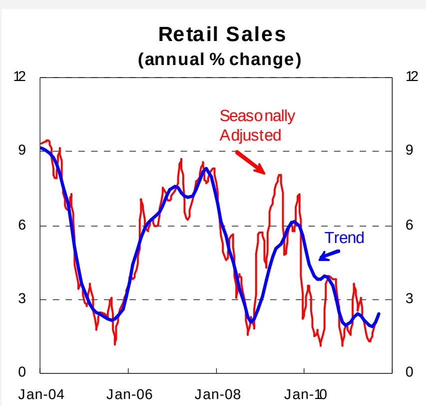
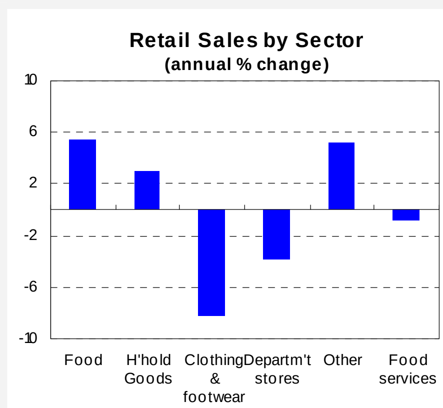
DATA SNAPSHOT

Retail Trade - Relinquishing Caution

Thursday, 3 November 2011

- **Retail spending resumed its tentative recovery rising 0.4% in September. The annual growth rate lifted to 2.3% in September from 2.0% previously, the strongest in five months. The pick up in spending in recent months could suggest that consumers are relinquishing some of their caution, but despite signs of retail spending picking up, the trend remains a weak one.**
- **There were hints in the data that consumers continue to be turning to online retailing. Clothing, footwear & personal accessories and department stores remain weak - categories that are likely to have faced the most competition from online buying.**
- **Retail sales volumes rose by 0.6% in the September quarter, suggesting that retailing will make a reasonable contribution to Q3 GDP. The annual rate was a subdued 0.2% up slightly from 0.1% previously.**
- **Ongoing concerns about sovereign debt in Europe and weaker prospects for global growth could potentially impact negatively on confidence and household spending, although this will be offset by the RBA's decision to cut rates on Tuesday and the prospect of another rate cut in coming months.**



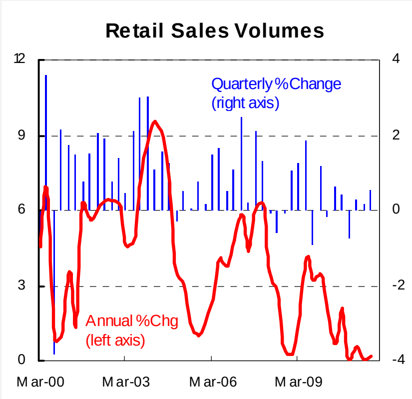


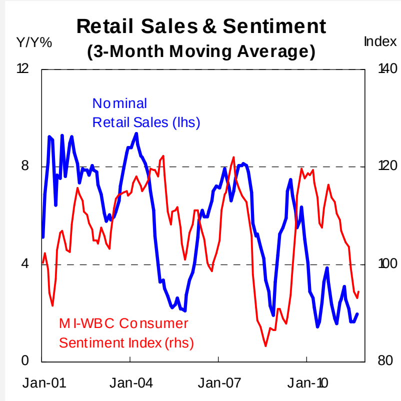
Retail Sales Value, September

Retail spending resumed its tentative recovery rising 0.4% in September. The annual growth rate lifted to 2.3% in September from 2.0% previously, the strongest in five months. Although the trend remains soft, retail spending rose by 0.3% in September in trend terms, the annual trend rate has picked up to 2. 4%, after setting a record low of 1.9% in June and July.

The pick up in spending in recent months could suggest that consumers are relinquishing some of their caution. Reductions in fixed rate mortgages in recent months and reports of a possible rate cut from the RBA likely lifted the mood of householders, as mortgage holders looked forward to more money in their pockets.

Looking across the retailing sectors, the pick up has been driven by retailing in household goods (1.0%) and café, restaurants & takeaway food services (0.9%). All other categories also posted rises in September, but retailing in clothing, footwear & personal accessories and department stores remain weak. These two categories are likely to have faced the most competition from online retailing. Clothing, footwear and personal accessories rose by just 0.1% and were down 8.1% over the year to September, the weakest annual rate in over 10 years. Department stores also rose by just 0.1% and are down 3.8% for the year. The annual rate has been in decline for 5 consecutive months.





Looking across States and Territories, all recorded increases except for Victoria, where retail spending was flat. NSW (up 0.6%) and SA (up 1.0%) had healthy gains, where consumer caution was deepest earlier in the year. Retail sales in ACT jumped 1.7%, while spending in NT (1.0%), TAS (0.8%) also rose. Spending was more subdued in WA rising by 0.1%, while retail sales in QLD rose by 0.5%.

Over the year, retail sales in NSW (0.4%) turned positive for the first time in 4 months, but SA was down 0.7% and ACT fell 0.3%. Annual retail sale growth remains the strongest in WA rising by 8.9%, the strongest annual pace in four years. In other States, QLD was up 3.5%, VIC was 2.2% higher and TAS was up 1.2%.

Retail Sales Volumes, Q3

Retail sales volumes rose by 0.6% in the September quarter following a 0.2% rise in June quarter. The annual rate was a subdued 0.2% up slightly from 0.1% previously.

The sector breakdown told a similar story of divergence amongst retailing categories. Retailing volumes were strongest in other retailing (2.5%) followed by household goods (1.5%), food (1.4%) and café restaurants and takeaway (1.2%). Meanwhile, clothing, footwear & personal accessories were down 8.0% the largest quarterly fall in 11 years, and department store retailing fell 2.3% in the quarter, which was the largest quarterly fall in one year.

This volumes component of retailing feeds into the GDP calculator via the household consumption category. It suggests that retailing will make a reasonable contribution to Q3 GDP, which will be released on 7 December.

Outlook for Retail Spending and Interest Rates

Today's retail sales data suggests consumers could be relinquishing some of their caution. Ongoing concerns about sovereign debt in Europe and weaker prospects for global growth could potentially impact negatively on confidence and household spending, although this will be offset by the RBA's decision to cut rates on Tuesday and the prospect of another rate cut in coming months.

Despite signs of retail spending picking up, the trend remains a weak one. Further, the RBA is likely to be focused on developments from overseas. Global worries continue to pose downside risks to the domestic growth outlook and lower inflation has given the RBA some room to cut rates, as they did on Tuesday. In its accompanying statement, the central bank indicated "a more neutral stance of monetary policy" was appropriate, suggesting to us that it will likely lower rates again. We expect the RBA to follow up with another 25bps rate cut in Q1 next year.

Janu Chan, Economist
Ph: (02) 9320-5892

Contact Listing

Chief Economist	**Besa Deda**	**dedab@stgeorge.com.au**	**(02) 9320 5854**
Senior Economist	**Josephine Heffernan**	**heffernanj@stgeorge.com.au**	**(02) 9320 5751**
Economist	**Janu Chan**	**chanj@stgeorge.com.au**	**(02) 9320 5892**
State Manager SA	**Mark Goldsmith**	**goldsmithm@banksa.com.au**	**(08) 8424 5597**