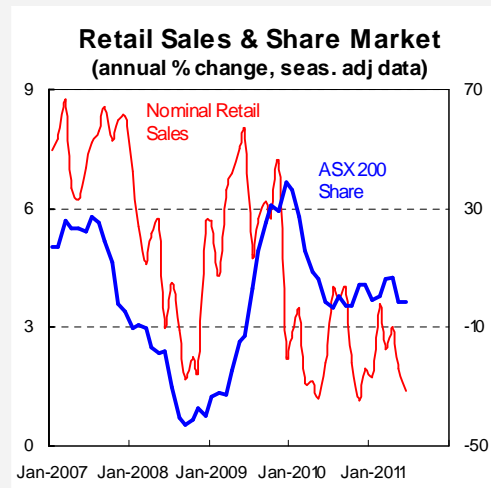
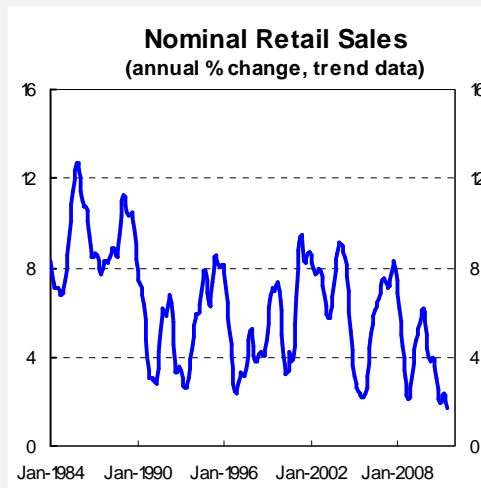


DATA SNAPSHOT

Retail Trade: Consumer Gloom Grows

Wednesday, 3 August 2011

- The weakness in retailing is deepening. Retail sales fell 0.1% in June, the third fall in four months. In trend terms, which smoothes the data further, the value of retail spending grew by 0.1% in June and by 1.7% in the year to June – the weakest annual rate since the data goes back to the early 1980s.
- Discretionary spending was hardest hit as rising caution is seeing consumers mindful of where they spend their dollars.
- Among States hardest hit were where mortgages are the highest, such as NSW.
- The retailing picture was more mixed when considering retailing volumes. Retail sales in volume terms lifted by 0.3%, suggesting retailing will make a modest contribution to GDP in the June quarter.
- We continue to maintain our view that the RBA will keep rates on hold this year. The RBA is unlikely hike rates amid consumer gloom and global uncertainty.



Retail Sales Value, June

Retail sales values dropped 0.1% in June, after a 0.6% decline in May. Retailing has now fallen three out of the last four months and the annual rate in seasonally adjusted terms of 1.4% is the weakest in seven months.

Trend data smoothes out the data further and on this front, the retailing picture looks even softer. In trend terms, retailing rose by 0.1% in the month but the annual rate of 1.7% is the weakest since the data goes back (to the early 1980s).

Discretionary spending was hardest hit as consumer caution sees consumers mindful of where they spend their dollars. The discretionary areas of spending recorded some of the biggest declines. These included:

- household goods retailing fell 0.7% in the month (and is now down 0.9% over the last two months)
- department store sales are off 3.2% (and down 4.6% over the past two months) and
- cafes, restaurants and takeaway food services fell by 0.7% in the month.

Clothing, footwear & personal accessories – a discretionary category – rose by 0.2% in the

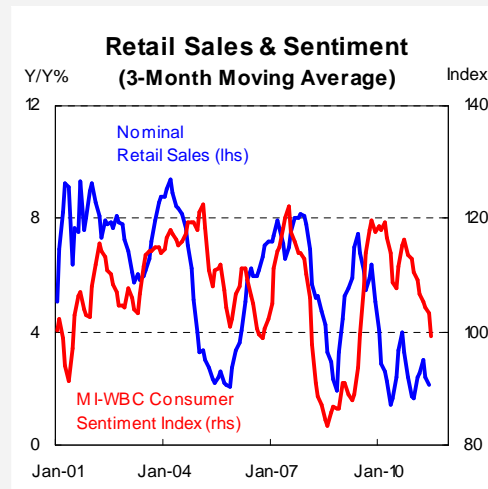
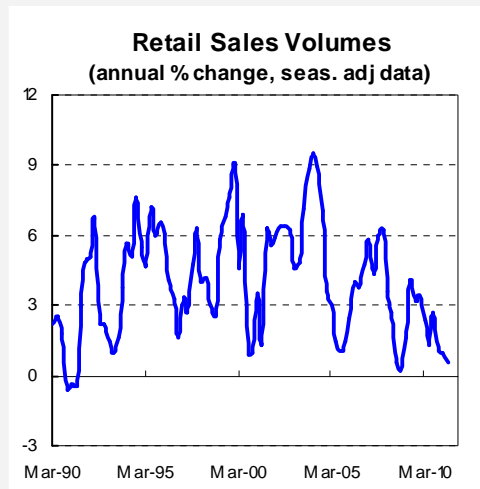
month but it fell heavily in the previous month of 1.9%.

Food and other retailing (such as chemists & cosmetics) rose by 0.4% and 1.2%, respectively.

Across the States and territories, weakness was centred in SA, ACT, NSW and VIC where retailing fell by 0.8%, 0.7%, 0.5% and 0.1%, respectively. NSW is particularly weak with retailing now haven fallen for four straight months and in five of the last six months. The annual rate of 1.8% in NSW is the weakest in nearly three years (since September 2008). WA and QLD both recorded increases in the month of 0.5% and 0.2%, respectively, while retailing was flat in Tasmania.

The RBA Governor Stevens last week described the current resources boom as the “biggest gift the global economy has handed Australia since the gold rush of the 1850s” but he noted that households seem “for the moment, unhappy about that”. That so called unhappiness has translated into a deepening caution that is reflected in higher savings and less spending. It is also showing up in sentiment surveys. Consumer sentiment fell to 92.8 in July, the lowest reading since April 2009 and critically it is below the 100 level, indicating that more consumers are pessimistic about the future.

A low unemployment rate and strong growth in household income should provide some encouragement to consumers but this is being negated by a weakening share market (now down around 1.5% on a year ago), uncertainty over the global economy and relatively high interest rates. One of the States that is feeling the retailing pinch the most is NSW and it is also the State with a dominant mortgage belt with mortgages among the highest in Australia.



Retail Sales Volumes, Q2

Retail sales volumes rose by 0.3% in the June quarter, after a flat outcome in the March quarter. The annual rate eased to 0.6%, the slowest in 2½ years.

The picture among the sectors was more mixed. Retailing rose in other retailing (1.7), household goods (1.1%) and clothing, footwear & personal accessories (0.7%). The growth in clothing, footwear & personal accessories volumes was however helped by sales discounting. But retailing fell in cafes, restaurants & takeaway food services (-1.2%), department stores (-0.8%) and food (-0.2%).

This volumes component of retailing feeds into the GDP calculator. It suggests that retailing will make a modest contribution to GDP in the June quarter. GDP is next due on September 7.

Outlook for Retailing and the Cash Rate

We foresee little turnaround in retail spending over the next few months. We also expect that the RBA will continue to sit on its hands this year. It is unlikely that the RBA will pull the

trigger while retailing continues to soften and global uncertainty remains heightened.

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