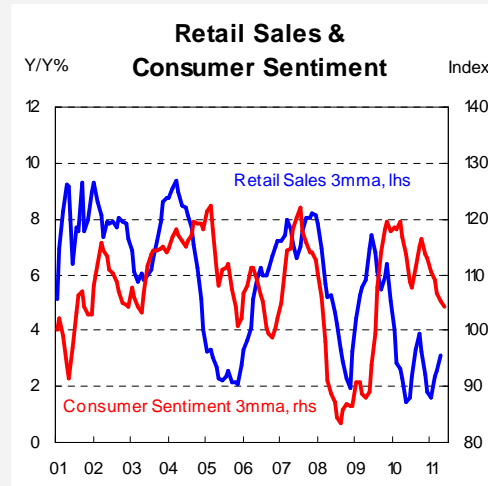
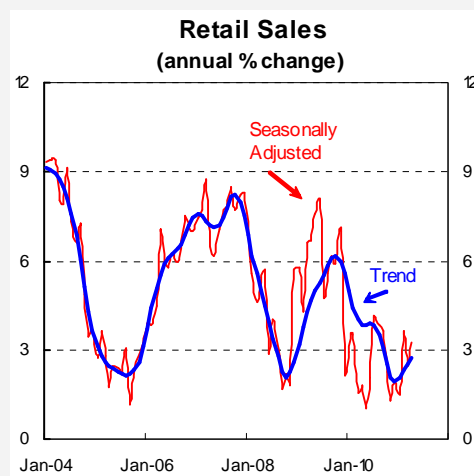


# DATA SNAPSHOT

## Retail Trade: Spending Up after the Floods

Thursday, 2 June 2011

- Retail sales jumped a surprising 1.1% in April, likely owing to a rebound following the floods and cyclone Yasi. Flood-affected States Queensland and Victoria posted strong gains of 1.8% and 2.8% respectively.
- The solid increase took the annual rate to 3.3%. In trend terms, retail spending rose by 0.4% in April and grew by 2.7% over the year. While this suggests retail sales growth has picked up this year, it remains soft.
- It is probably too early to tell if this pick-up will accelerate since recent data has been muddied by the effect of the natural disasters. However, healthy consumer sentiment, strong growth in household incomes and solid employment growth would suggest that consumers might have been overly cautious.
- Today's data may fuel the debate of a June rate rise by the RBA. We still believe that June rate will be difficult especially following the contraction seen in Q1 GDP. This is despite the fact the fall in economic activity was owing to temporary factors. Thus we maintain our long-held view that it will be raising rates in Q3.



Retail sales jumped a surprising 1.1% in April, likely rebounding after the floods and cyclone Yasi hampered spending. This took the annual rate to 3.3% compared with a 2.5% increase over the year to March. Consensus expected a much smaller rise of 0.4% on the back of a fall in March.

Adding to the rosier picture for households was upward revisions to the outcomes for February and March. Retail trade in February is now reported to have risen by a strong 1.0% compared with a 0.8% rise previously, and the March decline of 0.5% was revised up to -0.3%. These revisions are likely owing to changes in the seasonal adjustment factors.

The impact of the disasters has led to the data being quite choppy over the last few months. The trend series, which assists in looking through this volatility, rose by 0.4% in April and grew by 2.7% over the year. While this suggests that retail spending has picked up this year, it is still quite weak when compared to the strength seen in 2009-10 (see chart above "Retail Sales").

When looking across the states, it is clear that the rebound in April is largely owing to the impact of the disasters. Flood-affected states Queensland and Victoria saw significant rises in spending of 1.8% and 2.8% respectively.

Retailing by Sector	M/M%	Y/Y%
Food	0.9	4.2
Household Goods	0.7	0.0
Clothing, footwear & personal accessories	1.2	1.2
Department store sales	3.6	3.4
Other retailing	2.0	7.2
Cafes, restaurants & takeaway food services	-0.3	2.0

The breakdown by sector indicates that the boost in spending was across the board with particularly large increases posted for clothing, footwear & personal accessories and other retailing.

#### Outlook

Although the underlying trend still points to soft spending, a pick up is more consistent with other partial indicators. Healthy consumer sentiment, strong growth in household incomes and solid employment growth would suggest that consumers might have been overly cautious late last year. That being said, it is probably too early to tell if this pick-up in spending will accelerate, especially since recent data has been muddled by the effect of the natural disasters.

The consumer is the swing variable for the domestic outlook this year. Retail spending has been the soft spot in the economy, in contrast to solid private investment spending. The Reserve Bank has recently welcomed the caution exhibited by consumers because it avoids households adding to inflation pressures as a result of the resource boom.

Today's data may fuel the debate of a June rate rise by the RBA. We believe that June rate rise will still be difficult especially following the contraction seen in Q1 GDP. This is despite the fact that the fall in economic activity was owing to temporary factors. Thus we maintain our long-held view that it will be raising rates in Q3.

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