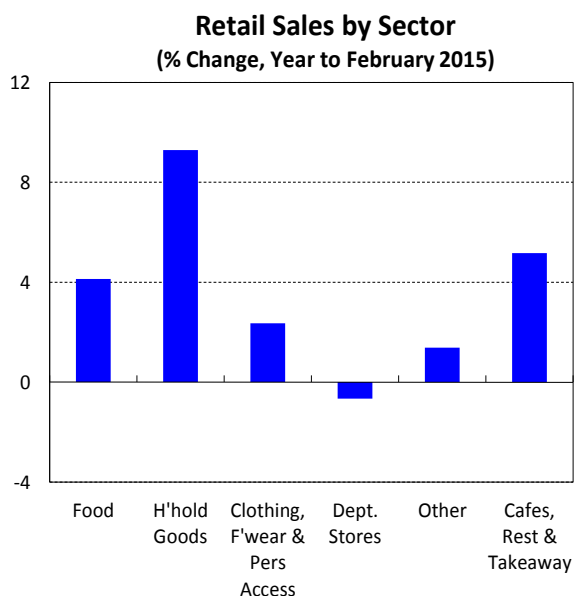
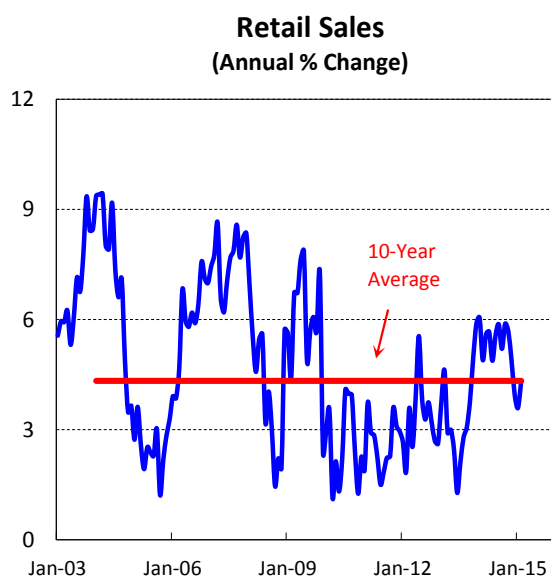


Retail Sales

Hot Housing Spurs Spending

- Retail spending made a good start to 2015. Sales jumped 0.7% in February, following a 0.5% rise in January. Annual growth was just a touch below the long-run average at 4.3% in February, but up on the 3.6% annual growth recorded in January.
- An interest rate cut from the RBA in February, and speculation of another rate cut to come appears to have encouraged consumers to spend up. Lower petrol prices have also boosted the purchasing power of consumers.
- The strength in the housing market is helping to boost retail spending. Greater turnover within the housing market is likely encouraging householders to improve their homes and spend more on new furnishings and appliances. Household goods retailing was the strongest growing sector in the month and for the year.
- All States saw growth in February with Victoria posting a second consecutive month of 0.8% growth. Annual growth rates for retailing remain firmest in NSW (5.6%) and South Australia (5.2%). Firm house price growth and building activity in Sydney & Melbourne continues to generate solid activity at the cash register.
- While retail spending has picked up, the impact of on economic activity of weaker commodity prices will weigh heavily on the RBA board. We expect a rate cut later today. If they do hold their fire this afternoon, we would then expect a rate cut in May.



Retail spending made a good start to 2015. Sales jumped 0.7% in February, following a 0.5% rise in January. Annual growth was just a touch below the long-run average of 4.4% at 4.3% in February, but up on the 3.6% annual growth recorded in January.

An interest rate cut from the RBA in February, and speculation of another rate cut to come appears to have encouraged consumers to spend up. Lower petrol prices have also boosted the purchasing power of consumers.

- By Sector

The strength in the housing market is helping to boost retail spending. Greater turnover within the housing market is likely encouraging householders to improve their homes and spend more on new furnishings and appliances. Household goods retailing was the strongest growing sector in the month of February and in the year. It grew 1.8% in February, for an annual pace of 9.3%.

