

3 July 2013

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.

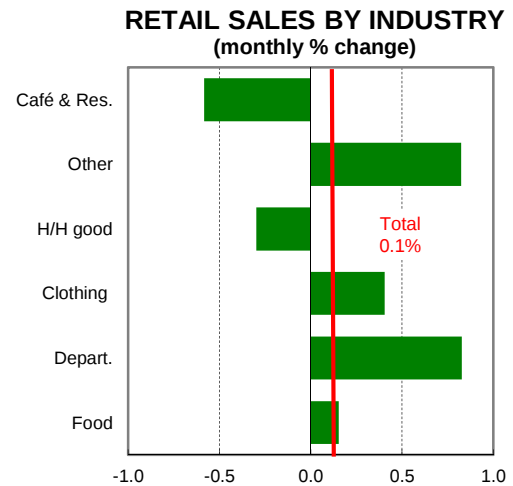
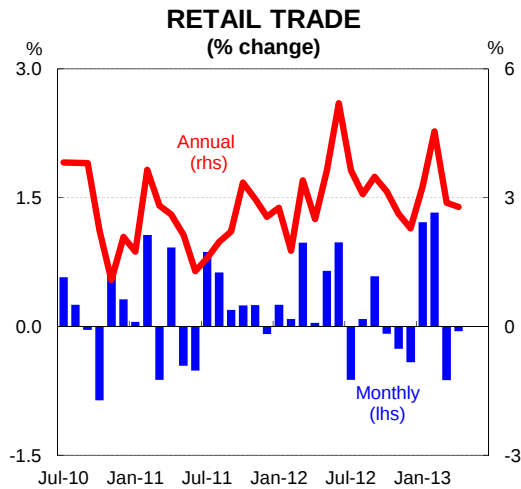
The CBA Business Sales Indicator, which is a broader measure of consumer spending than retail trade data, recorded its strongest monthly percentage increase in five years in May. This suggests that consumer spending is running at a more robust pace than what the retail trade data indicate.

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.

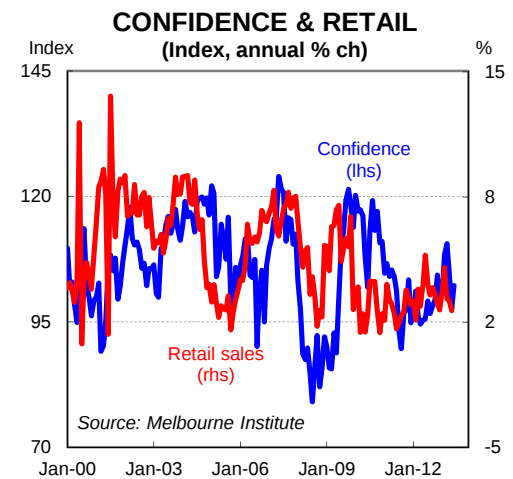
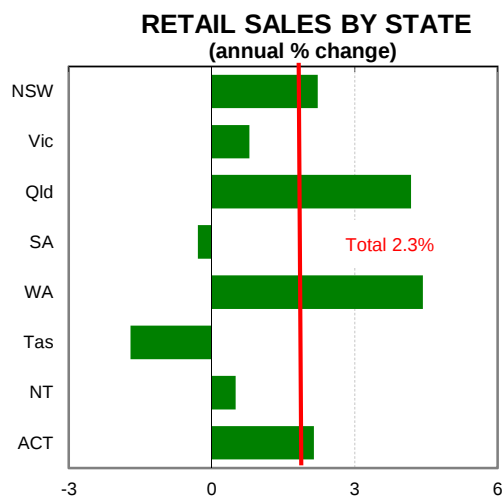
Retail trade grew by 0.1% in May to be 2.3% higher through the year.

