

RETAIL SALES AND ECONOMIC DRIVERS

November 2016

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Cash Rate

RBA Cash Rate
December 2016



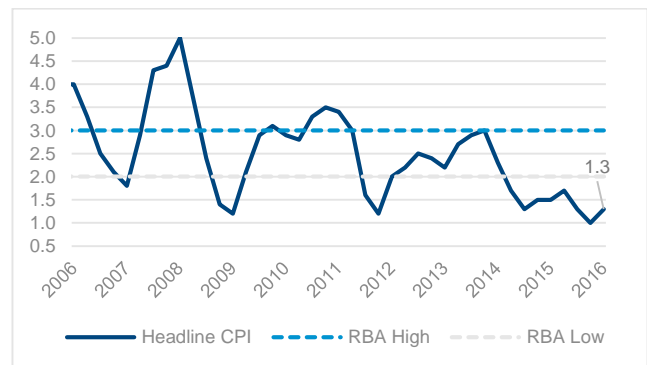
Source: RBA / Colliers Edge

The RBA kept the official cash rate on hold at 1.5% during the December board meeting, in line with consensus expectations and marking the fourth consecutive month of static monetary policy. The narrative on global markets makes note of the recent rise in global bond yields and the more balanced outlook for inflation, however overall the board retains a sanguine tone, highlighting that financial markets continue to function effectively and that the adjustment in bond markets has been 'orderly'. Funding costs have increased for some market players but remain much lower than they have been in recent years. In addition the RBA has acknowledged the recent price gains in some bulk commodities that will assist Australia's terms of trade. On the domestic economy there were no major surprises. Australia's economic rotation away from mining continues although mining export volumes will continue to increase as production comes online. Business capex volumes are subdued, however sentiment levels have been resilient and

remain above average. The RBA has called out the mixed nature of our labour market, noting that a lower headline unemployment rate is masking the skew to part time employment gains and the growing level of underemployment or underutilisation within the economy. This excess capacity has created headwinds for wage growth which in turn has contributed to the subdued inflationary outlook the RBA having difficulty in altering.

CPI

Headline CPI
3Q16



Source: ABS / Colliers Edge

3Q16 CPI rose 1.3%YoY and 0.7%QoQ, with both readings coming in ahead of economist expectations (1.0%YoY and 0.5%QoQ). But even with this upside surprise, annualised inflation measures remain below the RBA's target range of 2-3%. The most significant price rises came from the non-alcoholic food and beverage category, as fruit and vegetable prices gained on the back of bad weather and floods in major growing areas. Surprisingly, fuels were a detractor from inflationary pressures over the quarter, even with the bulk of energy commodity price falls from late 2014 having now washed through the data. We remain uncertain as to whether the 3Q16 figures mark the low point in the cycle with the outlook for wages, fuel and food still fairly benign.

Currency Movements

The AUD declined -1.83% against the greenback to US\$0.7474 following the US election as markets began to price in the inflationary impacts of a Trump presidency. Consensus views are pointing to a more hawkish stance on US monetary policy which has flowed through to interest rate markets and currencies. Some emerging currencies have taken a substantial hit over the month as the value of their US denominated debt inflates, which has brought an element of uncertainty back into the emerging market sector. The AUD also made gains against select emerging currencies such as the MYR (+4.28%) and IDR (+2.06%), together some majors; EUR (+1.25% to €0.7028), JPY (+5.56% to ¥84.23) and KRW (+0.41% to ₩873.34). The AUD slipped against the CNY (-0.14% to ¥5.1463 and GBP (-4.15% to £0.5985).

