Retail Trade
Not a Pretty Picture.

- Retail sales were static in June with no change over the previous month. The annual pace of growth was just 1.1% while in real or volume terms, sales were flat in the quarter. This was not a pretty picture.
- Given the dour sentiment in June, many consumers paused for ‘a cuppa and takeaway’. Sales in the cafes, restaurants and takeaway food services sector rose 0.9% in the month!
- The flat sales volume results for the June quarter suggest the consumption portion of the June quarter GDP figures will add little to grow.
- The weak retail sales outcome lends support to our view that the RBA will cut its official cash rate tomorrow. Will that be the last cut? That depends on the patience of the RBA board, the impact of previous cuts and the impact on GDP and inflation of the recent declines in the Australian dollar.

Retail Sales Values

Retail sales were static in June with no change over the previous month. The market had been expecting a rise of 0.4%. As a minor consolation, the figures for the month of May were revised upwards from a gain of 0.1% to a rise 0.2%. Still a paltry outcome.

The pace of retail sales growth over the year has slowed. Back in February 2013, retail sales were growing at 4.5%. In the year to June 2013, the pace of retail sales growth has slowed to just 1.1%, a pace slower than the rate of inflation and one that bodes ill for the upcoming GDP figures and
for the retailing community.

Although the figures do display some monthly volatility, the trend in monthly and annual growth terms is heading down. Retail therapy is clearly losing some of its appeal.

By Sector

There were a wide variety of outcomes across the sub-sectors of the retailing industry in June. Sales of food rose just 0.1%, department stores were flat but spending in cafes; restaurants and on takeaway food rose 0.9%. Sales of household goods rose 0.3% after falling 0.2% in May, while spending on clothing and footwear fell 0.2% in June after solid gains of 1.9% and 0.6% in April and May respectively.

Over the year to June, the picture for retail spending is not bright. Sales of food are up 3.6%, household goods 1.0%, and cafes, restaurants and takeaway food, 1.8%. Retail spending on clothing, footwear and personal accessories fell 1.5% over the year and spending in department stores was down 4.5%.

By State

The State figures were also disappointing. Western Australian and the Northern Territory, where a slowdown in mining construction activity is evident, saw retail spending fall 0.4% and in Queensland sales were up only 0.1%.

Victoria reported declines in retail sales in February, March and April. In June, Victoria posted a 0.1% rise in sales but this left sales with no growth over the year to June. NSW fared little better in June with its retail sales also up 0.1% in June. However, over the year to June, NSW managed to post growth of 0.8%. Positive but hardly exciting.

South Australia posted sales growth of 0.3% in June following a rise of 0.7% in April. This left South Australia with a decline of 0.6% over the year to June given soft sales figures in late 2012 and early 2013.

Over the year to June, retail spending in Western Australia was up 2.8%. It was up 2.8% in the ACT and down 2.9% in the Northern Territory.

Retail Sales Volumes

The June ABS retail sales publication also contains retail sales results adjusted for inflation. These are regarded as retail sales volume figures. For the June quarter, retail sales volumes were flat following a strong 2.0% rise in the March quarter. For the year to the June quarter, sales volumes were up 2.0%, well down on the 3.4% long run average and another indicator that the Australian economy is currently growing at below trend.

In sales volume terms, Victoria (-0.7%), Tasmania (-1.9%), the Northern Territory (-1.5%) and the ACT (-0.3%) all went backwards in the June quarter. NSW (0.1%), Queensland (0.1%), South Australia (0.6%) and Western Australia (0.3%) posted gains. Western Australia has posted unbroken quarterly volume gains since December 2012 but the June 2013 figures were the weakest in that run of data.
Over the year to June 2013, Western Australia (3.8%) reported the strongest sales volume growth but that pace is well down on the 10.2% growth seen in the year to June 2012. Queensland (3.3%), ACT (3.1%), NSW (2.3%) and Victoria (0.8%) all saw volumes rise over the year but all were below their respective long run averages. In South Australia (-0.5%), Tasmania (-2.4%) and the Northern territory, sales volumes went backwards over the year.

