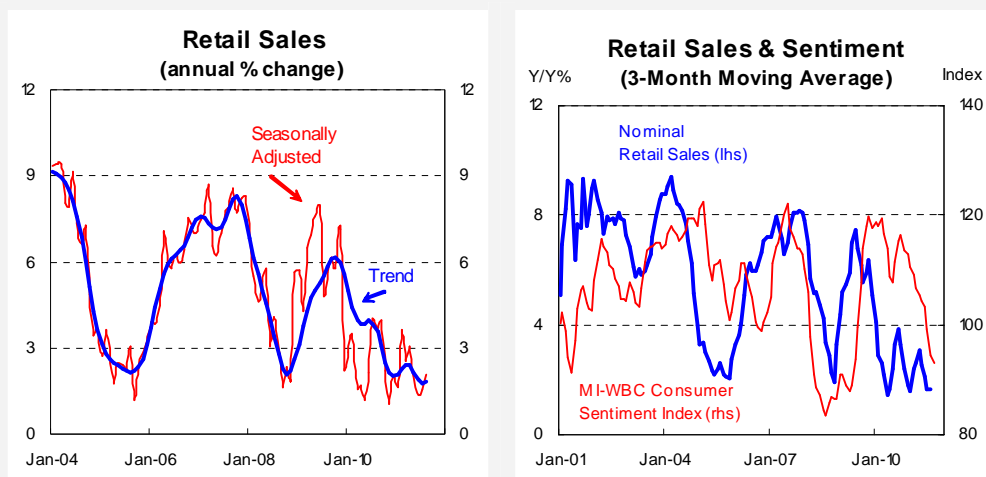


DATA SNAPSHOT

Retail Trade: Retail Therapy

5 October 2011

- Retail spending was stronger than expected, rising 0.6% in August, after a 0.6% increase in July (previously reported as 0.5%). The annual growth rate lifted to 2.1% in August, up from 1.5% in July, however, this remains well below the long-term growth in retail sales of 5.5%.
- This indicates that it is too early to say that household caution is lifting in a meaningful way, especially against a backdrop of weaker consumer sentiment and a negative wealth effect given declining equity markets and moderating house prices this year.
- The extent of the lift in retail sales is surprising given the sharp falls in global equity markets in August, however, the decline in fixed mortgage rates offered by lenders, and media speculation about the possibility of a rate cut from the RBA, may have lifted consumers' moods somewhat in recent months.



Retail spending rose 0.6% in August, following a 0.6% increase in July (previously reported as 0.5%). The annual growth rate lifted to 2.1% in August, up from 1.5% in July, although it still remains below the long-term average. The trend annual growth rate held at 1.8% in August, equal to the record-low set in July.

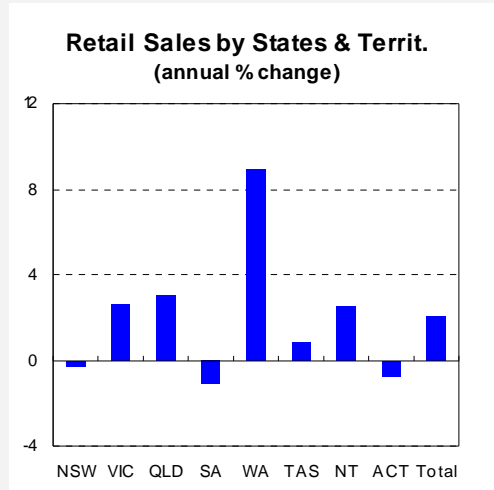
It appears retail spending has increased in recent months, following a reduction in fixed rate mortgage rates and media speculation about the possibility of a rate cut from the RBA in coming months. This likely provided comfort to householders who went out and spent more in August. However, even with the prospect of lower interest rates, turmoil and uncertainty in financial markets are likely to prove an ongoing headwind for the retail sector.

Retailing Sectors

Across the retailing sectors, only two categories recorded a fall: clothing, footwear & personal accessory retailing and department store retailing. The clothing, footwear & personal accessories sector fell 0.3% in August, which was its fourth consecutive monthly fall, and followed a sharp 4% decline in July, to leave it down 6.6% for the year. Department store sales fell 0.8% in August, taking the annual rate down to -3.6%.

The strongest rise occurred in household good retailing, which jumped 1.7% in August, led by the furniture and floor coverings sub-category. This was surprising given recent moderation in house prices, which would usually weigh on household good retailing, and saw the annual rate move into positive territory with a 2.2% increase. Spending on cafes, restaurants and

takeaway food services jumped 1.2%, the second strong month for this discretionary-spending sector, although earlier weakness means the annual rate is -2.6%. Food retailing was also solid, with a 0.6% increase, the third consecutive monthly increase, leaving the annual rate at a healthy 5.4%, the highest since February.



States

All states saw growth in retail sales in August (although in the Northern Territory retail sales were unchanged). Across the States, NSW recorded a spike of 1.0% in retail spending in August, following a 1.1% increase in July. This was followed by WA, which saw growth in retail spending of 0.9%, the fifth consecutive monthly solid increase in retail sales. Tasmania saw growth of 0.8%, followed by Queensland with 0.5% growth. Victoria showed growth in retail sales of 0.3% in August, its second consecutive monthly increase.

Over the past year, retail sales in South Australia (-1.1%), ACT (-0.8%) and NSW (-0.3%) have all declined. Annual retail sale growth in WA was very strong (8.9%) reflecting the mining boom, followed by Queensland (3.0%), Victoria (2.6%) and the Northern Territory (2.5%).

Outlook for Interest Rates

Today's retail sales data was stronger than expected, for the second consecutive month. The strength in retail sales has likely been driven by talk of a possible interest rate cut from the RBA, compared to speculation of another rate hike, as recently as a few months ago. The change in expectations has been reflected by the decrease in fixed rate mortgage rates offered by lenders in recent months. This has likely left some consumers with breathing space and eased their expectations of their budget situation over the next year.

This comes, however, amid a backdrop of increased uncertainty about both the prospects for resolution of the sovereign debt and banking problems in Europe and the outlook for global economic growth. These factors are likely to continue to weigh on household spending. They are also, however, likely to be key factors (along the domestic inflation outlook) for the RBA in its interest rate decisions in coming months.

Jo Heffernan, Senior Economist
Ph: (02) 9320-5751

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

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