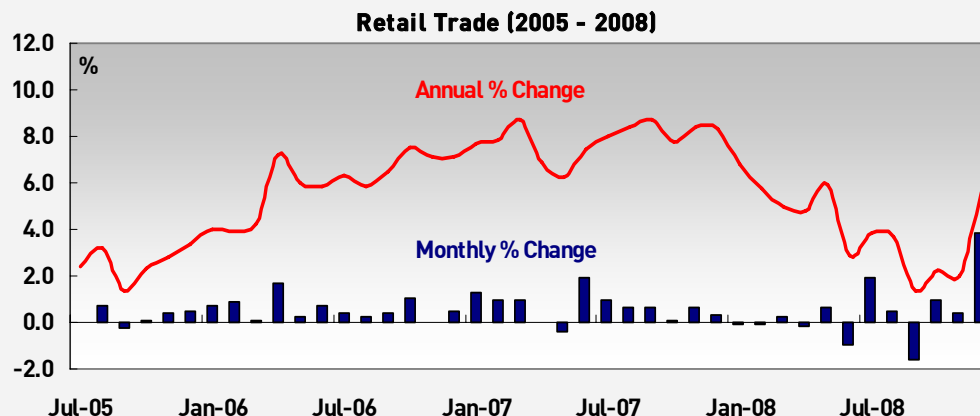


DATA SNAPSHOT

Retail Sales – December Quarter

Wednesday, 18 February 2009

- Retail sales in real terms (i.e. adjusted for inflation) lifted by 0.8% in the December quarter. It follows a small rise of just 0.1% in the September quarter.
- The combination of lower petrol prices, lower interest rates and government cash handouts has likely spurred some consumers back to the shopping malls.
- This data is consistent with recent data and our view that the RBA may cut rates in smaller-sized steps from here on out. We still look for at least a cut of 50bp in size from the RBA in March and a low point in the cash rate of at least 2.25% by around mid year.



Most industries posted increases in volumes in the quarter. The best performer by far was 'other' retailing (+3.3%) – which includes newspaper, book & stationery retailing, some recreational goods and pharmaceutical, cosmetic & toiletry retailing. Other sectors, which gained, were food retailing (+0.8%), household good retailing (+0.8%) and department stores (+0.1%). The two industries which posted decreases in volumes were clothing & soft good retailing (-0.4%) and cafes, restaurants & takeaway food services (-1.5%). In nominal terms, i.e. after including prices, these industries also suffered with losses of 0.4% and 0.2%, respectively.

The most recent Fujitsu Australia & NZ Mortgage Stress-0-Meter survey reveals that mortgage stress continued to ease for households from the heights of mortgage stress in 2008. That fits in line with the improvement witnessed in retail sales in nominal terms in recent months and in volume terms. The combination of government cash handouts, lower petrol prices and lower interest rates has likely spurred some consumers back to the shopping malls. However, this same survey also revealed that the cash handouts largely led households to use the cash payments towards improving their savings and/or paying down debt (the survey found that 23% of households used the money to buy necessities, 16% spent the money on luxuries, 18% repaid debt and 43% saved the payment as a hedge against future stress and unemployment).

Among the key influences hampering consumer spending over the next few months are the prospect of higher unemployment and the long odds attached to a marked V-shaped recovery in the share market. However, further rate cuts from the RBA and the recent stimulus package passed by Parliament are likely to give some protection to the consumer from the flow of negative forces.

Today's result also has implications for GDP in the December quarter (with retail spending accounting for around 40% of GDP and household consumption around 60%). Today's data suggests that there is a chance that Australia skirts a contraction in Q4.

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