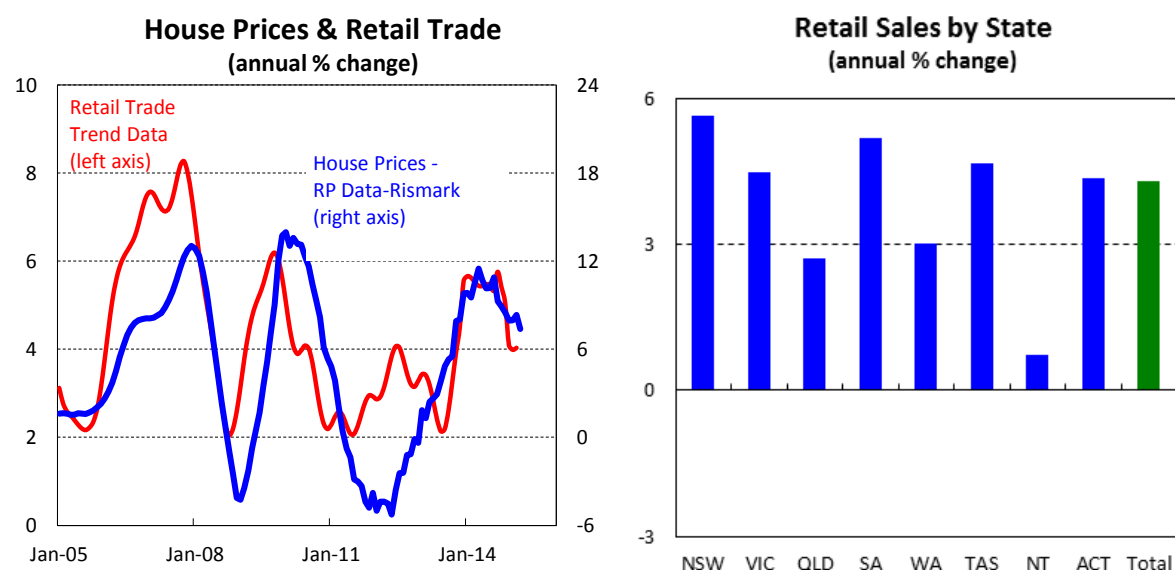
Most other categories of discretionary spending were however, weak. Clothing, footwear & personal accessories retailing declined 0.2% in February, taking annual growth to 2.4%. Department store retailing also fell, dropping 3.2% in February, and contracting 0.7% in the year.

Spending on food retailing rebounded 1.2% in February, after a 0.8% drop in January. Annual growth picked up from 2.3% to 4.1% in February. Cafés, restaurants & takeaway spending fell 0.4% in the month, although annual growth was at a relatively firm 5.2%, suggesting Australians are still keen on eating out.

Other retailing, which includes specialised retailing such as pharmacies and recreation, expanded by 1.3% in February.

By State and Territory

All States and Territories saw retail spending expand in February. Leading the pack in February was the Northern Territory which saw sales growth of 2.3% after a very soft result in January. Sales in the ACT also picked up (1.7%) after a decline in January as did South Australia (1.7%)



Retail spending was firm in Victoria (0.8%) during February and follows a similar strong result in January. NSW also experienced two consecutive months of growth. Sales in NSW rose 0.7% after a

0.3% rise in January. Strong home building activity in NSW appears to have assisted retail spending in that State in recent months.

Sales growth in Queensland was modest at 0.2% while Tasmania posted growth of 0.7% after a solid 2.4% gain in January. Western Australia experienced 0.7% in the month of February.

In terms of year-on-year growth, NSW (5.6%) and South Australia (5.2%) were the strongest States. Growth in Tasmania (4.7%) and Victoria (4.5%) was also relatively firm. Over the year, retail sales grew by 4.4% in the ACT. In Western Australia, annual growth was 3.0%; in Queensland 2.7% and in the Northern Territory it grew by just 0.7%.

Outlook & Implications

The RBA board will have to weigh the positive retail sales result and a strong housing market against the impact of weak non-mining business investment and the flow-on effects of lower commodity prices. Domestic demand remains modest and appears insufficient to lift business sentiment and business expansion.

We expect a rate cut later today. If the RBA holds fire this afternoon then a cut in May would be appropriate.

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