

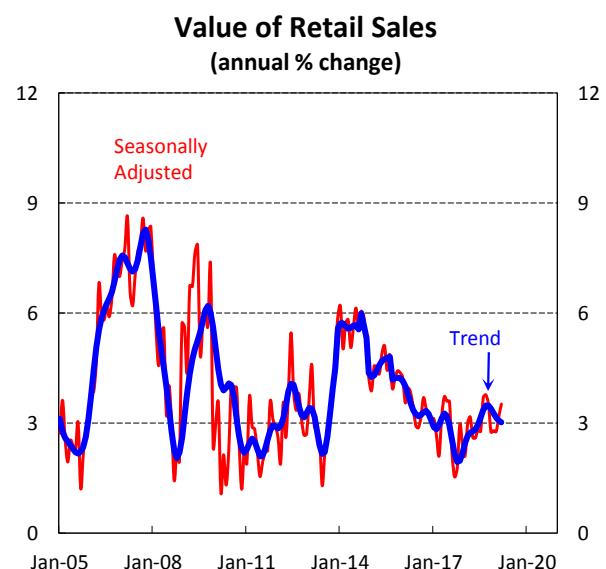
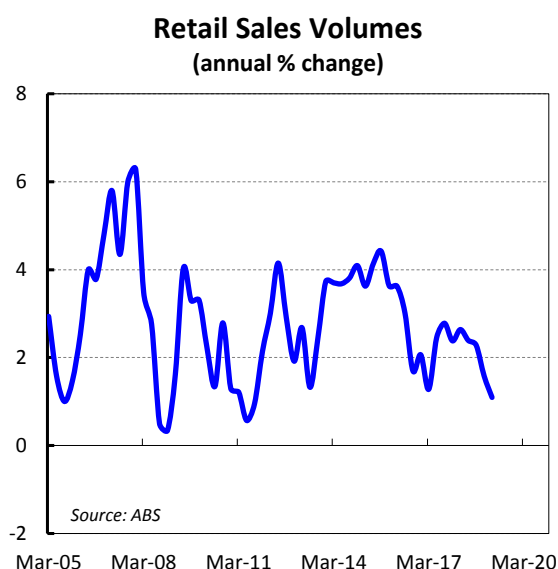
Tuesday, 7 May 2019



Retail Sales

Housing Slump Bites Retail Spending

- Retail spending remains in the doldrums, reflecting the headwinds from high household debt, weak growth in incomes and the downturn in the housing market.
- Retailing is very weak after adjusting for prices. Retail sales in volumes terms contracted 0.1% in the March quarter, the first decline since the September quarter of 2012. Moreover, retail sales volumes have not witnessed any growth for six months.
- The annual rate of growth for retail sales volumes stepped down from 1.6% in the December quarter 2018 to 1.1% in the March quarter, the weakest pace in 7½ years.
- In nominal terms, retail sales rose by 0.3% in April, after strong growth of 0.9% in March. The result takes the annual growth rate to 3.5% in April, from 3.2% in March. However, this annual pace of retailing remains below the long-run average.
- Today's data gives evidence that the downturn in housing is biting with household-goods retailing declining sharply in volume terms and growing only slightly in value terms.



Retail spending remains subdued. The latest data revealed the value of retail sales rose only modestly in March and the volume of retailing in the March quarter fell. Indeed, retail-sales volumes have not recorded growth for six months. The data also shows evidence that the downturn in housing is biting with household-goods retailing declining sharply in volume terms and growing only slightly in value terms. Department-store sales continued to contract too. Other categories performed better, particularly spending on cafes, restaurants & takeaway food services.

The contraction in retail sales will be the focus today because it has a strong correlation with

household consumption, a key input in the gross domestic product (GDP) measure of the national accounts.

