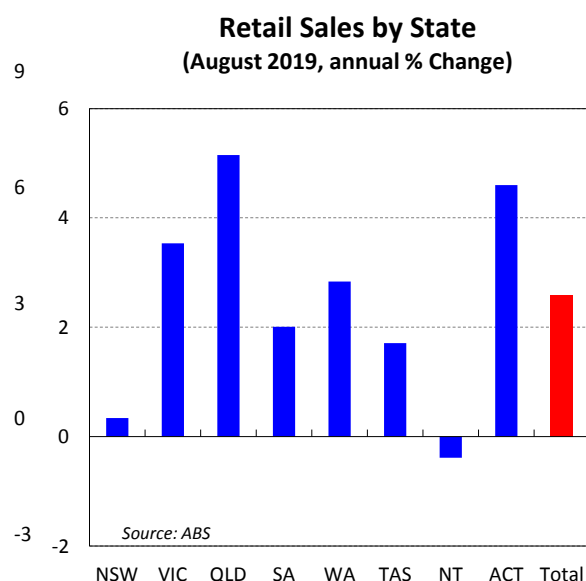
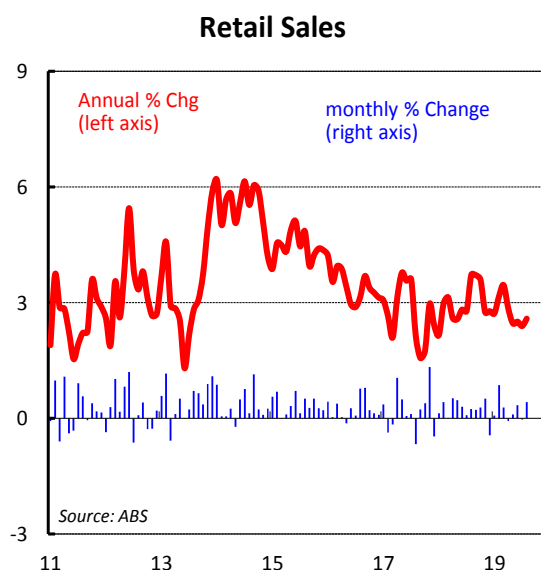


Retail Sales

Save it or Spend it?

- Retail sales picked up in August, lifting 0.4%, following a flat result in July. However, given that incomes have received a boost from the tax refunds and rate cuts from the RBA, the pace of growth in retailing remains disappointing.
- Consumers are opting to not spend much of their windfalls at the shops. Given the erosion of savings reflecting weak growth in incomes over recent years, households appear to be using the opportunity to rebuild balance sheets.
- Strong gains in clothing, footwear & personal accessories (1.8%) and department store sales (1.1%) for August suggests some degree of retail therapy. However, a pullback in spending on eating out further underscores reluctance by consumers to open their wallets.
- On an annual basis, there has been notably firm growth in QLD (5.1%) which was strongest of all States. The ACT also had relatively firm retail spending growth (4.6%) followed by Vic (3.5%). Retail spending contracted in the year in the NT, and was modest in WA (2.8%), SA (2.0%) and Tas (1.7%). Annual growth in NSW (0.3%) was the weakest since early 2012, suggesting that the relatively high mortgage burdens in Sydney is negatively impacting consumer spending.
- Consumer spending has been one of the major uncertainties to the growth outlook, and today's data is increasingly suggesting that a key downside risk is eventuating. Nonetheless, household incomes have been boosted by recent stimulus, and as households choose to rebuild balance sheets, it increases scope for stronger spending down the track. We continue to expect some pick up to consumer spending, but only a mild one.



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The lack of any meaningful improvement indicates that households are still cautious under the weight of soft wage growth and high household debt. Consumers are therefore opting to not spend much of their windfalls at the shops. Given the erosion of savings reflecting weak growth in incomes over recent years, households appear to be using the opportunity to rebuild balance sheets.

Annual growth lifted from 2.4% in July to 2.6% in August, the strongest in four months, but remains well below the ten-year average growth rate of 3.5%.

Trend growth remains weak, and eased from an annual rate of 2.5% to 2.3%.

Strong gains in clothing, footwear & personal accessories (1.8%) and department store sales (1.1%) for August suggests some degree of retail therapy for consumers. However, there might be some currency impact lifting sales values as the lower Australian dollar boosts import prices.

A pullback in spending on eating out further underscores the reluctance of consumers to open their wallets. Spending on cafes, restaurants & takeaway food services fell 0.3% in August, and have been in decline for two consecutive months. Meanwhile, food retailing has been relatively firm, rising 0.4% in month for annual growth of 3.6%.

By State, there were modest gains in retail spending over August in NSW (0.3%), Victoria (0.3%) and Tasmania (0.2%) after declines in July. Retail sales growth was stronger in Queensland (0.8%), South Australia (0.6%) and the ACT (1.9%). Western Australia (-0.1%) and the Northern Territory (-0.1%), fell slightly.

On an annual basis, there has been notably firm growth in Queensland (5.1%) which was the strongest of all States. It could reflect greater responsiveness to recent stimulus measures given lower mortgage debt burdens or possibly reflecting the pickup in population growth over the past few years. The ACT also had relatively firm retail spending growth (4.6%) followed by Victoria (3.5%), where strong population growth remains a feature. In contrast, the annual pace of retail spending contracted in the Northern Territory (-0.4%), which is still being impacted by a lack of new employment opportunities with the completion of the Inpex LNG project. Annual growth was modest in Western Australia (2.8%), South Australia (2.0%) and Tasmania (1.7%). In NSW (0.3%), retailing growth was notably weak, suggesting that the relatively high mortgage burdens in Sydney is negatively impacting consumer spending. The annual pace was the weakest since early 2012.

Outlook

There have been hopes that consumer spending will improve over the second half of 2019. The limited pick up in retail sales growth is therefore discouraging. Consumer spending has been one of the major uncertainties to the growth outlook, and today's data is increasingly suggesting that a key downside risk is eventuating.

Household incomes have been boosted nonetheless, by the tax rebates and lower interest rates. As households choose to rebuild balance sheets, it increases scope for stronger spending down the track. A turnaround in housing prices, particularly in Sydney and Melbourne, also suggests that the negative wealth effect from falling prices is now behind us. We continue to expect some pick up to consumer spending, but only a mild one given the ongoing headwinds of high household debt levels and slow growth in wages.

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