AUD / USD Exchange Rate (1AUD=USD) 30 November 2016



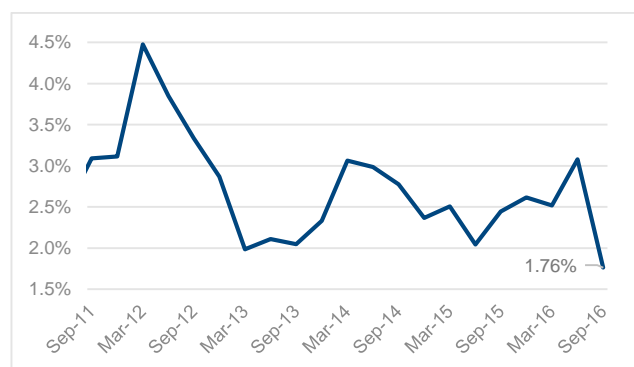
Source: RBA / Colliers Edge

3Q16 GDP

Australia's 3Q16 Gross Domestic Product contracted -0.47% QoQ dragging the annual growth rate to 1.76%YoY, from 3.1%YoY on 2Q16 (which was also revised lower from 3.3%YoY). The result came in below economist surveys which had predicted a quarterly decline of -0.1% and an annual expansion of 2.2%. This data print marks the softest growth since mid-2009 when Australia was emerging from the GFC. Figures were dragged lower by a contraction in capital investment by government together with new dwelling and construction, while investment in the mining sector continues to fall, making its 12th consecutive quarterly decline in terms of contribution to GDP growth. Construction activity declined across the board (building construction, heavy and civil engineering construction, together with construction services) although the ABS attributed some of this weakness to poor weather conditions and high rainfall that contributed to delays in project work, while also acknowledging the impact of falling mining investment. On a state level, Queensland retains the highest output growth rate of +0.14%QoQ, followed by New South Wales (+0.11% QoQ) and South Australia (+0.09%QoQ). Victoria and Western Australia declined -0.44% and -3.77% respectively. On an annualised basis, New South Wales is the strongest performer growing +5.03%YoY, followed by Victoria (+2.49%YoY), South Australia (+1.62%YoY) and Queensland (+1.19%YoY). Western Australia has extended

its annual decline to -9.55%YoY, down from -6.92%YoY in 2Q16.

Gross Domestic Product (% growth YoY) 3Q16



Source: ABS / Colliers Edge

Household Savings Ratio

Australia's household savings ratio declined to 6.3% in seasonally adjusted terms in the 3Q16 GDP release, down from 6.7% recorded in 2Q16. According to the ABS the decline was driven by a reduction in small business profits where gross mixed income was down -5.8%. The result occurred despite an element of growth in wages and below trend growth in household consumption.

Household Saving Ratio 3Q16



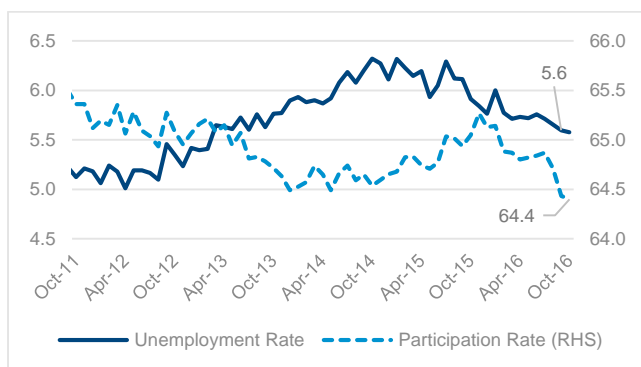
Source: ABS / Colliers Edge

Labour Market

The Australian unemployment rate remained steady at 5.6% in October, despite consensus expectations pointing to a 10bp gain to 5.7%. Overall employment grew by 9.77K which was pleasing, but came in below for forecast gain of 16K. Encouragingly job growth was skewed to the full time sector which increased by 41.51K, while part time employment shrank by -31.75K, resulting in net employment growth. Unfortunately the participation rate has remained at a low 64.4% despite expectations of an increase to 64.6%. Overall, all the result seems to indicate the labour market is treading water with the positives of low headline rates and skew to full timers being offset by a low participation rate and underwhelming headline growth numbers. Combined with the soft

wage growth figures, it's hard to make a case for any significant domestic inflationary pressures in the short term.

Australian Labour Market October 2016



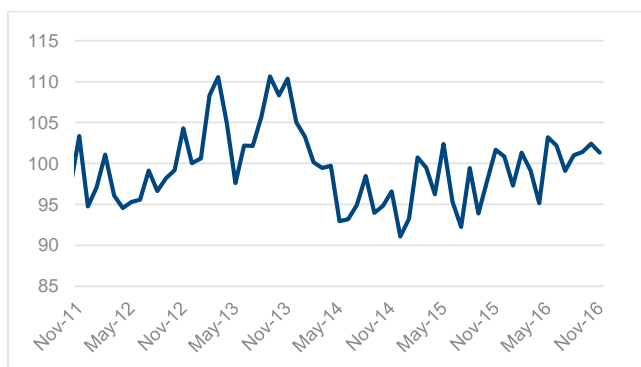
Source: ABS / Colliers Edge

Confidence Metrics

Consumer Confidence

Australian consumer confidence measured by the Westpac Melbourne Institute fell by -1.1% to 101.3 in November, down from 102.4 in October. The main driver of the falling sentiment appears to be weakness in the domestic equity market as investors dealt with uncertainties in the lead up to the US election. The jobs report from September was also a little disappointing with negative net employment growth and the RBA left the cash rate on hold in early November despite markets having high hopes of a further cut to the official cash rate. On a brighter note, confidence metrics in Queensland have been outperforming other major states thanks to a rebound in coal prices and retail spending. The November survey also gauges respondents' Christmas spending intentions which measures the proportion of respondents intending to spend more less the proportion that intend on spending less. This year's response has fallen to a net position of -20.1% from the last measure or -13%.