Value of Retail Sales

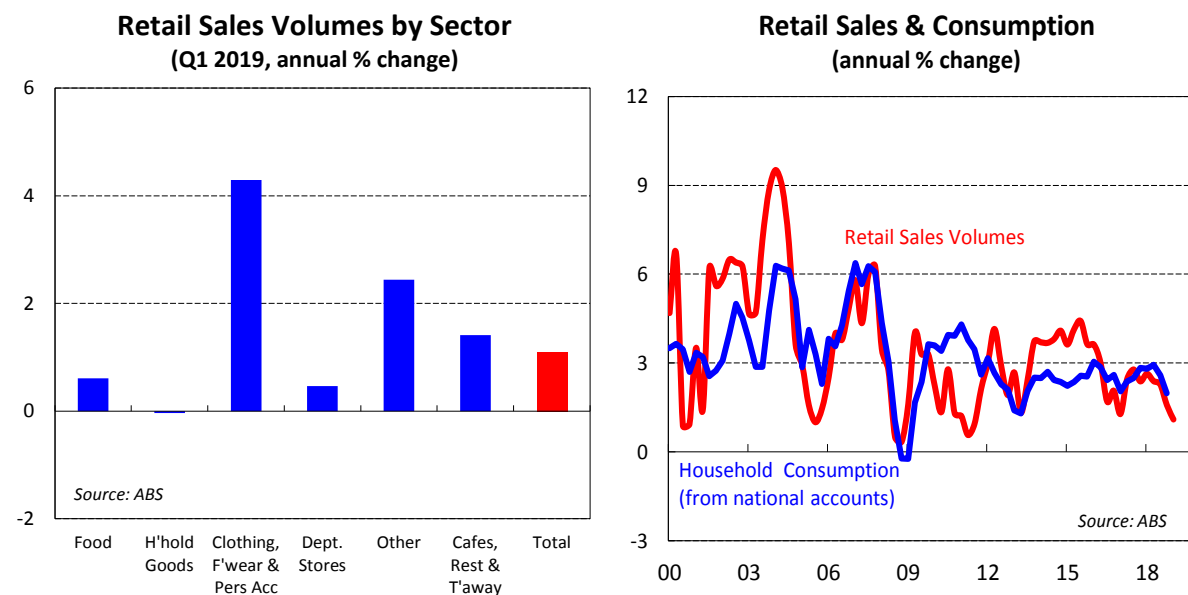
Retail sales in nominal terms rose by 0.3% in March, after strong growth of 0.9% in February. The result lifts the annual growth rate to 3.5% in March, from 3.2% in February. However, the annual pace of retailing remains below the long-run average. High household debt, weak wages growth and a slowdown in dwelling prices are constraining retail spending.

In terms of **sectors**, retailing contracted in two of the six sectors. Department-store sales and other retailing (i.e. specialist stores like chemists, bookshops, sporting retailers) fell in March. The former fell by 1.5% and has fallen four times in the past six months with the annual rate moving to contraction of 0.4% in April. Other retailing fell by 0.4% in March, after flat growth in February and its annual rate has eased for three straight months to stand at 3.5% in March.

The strongest category in March was cafes, restaurants & takeaway food services, which surged 1.4% in April, the fastest monthly growth rate in 17 months. Annual growth of this sector rose from 2.4% in February to a seven-month high of 4.8% in March.

Evidence that the downturn in housing prices is impacting consumers was provided by the slowing in household-goods retailing. This segment grew just 0.2% in March and has been patchy since late last year. On a year ago, household-goods retailing rose just 0.6% in the month.

In terms of the other categories, food retailing rose 0.4% and clothing, footwear & personal accessories expanded by 1.2% in March.



Retailing was mixed across **States and territories**. Victoria (+0.7%), the Northern Territory (+0.7%) and Queensland (+0.6%) led retailing growth in March. NSW (+0.3%) and South Australia (+0.1%) had small gains and retailing was flat in the ACT. Western Australia (-0.7%) was the only State where retailing declined.

On an annual basis, retail spending was strongest in Queensland (+5.3%) and Victoria (+4.7%), which is being supported by firm population growth in these States. Retailing in the ACT (+3.7%) and Tasmania (+3.7%) is reflecting relatively strong performance in these economies. Retailing growth in all these States were above their long-run averages. Among other States, there was modest growth recorded in NSW (+2.7%), South Australia (+1.9%) and Western Australia (+1.1%).

Retailing in the Northern Territory continued to go backwards, declining 1.3% in the year to March

Volume of Retail Sales

Retailing looked especially weak after adjusting for prices. Retail sales volumes contracted by 0.1% in the March quarter, the first decline since the September quarter of 2012. Retail sales volumes have not witnessed any growth for six months. The annual rate of growth stepped down from 1.6% in the December quarter of 2018 to 1.1% in the March quarter, the weakest pace in 7½ years (i.e. since the September quarter of 2011).

The soft outcome suggests that consumer spending remains in the doldrums, reflecting the headwinds from weak growth in incomes and the downturn in the housing market.

Across sectors, household good retailing, which is most impacted by falling house prices, contracted 0.6% in the March quarter and was unchanged in the year. Sales in department stores also contracted (1.2%) in the month.

All other sectors recorded modest gains in the March quarter, including food retailing (+0.1%), clothing footwear & personal accessory retailing (+0.3%) and other retailing (0.3%). Cafes, restaurants & takeaway food services (1.0%) had the strongest growth in the March quarter.

Retail sales volumes contracted in all States, with the exception of NSW. Sales volumes lifted 0.6% in the Premier State, but this followed a 1.1% drop in the December quarter.

Outlook

Consumers are likely to remain under pressure from the deepening downturn in housing, weak wages growth and high levels of household debt. Ongoing firm jobs growth and likely rate cuts from the RBA this year (possibly as soon as today) should provide some support.

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