By sector, retail sales volumes during the June quarter were ‘strongest’ in cafes, restaurants and takeaway food services (0.6%), followed by clothing, footwear and personal accessory retailing (0.4%). Sales of food were up just 0.1%. Volume declines were seen in household goods (-1.1%) and departments stores (-1.0%).

Over the year to June, department stores have seen sales volumes fall 1.3% while cafes, restaurants and takeaway food services volumes were flat. Increases in sales volumes were reported in food (2.9%), household goods (3.3%) and clothing, footwear and personal accessories (1.5%). Across the total of all sectors, sales volumes rose 2.0% over the year to June – the slowest pace since December 2011.

Retail sales make up a large proportion of the household consumer spending component of GDP (almost 30%). The softness in retail sales in the June quarter suggests household consumption will make little contribution to GDP growth in Q2.

**Implications for interest rates**

Today’s retail sales report adds to the picture of sub-trend growth in Australia and lends strong support to the view that the RBA will cut its official cash rate when its board meets tomorrow.

As for further cuts, we will have to see how patient the RBA will be. The lower AUD will add to GDP growth in the future and also, potentially, to inflationary pressures. It is also questionable whether the full impact of past interest rate cuts have been felt. We suspect they have not, thus patience on behalf of the RBA board is warranted.

Tomorrow brings the next RBA decision and on Friday it will release its quarterly Statement on Monetary Policy providing a full rundown on its current thinking.

**Hans Kunnen, Senior Economist**

Ph: 02-8254-8322
### Contact Listing

<table>
<thead>
<tr>
<th>Position</th>
<th>Name</th>
<th>Email</th>
<th>Phone</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chief Economist</td>
<td>Besa Deda</td>
<td><a href="mailto:dedab@stgeorge.com.au">dedab@stgeorge.com.au</a></td>
<td>(02) 8254 8322</td>
</tr>
<tr>
<td>Senior Economist</td>
<td>Hans Kunnen</td>
<td><a href="mailto:kunnenh@stgeorge.com.au">kunnenh@stgeorge.com.au</a></td>
<td>(02) 8254 8322</td>
</tr>
<tr>
<td>Senior Economist</td>
<td>Josephine Horton</td>
<td><a href="mailto:hortonj@stgeorge.com.au">hortonj@stgeorge.com.au</a></td>
<td>(02) 8253 6696</td>
</tr>
<tr>
<td>Economist</td>
<td>Janu Chan</td>
<td><a href="mailto:chanj@stgeorge.com.au">chanj@stgeorge.com.au</a></td>
<td>(02) 8253 0898</td>
</tr>
<tr>
<td>State Manager</td>
<td>Mark Goldsmith</td>
<td><a href="mailto:goldsmithm@banksa.com.au">goldsmithm@banksa.com.au</a></td>
<td>(08) 8424 5597</td>
</tr>
</tbody>
</table>

The information contained in this report (.the Information.) is provided for, and is only to be used by, persons in Australia. The information may not comply with the laws of another jurisdiction. The Information is general in nature and does not take into account the particular investment objectives or financial situation of any potential reader. It does not constitute, and should not be relied on as, financial or investment advice or recommendations (expressed or implied) and is not an invitation to take up securities or other financial products or services. No decision should be made on the basis of the Information without first seeking expert financial advice. For persons with whom BankSA has a contract to supply Information, the supply of the Information is made under that contract and BankSA’s agreed terms of supply apply. BankSA does not represent or guarantee that the Information is accurate or free from errors or omissions and BankSA disclaims any duty of care in relation to the Information and liability for any reliance on investment decisions made using the Information. The Information is subject to change. Terms, conditions and any fees apply to BankSA products and details are available. BankSA or its officers, agents or employees (including persons involved in preparation of the Information) may have financial interests in the markets discussed in the Information. BankSA owns copyright in the information unless otherwise indicated. The Information should not be reproduced, distributed, linked or transmitted without the written consent of BankSA.

Any unauthorized use or dissemination is prohibited. Neither BankSA- A Division of Westpac Banking Corporation ABN 33 007 457 141 AFSL 233714 ACL 233714, nor any of Westpac’s subsidiaries or affiliates shall be liable for the message if altered, changed or falsified.