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



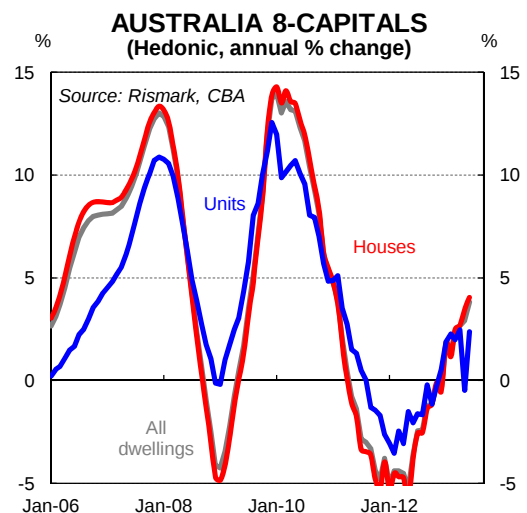
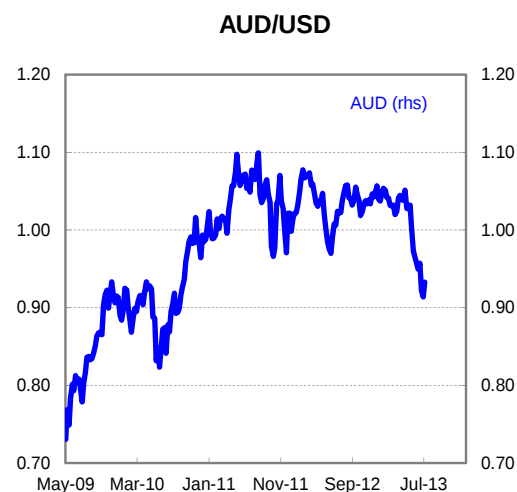
Retail trade has been strongest over the year in the resource rich States of WA and Qld.

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.



Please view our website at www.research.commbank.com.au. The Commonwealth Bank of Australia ABN 48 123 123 124 AFSL 234945 ("the Bank") and its subsidiaries, including Commonwealth Securities Limited ABN 60 067 254 399 AFSL 238814 ("CommSec"), Commonwealth Australia Securities LLC, CBA Europe Ltd and Global Markets Research, are domestic or foreign entities or business areas of the Commonwealth Bank Group of Companies (CBGOC). CBGOC and their directors, employees and representatives are referred to in this Appendix as "the Group". This report is published solely for informational purposes and is not to be construed as a solicitation or an offer to buy any securities or financial instruments. This report has been prepared without taking account of the objectives, financial situation and capacity to bear loss, knowledge, experience or needs of any specific person who may receive this report. No member of the Group does, or is required to, assess the appropriateness or suitability of the report for recipients who therefore do not benefit from any regulatory protections in this regard. All recipients should, before acting on the information in this report, consider the appropriateness and suitability of the information, having regard to their own objectives, financial situation and needs, and, if necessary seek the appropriate professional, foreign exchange or financial advice regarding the content of this report. We believe that the information in this report is correct and any opinions, conclusions or recommendations are reasonably held or made, based on the information available at the time of its compilation, but no representation or warranty, either expressed or implied, is made or provided as to accuracy, reliability or completeness of any statement made in this report. Any opinions, conclusions or recommendations set forth in this report are subject to change without notice and may differ or be contrary to the opinions, conclusions or recommendations expressed elsewhere by the Group. We are under no obligation to, and do not, update or keep current the information contained in this report. The Group does not accept any liability for any loss or damage arising out of the use of all or any part of this report. Any valuations, projections and forecasts contained in this report are based on a number of assumptions and estimates and are subject to contingencies and uncertainties. Different assumptions and estimates could result in materially different results. The Group does not represent or warrant that any of these valuations, projections or forecasts, or any of the underlying assumptions or estimates, will be met. Past performance is not a reliable indicator of future performance. The Group has provided, provides, or seeks to provide, investment banking, capital markets and/or other services, including financial services, to the companies described in the report and their associates. This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would subject any entity within the Group to any registration or licensing requirement within such jurisdiction. All material presented in this report, unless specifically indicated otherwise, is under copyright to the Group. None of the material, nor its content, nor any copy of it, may be altered in any way, transmitted to, copied or distributed to any other party, without the prior written permission of the appropriate entity within the Group. In the case of certain products, the Bank or one of its related bodies corporate is or may be the only market maker. The Group, its agents, associates and clients have or have had long or short positions in the securities or other financial instruments referred to herein, and may at any time make purchases and/or sales in such interests or securities as principal or agent, including selling to or buying from clients on a principal basis and may engage in transactions in a manner inconsistent with this report.

