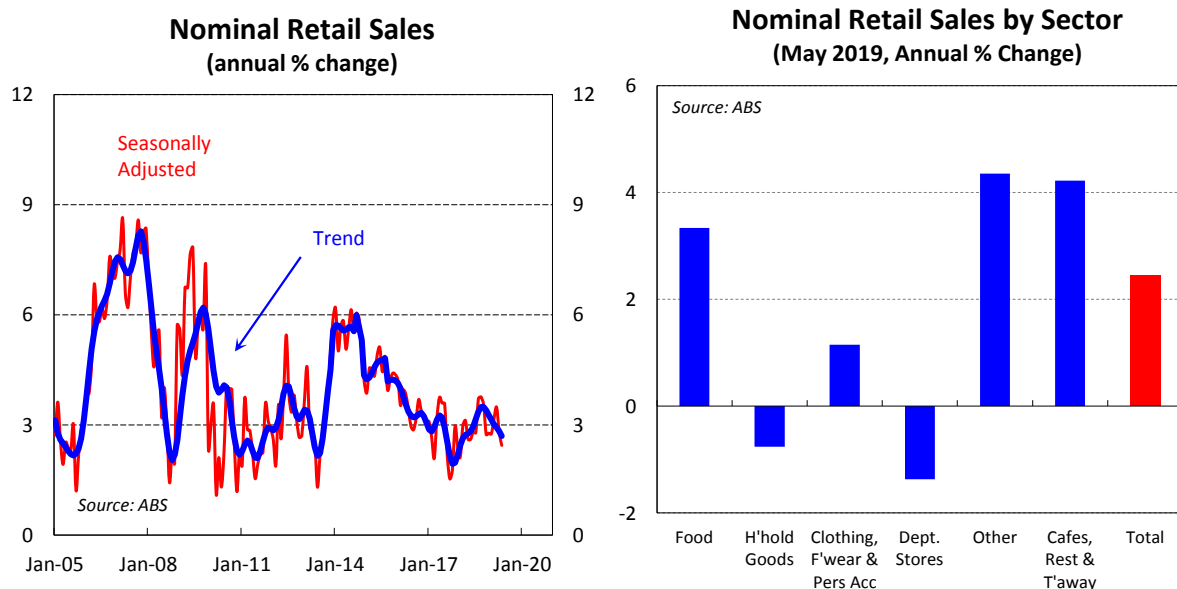


Thursday, 4 July 2019



Retail Sales Not Sparking Joy

- Retail spending remained subdued in May, eking out just a 0.1% gain. It followed a 0.1% decline over April.
- On an annual basis, retail sales growth eased from 2.8% in April to 2.4% in May, which was the weakest since January 2018.
- It was the categories in discretionary retailing that dragged down annual growth, including department store retailing, household good retailing and spending on clothing, footwear and personal accessories. Perhaps it's the influence of organisational expert, Marie Kondo, but this weakness likely suggests some renewed caution among consumers.
- There were clear divergences across States and territories in May. Retailing in Victoria (0.6%), South Australia (0.5%) had the strongest growth of all States. The territories also had solid gains. However, there were declines across the other States, including NSW (-0.1%), Western Australia (-0.2%), Queensland (-0.3%) and Tasmania (-0.4%).
- There are a number of factors that suggest a better outlook for retailing. These include lower interest rates, tax handouts from this financial year and a potential nearing of the bottom for house prices in Sydney and Melbourne. However, the headwinds of high household debt and slow wage growth remain and suggest only a modest improvement at best.



Retail spending remained subdued in May, eking out just a 0.1% gain. It followed a 0.1% decline over April.

The soft pace of retail sales reflects a number of headwinds facing the consumer. Slow income growth over recent years and high household debt levels are limiting the ability for consumers to increase spending.

On an annual basis, retail sales growth eased from 2.8% in April to 2.4% in May, which was the weakest since January 2018.

By Sector

Weakness in May was concentrated in department stores (-0.4%), food (-0.3%) and clothing, footwear & personal accessories (-0.2%). Households instead chose to eat out – spending on cafés, restaurants & takeaway food services lifted 0.7%. Household goods (0.5%) and other retailing (0.6%) were the other categories which gained in the month.

On an annual basis, it was the categories in discretionary retailing that dragged down overall spending. Department store retailing (-1.4%), which is facing significant structural challenges, given competition online and a lack of specialisation, had the largest annual decline of all sectors. Household-good retailing (-0.8%) also declined in the year, which has been negatively impacted by the downturn in the housing market. Spending on clothing, footwear & personal accessories has moderated significantly. Annual growth stood at 1.1% in May, the weakest in 16 months and is well down from an annual pace of 5.9% in March. Perhaps it's the influence of organisational expert Marie Kondo¹, but it likely suggests some renewed caution among consumers.

Annual growth in food retailing (3.3%), other (4.4%) and cafés, restaurants and takeaway services (4.2%) were the better performing sectors.

By State

Retailing in Victoria (0.6%), South Australia (0.5%) had the strongest growth of all States in May. The territories also had solid gains – in the ACT retailing lifted 0.7% and the Northern Territory rose 0.5%. However, there were declines across the other States, including NSW (-0.1%), Western Australia (-0.2%), Queensland (-0.3%) and Tasmania (-0.4%).

On an annual basis, there were also divergences across the States and territories. Queensland (4.7%), Victoria (4.2%), the ACT (3.3%) and South Australia (2.9%) had relatively firm growth in May. With the exception of the ACT, retailing in each of the above States was above their long-run average. At the other end of the scale, annual growth in NSW retailing eased to just 0.5%, the weakest since February 2012. The fall in Sydney house prices is likely factor weighing on spending in the State. Annual growth in Western Australia (0.4%) and Tasmania (0.6%) was also weak and in Northern Territory (-4.3%) it has been in decline for eight consecutive months.

Outlook

There are a number of factors that suggest a better outlook for retailing. Lower interest rates, tax handouts from this financial year and a potential nearing of the bottom for house prices in Sydney and Melbourne should provide some support to spending. However, the headwinds of high household debt and slow wage growth remain and suggest only a modest improvement at best.

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¹ Marie Kondo is an organisational expert whose approach to decluttering involve only keeping items which spark joy

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