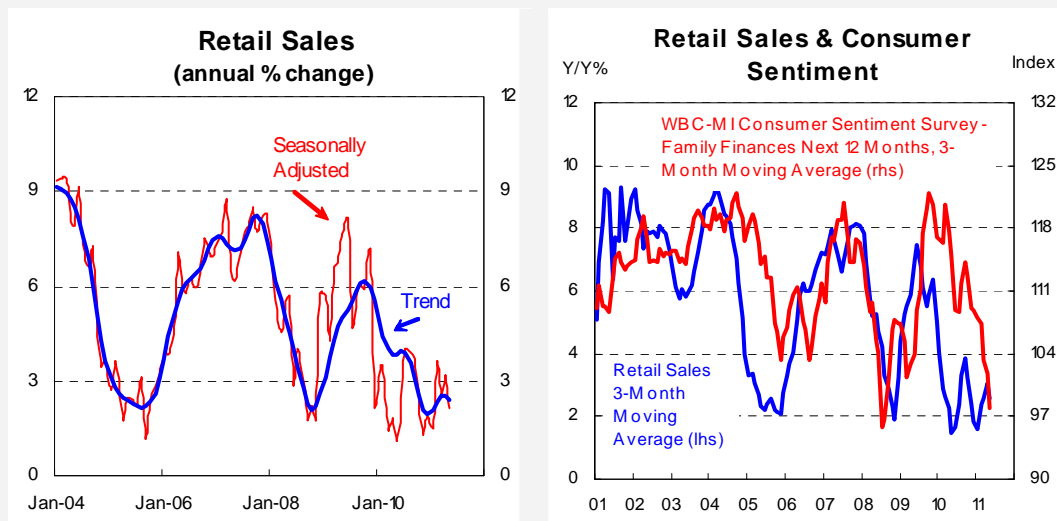


# DATA SNAPSHOT

## Retail Trade: Buyer Fatigue

Monday, 4 July 2011

- Retail sales fell 0.6% in May, after a 1.2% jump in April. The data is still affected by the impact of the floods and cyclone that struck Australia earlier this year. But looking through the volatility, one is still left with an impression of a buyer fatigue.
- In trend terms, which smoothes the data further, retail spending grew by 0.3% in May and the annual growth rate stepped down from 2.6% to a three-month low of 2.4%. This annual rate compares with the most recent cyclical peak of 6.2% recorded in October 2009.
- Consumer sentiment surveys suggest that the near-term outlook for retailing is unlikely to see a turnaround, despite some positive fundamentals that include a tight job market and firm growth in household incomes.
- Today's economic data adds to the case that a tightening this year is more likely in October or November than in coming months. We would not rule out a rate hike in August but we do feel it is now conditional on a settling of global growth concerns and a high CPI outcome for the June quarter.



Buyers' fatigue is setting in. Retail sales fell 0.6% in May, after a 1.2% jump in April. The data is still affected by the impact (and unwinding) of the floods and cyclone that struck Australia earlier this year. But looking through the volatility, one is still left with an impression of buyers' fatigue. In trend terms, which smoothes the data further, retail spending grew by 0.3% in May and the annual growth rate stepped down from 2.6% to a three-month low of 2.4%. This annual rate compares with the most recent cyclical peak of 6.2% recorded in October 2009.

All sectors of retailing recorded declines except for cafes, restaurants & takeaway food services. This sector rose by 0.4% in May but has risen only 0.1% since December 2010.

The biggest sector declines occurred in the discretionary areas of clothing, footwear & personal accessories, other retailing (includes chemists, gardening) and department store sales (down 1.8%, 1.6% and 1.4%, respectively).