US Investors: If you would like to speak to someone regarding the subject securities described in this report, please contact Commonwealth Australia Securities LLC (the "US Broker-Dealer"), a broker-dealer registered under the U.S. Securities Exchange Act of 1934 (the "Exchange Act") and a member of the Financial Industry Regulatory Authority ("FINRA") at 1 (212) 336-7737. This report was prepared, approved and published by Global Markets Research, a division of Commonwealth Bank of Australia ABN 48 123 123 124 AFSL 234945 ("the Bank") and distributed in the U.S. by the US Broker-Dealer. The Bank is not registered as a broker-dealer under the Exchange Act and is not a member of FINRA or any U.S. self-regulatory organization. Commonwealth Australia Securities LLC ("US Broker-Dealer") is a wholly owned, but non-guaranteed, subsidiary of the Bank, organized under the laws of the State of Delaware, USA, with limited liability. The US Broker-Dealer is not authorized to engage in the underwriting of securities and does not make markets or otherwise engage in any trading in the securities of the subject companies described in our research reports. The US Broker-Dealer is the distributor of this research report in the United States under Rule 15a-6 of the Exchange Act and accepts responsibility for its content. Global Markets Research and the US Broker-Dealer are affiliates under common control. Computation of 1% beneficial ownership is based upon the methodology used to compute ownership under Section 13(d) of the Exchange Act. The securities discussed in this research report may not be eligible for sale in all States or countries, and such securities may not be suitable for all types of investors. Offers and sales of securities discussed in this research report, and the distribution of this report, may be made only in States and countries where such securities are exempt from registration or qualification or have been so registered or qualified for offer and sale, and in accordance with applicable broker-dealer and agent/salesman registration or licensing requirements. The preparer of this research report is employed by Global Markets Research and is not registered or qualified as a research analyst, representative, or associated person under the rules of FINRA, the New York Stock Exchange, Inc., any other U.S. self-regulatory organization, or the laws, rules or regulations of any State.

European Investors: This report is published, approved and distributed in the UK by the Bank and by CBA Europe Ltd ("CBAE"). The Bank and CBAE are both registered in England (No. BR250 and 05687023 respectively) and authorised and regulated in the UK by the Financial Services Authority ("FSA"). This report does not purport to be a complete statement or summary. For the purpose of the FSA rules, this report and related services are not intended for retail customers and are not available to them. The products and services referred to in this report may put your capital at risk. Investments, persons, matters and services referred to in this report may not be regulated by the FSA. CBAE can clarify where FSA regulations apply.

Singapore Investors: This report is distributed in Singapore by Commonwealth Bank of Australia, Singapore Branch (company number F03137W) and is made available only for persons who are Accredited Investors as defined in the Singapore Securities and Futures Act and the Financial Advisers Act. It has not been prepared for, and must not be distributed to or replicated in any form, to anyone who is not an Accredited Investor.

Hong Kong Investors: This report was prepared, approved and published by the Bank, and distributed in Hong Kong by the Bank's Hong Kong Branch. The Hong Kong Branch is a registered institution with the Hong Kong Monetary Authority to carry out the Type 1 (Dealing in securities) and Type 4 (Advising on securities) regulated activities under the Securities and Futures Ordinance. Investors should understand the risks in investments and that prices do go up as well as down, and in some cases may even become worthless. Research report on collective investment schemes which have not been authorized by the Securities and Futures Commission is not directed to, or intended for distribution in Hong Kong.

All investors: Analyst Certification and Disclaimer: Each research analyst, primarily responsible for the content of this research report, in whole or in part, certifies that with respect to each security or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about those securities or issuers; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by that research analyst in the report. The analyst(s) responsible for the preparation of this report may interact with trading desk personnel, sales personnel and other constituencies for the purpose of gathering, synthesizing, and interpreting market information. Directors or employees of the Group may serve or may have served as officers or directors of the subject company of this report. The compensation of analysts who prepared this report is determined exclusively by research management and senior management (not including investment banking). No inducement has been or will be received by the Group from the subject of this report or its associates to undertake the research or make the recommendations. The research staff responsible for this report receive a salary and a bonus that is dependent on a number of factors including their performance and the overall financial performance of the Group, including its profits derived from investment banking, sales and trading revenue.

Unless agreed separately, we do not charge any fees for any information provided in this presentation. You may be charged fees in relation to the financial products or other services the Bank provides, these are set out in the relevant Financial Services Guide (FSG) and relevant Product Disclosure Statements (PDS). Our employees receive a salary and do not receive any commissions or fees. However, they may be eligible for a bonus payment from us based on a number of factors relating to their overall performance during the year. These factors include the level of revenue they generate, meeting client service standards and reaching individual sales portfolio targets. Our employees may also receive benefits such as tickets to sporting and cultural events, corporate promotional merchandise and other similar benefits. If you have a complaint, the Bank's dispute resolution process can be accessed on 132221.

