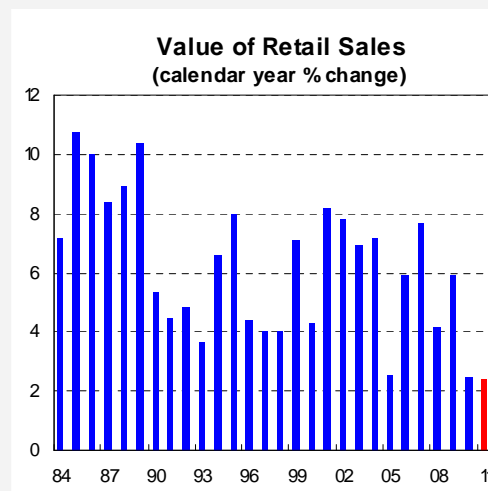
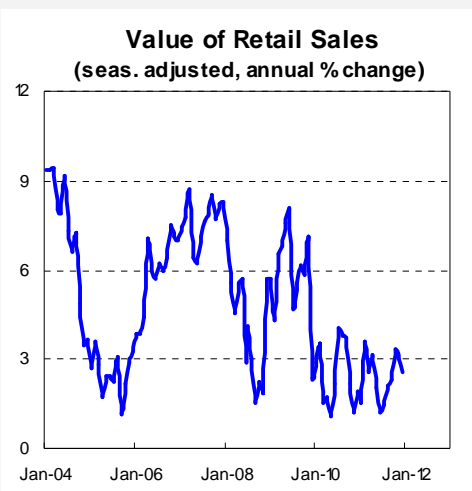


DATA SNAPSHOT

Retail Trade: 2011 - Biggest Slump Since the 1980s

6 February 2012

- The year 2011 marked the worst slump in retailing since the data began. The lethal mix of consumer caution, the rise of online spending, worsening global economic conditions and weather woes led to a slump in retailing not witnessed since the early 1980s. Retailing grew only 2.4% in 2011 compared with 2010.
- For the December month, retail spending unexpectedly fell 0.1%, marking the first fall in six months. Annual growth moved further below the long-run average to 2.6%.
- Weakness in spending on food and cafes, restaurants & takeaway services dragged retailing lower in December. Collectively, these two categories make up more than half of the retailing survey. Food price falls from the unwinding of weather-related spikes earlier last year hurt food retailing while colder weather likely kept diners at home.
- Retail sales volumes rose by 0.4% in the December quarter, suggesting that retailing will make a modest contribution to Q4 GDP. The annual rate was stronger, rising 1.4%, up from the 0.2% increase in retailing volumes in the September quarter.
- Today's retail spending numbers adds to the case for a rate cut from the RBA tomorrow. It also adds to our view that the RBA will press on the accelerator again in March.



Value of Retail Sales

The year 2011 marked the worst slump in retailing since the data began in April 1982. The lethal mix of consumer caution, the rise of online spending, worsening global economic conditions and weather woes led to a slump in retailing not witnessed since the 1980s. Retailing grew only 2.4% in 2011 compared with 2010.

For the December month, retail sales unexpectedly fell 0.1% in December, representing the first fall in six months. Annual growth fell from 3.0% to 2.6% - the weakest annual pace in three months and well under the long-run average of 5.3%.

Weakness in spending on food (-0.7%) and cafes, restaurants & takeaway food services (-1.8%) dragged the total spending on retailing lower in December. Collectively, these two categories make up more than half of the retailing survey (with food accounting for 40% and cafes, restaurants & takeaway food services 13%).

Food price falls likely hurt the value of food retailing. The inflation data for the December quarter revealed falls across most food categories, especially fruit and vegetable prices, reflecting the unwinding of the weather-induced spikes in food prices in the first half of 2011. Aggressive competition among the major supermarket chains might sustain the downward pressure on food prices in coming months.

The weather played havoc in December but not across some of the sectors one would expect. Despite the unseasonal cold weather over December, the clothing, footwear & personal accessories and department store sales categories rose strongly. Indeed, excluding these two categories, retail sales would have dropped by a larger 0.5% in the month (compared with 0.1%). However, while these categories recorded strong increases in December, the underlying trend remained very weak.

