income has been boosted from interest rate cuts. These take some time to work their way through the economy with some mileage still to come from the most recent rate cuts.

The CBA Business Sales Indicator, which is a broader measure of consumer spending than retail trade data, recorded its strongest monthly percentage increase in five years in May. This suggests that consumer spending is running at a more robust pace than what the retail trade data indicate.

The HIA new home sales figures for May were also published today. New homes sales increased by 1.6% in May, which took sales back to their highest level in eighteen months. So while the effects of lower interest rates are not showing up in the retail trade data, the latest home sales figures suggest that lower rates are having a positive effect on the housing market. The RP Data-Riskmark house prices data out this week, which showed dwelling prices rose by 1.9% in June, is further evidence of the impact that monetary policy stimulus is having on housing activity. Increased construction activity will eventually spill over to the retail trade sector.

**other retailing* includes newspaper and book retailing, recreational goods retailing and pharmaceutical, and cosmetic and toiletry goods retailing.

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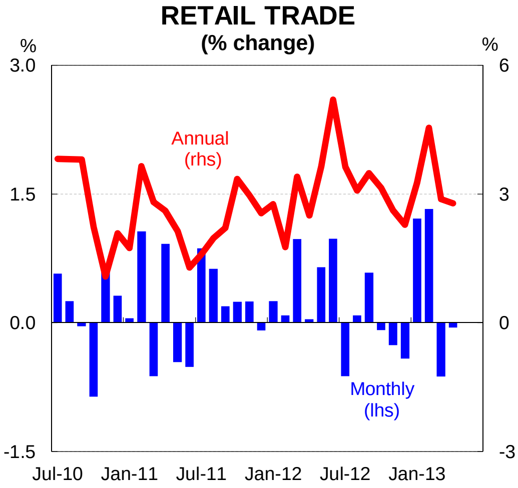
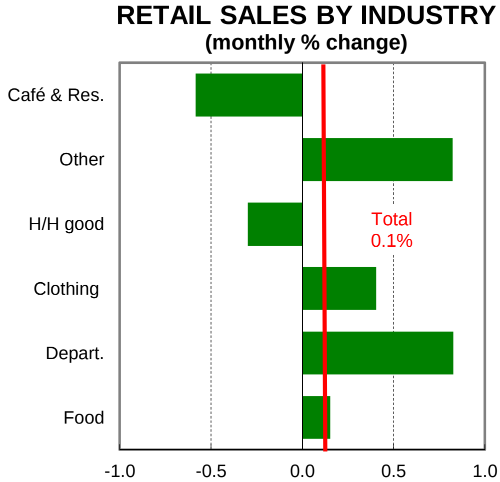
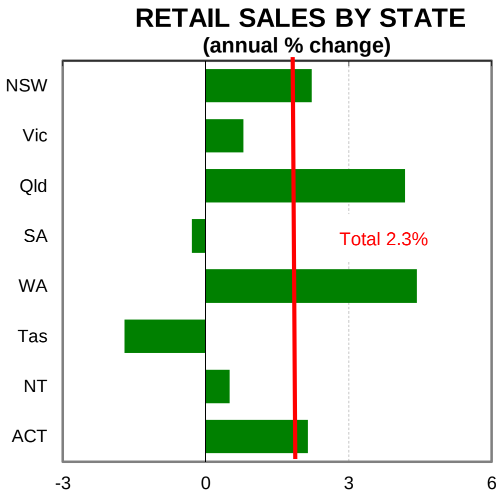
Retail trade grew by 0.1% in May to be 2.3% higher through the year.



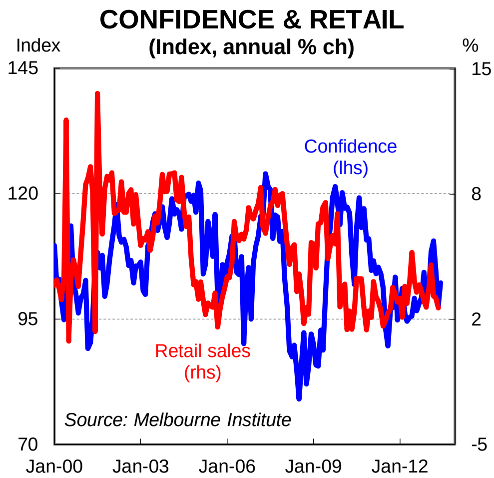
Retail trade growth was strongest in department stores and in the "other" category over May.



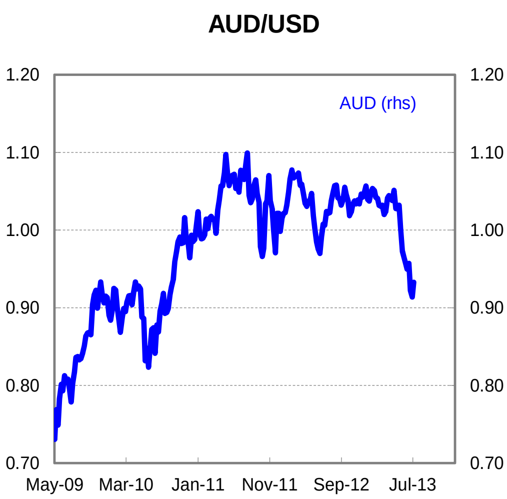
Retail trade has been strongest over the year in the resource richs States of WA and Qld.



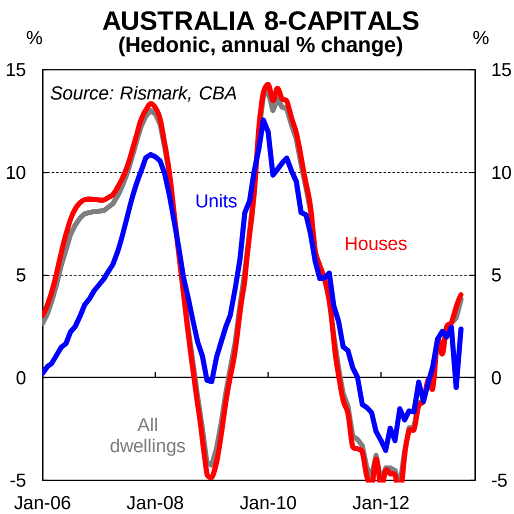
Consumer sentiment picked up over June which should aid retail spending over the month.



The fall in the AUD makes overseas holidays less attractive. This provides support for domestic retailers.



House prices are rising which strengthens household balance sheets and boosts sentiment.



Unless otherwise noted, all data is sourced from Australian Bureau of Statistics material (www.abs.gov.au).

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