

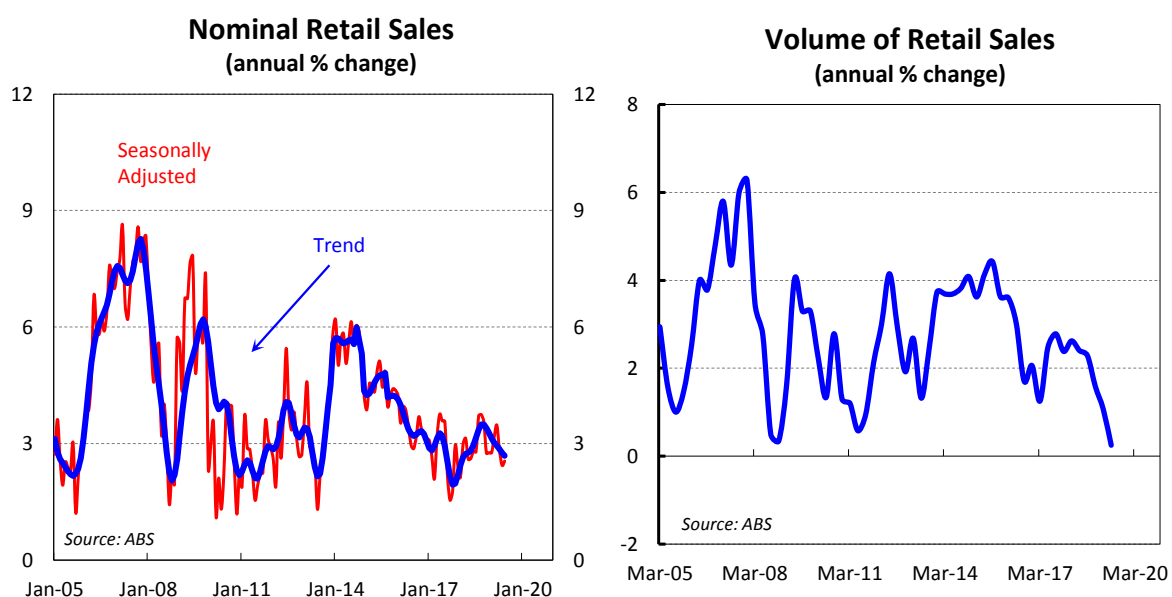
Friday, 2 August 2019



Retail Sales

Consumers' Pulse Barely Beating

- There was a slight uplift in retailing in nominal terms in June, but the underlying trend remained weak.
- Nominal retail sales (or values) grew 0.4% in June, which is the strongest monthly gain in four months. Annual growth lifted modestly, from 2.4% in May to 2.5% in June, but remains well below the long-run average.
- In volumes terms, which adjusts for prices, retailing grew just 0.2% in the June quarter, the first increase in half a year. On an annual basis, retail volumes also grew 0.2%, the weakest annual rate since the June quarter 1991, Australia's last recession.
- Retailing volumes were especially weak in NSW where debt burdens are highest. The State recorded its first annual contraction since the September quarter 2011. There were also declines on an annual basis in Western Australia, Tasmania and the Northern Territory. Annual growth in retailing was also soft in South Australia and the ACT, and was relatively better in Victoria and Queensland.
- Lower interest rates, tax handouts from this financial year and a bottoming out in dwelling prices in Sydney and Melbourne should provide some support to spending over the second half of 2019. However, the headwinds of high household debt and slow wage growth remain. With slow income growth over a number of years, there will be little room for significant growth in consumer spending, as household savings rates have eroded over time. This would suggest a modest pick up in growth at best.



There was a slight uplift in retailing in nominal terms in June, but the underlying trend remained weak. Further, retail spending in real terms (i.e. adjusted for inflation) was flaccid in the June quarter. Indeed, annual growth of real retailing was just 0.2% - the weakest outcome in 28 years.

High household debt, weak wages growth and a downturn in dwelling prices for much of the past two years has taken a toll on consumers. Rate cuts from the RBA, tax cuts from the government and the uncertainty associated with the Federal election behind us should see some improvement in retail spending. Emerging signs of a stabilisation in dwelling prices should also help the retailing outlook, but consumers still will be constrained by high household indebtedness and wages growth going nowhere.

Retail Sales Values

Nominal retail sales (or values) grew 0.4% in June, which is the strongest monthly gain in four months. Annual growth lifted modestly, from 2.4% in May to 2.5% in June, but remains well below the long-run average. Consumers remain shackled by high household debt and wages growth.

The major sector to drag on retailing in June was department-store sales, which is discretionary spending, underscoring the cautious approach by some consumers. Department-store retailing fell by 0.6% in June and by 0.9% in the year to June.

Other sectors recorded growth in June, ranging from 0.1% for food retailing to 2.0% for clothing, footwear & personal accessories. The latter has likely been propped up by higher prices over the quarter, as indicated in consumer price data yesterday. The weaker Australian dollar has had some impact in boosting prices over the quarter, although pressures on retailers have kept price gains have been muted over the year.

- By State

There was modest growth across most of the Eastern seaboard – retailing in NSW, Victoria and the ACT all grew at 0.3% in June and in Queensland it grew 0.4%. Retailing in Tasmania had the strongest growth in the month of 1.5%, followed by Western Australia (0.8%). Retailing contracted in South Australia (-0.3%) and the Northern Territory (-0.2%).

On an annual basis, retailing was extremely weak in NSW (0.6%), where consumers are holding the largest debt burdens. Victoria also weakened from an annual rate of 4.2% to 3.5% in June.

Retailing in Queensland was relatively firm at an annual rate of 5.7%, while retailing across all other States, including South Australia (2.2%), Western Australia (1.3%), Tasmania (2.0%) and the ACT (2.5%), grew modestly and below their long-run average. Retailing in the Northern Territory (-2.9%) remained in contraction on an annual basis.

Retail Sales Volumes

In volumes terms, which adjusts for prices, retailing grew just 0.2% in the June quarter, the first increase in half a year. On an annual basis, retail volumes also grew 0.2%, the weakest annual rate since the June quarter 1991, Australia's last recession.

The volumes measure provides us with a better picture of consumer spending in the national accounts, and suggests weakness in household spending extending through to the June quarter.

Retailing volumes have been dragged down by a decline in food retailing (-0.7%) and weakness in household good retailing (-1.5%) in the year to the June quarter. Department store retailing was also weak (0.1%). Clothing, footwear & personal retailing (2.7%), other retailing (2.5%) and cafes, restaurants & takeaway food services (1.8%)

Across States, retailing volumes were especially weak in NSW (-1.3%), which recorded its first annual contraction since the September quarter 2011. There were also declines on an annual basis in Western Australia (-1.7%), Tasmania (-0.8%) and the Northern Territory (-6.3%). Annual growth in retailing was also soft in South Australia (0.4%) and the ACT (0.4%), and was relatively better in Victoria (1.4%) and Queensland (2.7%).

Outlook

Lower interest rates, tax handouts from this financial year and a bottoming out in dwelling prices in Sydney and Melbourne should provide some support to spending over the second half of 2019. However, the headwinds of high household debt and slow wage growth remain. With slow income growth over a number of years, there will be little room for significant growth in consumer spending, as household savings rates have eroded over time. This would suggest a modest pick up in growth at best.

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