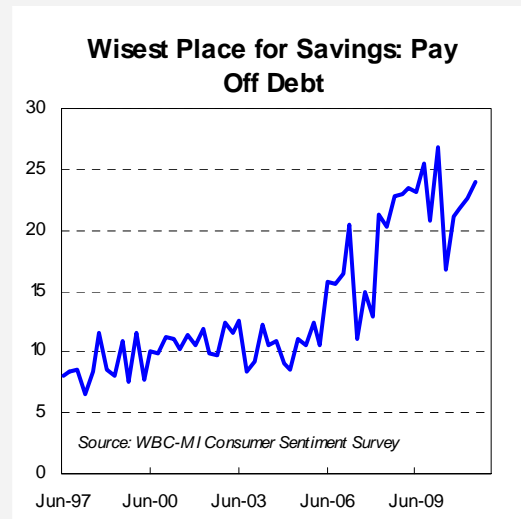
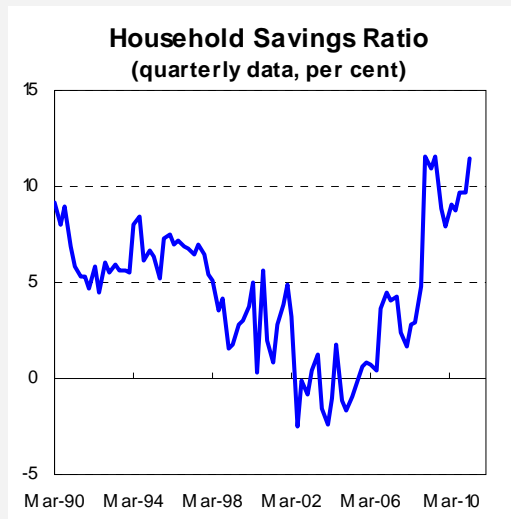
Across States, the biggest declines occurred in NSW and Victoria where retailing fell by 1.2% and 1.1%, respectively. The NSW decline was the largest in seven months and the VIC decline was the largest in four months.

Retailing fell 0.7% in SA, 0.6% in ACT and by 0.2% in Tasmania. Queensland retailing was flat while WA and NT recording rises of 0.8% and 0.1%, respectively.

Consumer sentiment surveys suggest that the near-term outlook for retailing is unlikely to see a turnaround. Movements in consumer sentiment and retailing have a close positive correlation over time. Consumer sentiment has fallen 15.1% since its most recent peak in August 2010. Further, consumers are now more pessimistic about the 12-month outlook for family finances (see chart on the first page).

Consumers have reasons to feel optimistic due to the tight labour market and growth in household disposable incomes. However, rising utility bills, higher interest rates over last year and nervousness about possible nasties from the Greek debt crisis might be contributing to consumers holding their purse strings tight.

The consequences of greater consumer caution and softer retail spending have been a rise in household savings ratio, which is now near levels not witnessed since the 1980s. Not surprisingly then, household balance sheet repair has gone a long way (reflected also in the rising trend in consumers viewing paying off debt as the wisest place for savings).



The Reserve Bank (RBA) has expressed it is comfortable with the caution exhibited by consumers. With the deepening of the upswing in private business investment, the RBA would have more to do with fighting inflation if retailing was also growing strongly.

Today's economic data suggests to us that a tightening this year is more likely in October or November than in coming months. We would not rule out a rate hike in August but we feel it is now conditional on a settling of global growth concerns and a high underlying CPI outcome for the June quarter.

**Besa Deda, Chief Economist**  
 Ph: (02) 9320-5854  
 Email: dedab@stgeorge.com.au

## Contact Listing

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### Economics:

Chief Economist	Besa Deda	<a href="mailto:dedab@stgeorge.com.au">dedab@stgeorge.com.au</a>	(02) 9320 5854
Senior Economist	Josephine Heffernan	<a href="mailto:heffernanj@stgeorge.com.au">heffernanj@stgeorge.com.au</a>	(02) 9320 5751
Economist	Janu Chan	<a href="mailto:chanj@stgeorge.com.au">chanj@stgeorge.com.au</a>	(02) 9320 5892

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