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

Research

Commodities		Telephone	Email Address
Luke Mathews	Agri Commodities	+612 9118 1098	luke.mathews@cba.com.au
Lachlan Shaw	Mining & Energy Commodities	+613 9675 8618	lachlan.shaw@cba.com.au
Vivek Dhar	Mining & Energy Commodities	+613 9675 6183	vivek.dhar@cba.com.au

Economics		Telephone	Email Address
Michael Blythe	Chief Economist	+612 9118 1101	michael.blythe@cba.com.au
Michael Workman	Senior Economist	+612 9118 1019	michael.workman@cba.com.au
John Peters	Senior Economist	+612 9117 0112	john.peters@cba.com.au
Gareth Aird	Economist	+612 9118 1100	gareth.aird@cba.com.au
Diana Mousina	Economist	+612 9118 6394	diana.mousina@cba.com.au

Fixed Income		Telephone	Email Address
Adam Donaldson	Head of Debt Research	+612 9118 1095	adam.donaldson@cba.com.au
Scott Rundell	Chief Credit Strategist	+612 9303 1577	scott.rundell@cba.com.au
Philip Brown	Fixed Income Quantitative Strategist	+612 9118 1090	philip.brown@cba.com.au
Alex Stanley	Interest Rate Strategist	+612 9118 1125	alex.stanley@cba.com.au
Tariq Chotani	Credit Research Analyst	+612 9280 8058	tariq.chotani@cba.com.au
Tally Dewan	Credit Research Analyst	+612 9118 1105	tally.dewan@cba.com.au
Kevin Ward	Database Manager	+612 9118 1960	kevin.ward@cba.com.au

Foreign Exchange and International Economics		Telephone	Email Address
Richard Grace	Chief Currency Strategist & Head of International Economics	+612 9117 0080	richard.grace@cba.com.au
Joseph Capurso	Currency Strategist	+612 9118 1106	joseph.capurso@cba.com.au
Peter Dragicevich	Currency Strategist	+612 9118 1107	peter.dragicevich@cba.com.au
Andy Ji	Asian Currency Strategist	+65 6349 7056	andy.ji@cba.com.au
Chris Tennent-Brown	FX Economist	+612 9117 1378	chris.tennent.brown@cba.com.au
Martin McMahon	Economist Europe	+44 20 7710 3918	martin.mcmahon@cba.com.au

Delivery Channels & Publications		Telephone	Email Address
Monica Eley	Internet/Intranet	+612 9118 1097	monica.eley@cba.com.au
Al-Quynh Mac	Information Services	+612 9118 1102	maca@cba.com.au

New Zealand		Telephone	Email Address
Nick Tuffley	ASB Chief Economist	+649 301 5659	nick.tuffley@asb.co.nz
Jane Turner	Economist	+649 301 5660	jane.turner@asb.co.nz
Christina Leung	Economist	+649 301 5661	christina.leung@asb.co.nz
Daniel Smith	Economist	+649 301 5853	daniel.smith@asb.co.nz

Sales

Institutional		Telephone	Equities	Telephone
Syd	FX	+612 9117 0190	Syd	+612 9118 1446
		+612 9117 0341	Asia	+613 9675 6967
	Fixed Income	+612 9117 0020	Lon/Eu	+44 20 7710 3573
	Japan Desk	+612 9117 0025	NY	+1212 336 7749
Melb		+613 9675 6815		
		+613 9675 7495		
		+613 9675 6618		
		+613 9675 7757		
Lon	FX	+44 20 7329 6266		
	Debt & Derivatives	+44 20 7329 6444		
	Credit	+44 20 7329 6609		
HK		+852 2844 7539		
Sing		+65 6349 7074		
NY		+1212 336 7750		
			Corporate	Telephone
			NSW	+612 9117 0377
			VIC	+612 9675 7737
			SA/NT	+618 8463 9011
			WA	+618 9215 8201
			QLD	+617 3015 4525
			NZ	+64 9375 5738
			Metals Desk	+612 9117 0069
			Agri Desk	+612 9117 0145