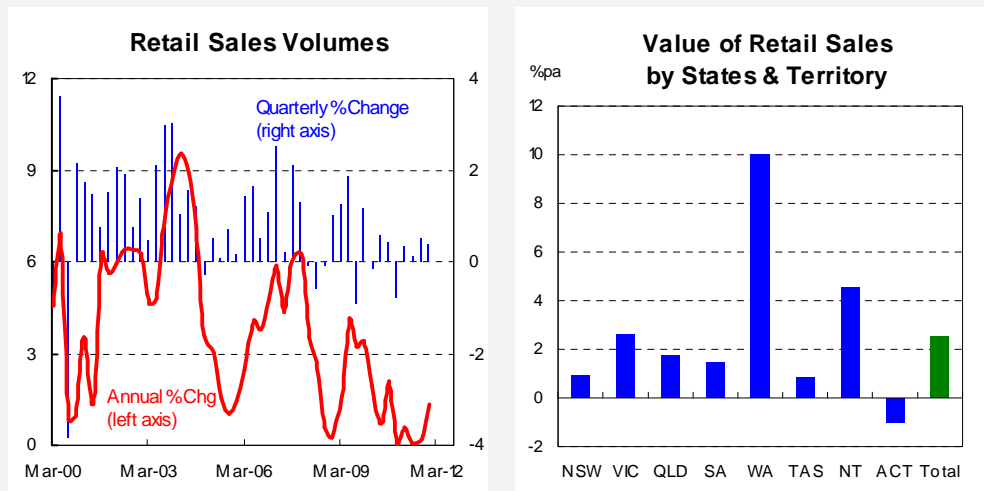
Colder-than-usual weather in December likely, however, kept diners at home, contributing to the 1.8% decline in the cafes, restaurants & takeaway food services category.

This factor might have also contributed to the fall in food retailing. Cafes, restaurants & takeaway food services fell by 1.8% in December – the biggest fall in more than one year (since October 2010).

While two of the six sectors fell, across States the weakness in retailing was more broad-based. All States and territories posted declines except Victoria and the ACT. Retailing in Victoria jumped 1.5%, the biggest monthly percentage gain in eight months, but it follows a large fall of 1.2% in November. In the ACT, retailing jumped 1.8%, the biggest monthly percentage rise in eleven months, but again following a large 1.9% decline in November.

The biggest decline occurred in NT (of 2.6%) followed by Queensland (of 1.4%).

In terms of annual growth, WA continues to outperform all other States and territories with a 10% annual growth rate in December. The underperformer is the ACT with annual nominal retailing contracting by 1% in December.



Retail Sales Volumes

Retail sales volumes rose by 0.4% in the December quarter following a 0.5% rise in September quarter. The annual rate rose 1.4%, up slightly from 0.2% previously.

The sector breakdown told a similar story of divergence amongst retailing categories. On the softer side, cafes, restaurants & takeaway food services volumes fell 1.3% in the quarter, possibly suggesting that colder weather for the quarter kept diners at home. Other retailing, which includes pharmaceuticals, florists and jewellery stores, showed a decline of 1.0% in volumes for the quarter. Department store sales continued to suffer, falling 0.8% in volume terms, for the third consecutive quarter.

At the stronger end of the spectrum, retail volumes jumped 1.9% for household goods for the third consecutive quarter, despite house prices continuing to soften over the quarter, with heavy discounting driving volumes (as evidenced by a quarterly increase in the value of household goods retailing of only 0.1%). The cold weather proved no obstacle to clothing, footwear & personal accessory retailing, with volumes jumping 1.8%, a recovery from a sharp 7.5% decline in the September quarter.

Food retailing volumes rose 0.8% for the quarter. The December quarter consumer prices data showed food prices fell for the quarter, led by fruit and vegetables and its likely we are seeing this reflected in today's retail sales data, with volumes boosted by lower fruit and vegetable prices.

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 Q4 GDP, which will be released on March 7.

Outlook for Retailing and the Cash Rate

Retailing is likely to remain subdued in the next few months with a softer domestic jobs market and global economic woes keeping consumers at bay.

Today's retail spending numbers add to the case for a 25bp rate cut from the Reserve Bank (RBA) tomorrow. It also adds to our view that the RBA will press on the accelerator again in March, taking the cash rate to 3.75%. Our timing of rate cuts is more aggressive than consensus expectations that do not see the cash rate at 3.75% until the June quarter.

Besa Deda, Chief Economist
Ph: (02) 9320-5854

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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