Westpac-MI Consumer Confidence November 2016

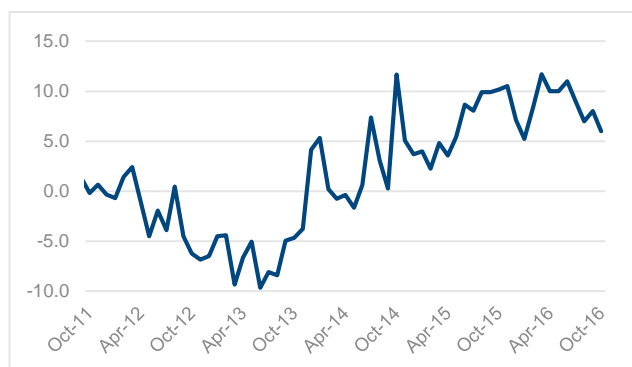


Source: Westpac-MI / Colliers Edge

Business Conditions

Business conditions within the NAB October survey fell 2 index points to +6, but remained above the long term average of +5. There was a narrowing of business conditions across industries in the month, although this was partially a result of a deterioration in conditions amongst some service industries which have typically been the best performers in recent years. There was however a noticeable improvement in retail conditions which was encouraging although the trend in this sector remains quite soft. Business confidence also declined, although this could still be considered a solid outcome, particularly given the heightened level of political uncertainty in the lead up to the US election.

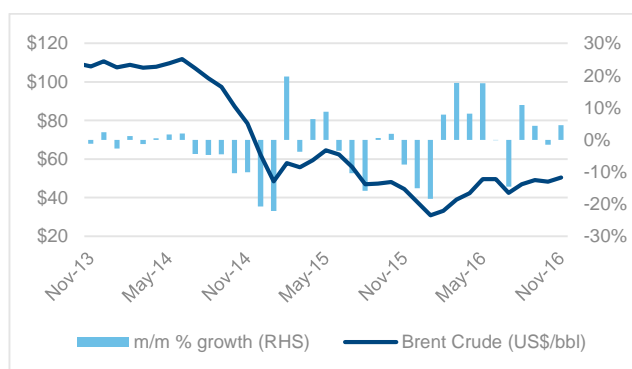
NAB Business Conditions October 2016



Source: NAB / Colliers Edge

Oil Prices

Brent Crude Oil Price (US\$/bbl) 30 November 2016



Source: Bloomberg / Colliers Edge

Oil markets made gains in November with Brent Crude finishing the month at US\$50.47/bbl (+5.42%MoM). In a move that surprised markets, OPEC actually reached an agreement at the 11th hour during its meeting on 30th November in Vienna. While the Algiers meeting was opaque in terms of how production cuts were going to be allocated amongst members, this latest meeting has provided clarity on exactly how OPEC will cut output by 1.2million bbl/d to a range of 32.5-33 million bbl/d. Russia has also agree in principle to reduce supplies by 300K bbl/d. Even so, OPEC has a fairly poor reputation for actually practicing what it preaches, and history tells us that keeping members in line has

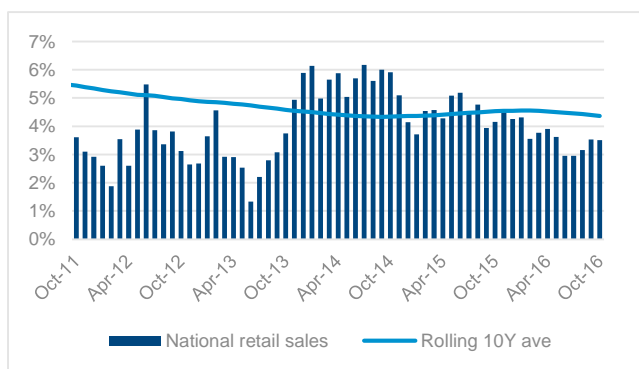
been challenging. Additionally, non-conventional oil producers have already started to use this recent bounce in prices to lock in forward pricing and resume profitable output, which could temper a recovery in oil prices.

Retail Spending

National

After a period of moderation in mid-2016, national ABS retail sales have picked up to a steady annualised run rate in excess of 3%. The October numbers printed at +3.51%YoY which would have been an improvement on September's numbers if it weren't for the upward revision to +3.53%YoY. October's monthly growth rate moderated to +0.46%MoM, although here too, the September figures were revised higher to +0.64%MoM.

National Retail Sales (% change YoY) October 2011-16



Source: ABS / Colliers Edge

The good news was that almost all retail sales categories experienced growth throughout October, with the food category (40% of overall retail sales volumes) continuing the strength witnessed in recent months, sitting at 2.73%YoY. We continue to question this category's ability to maintain a high growth rate given the market's anticipation of even more competition within the supermarket sector and the widespread investment in pricing that is taking place. Aldi continues to invest in 'fresh' produce categories and the widely anticipated entrance of Amazon in mid-2017 should also maintain downward pressure on supermarket pricing models.

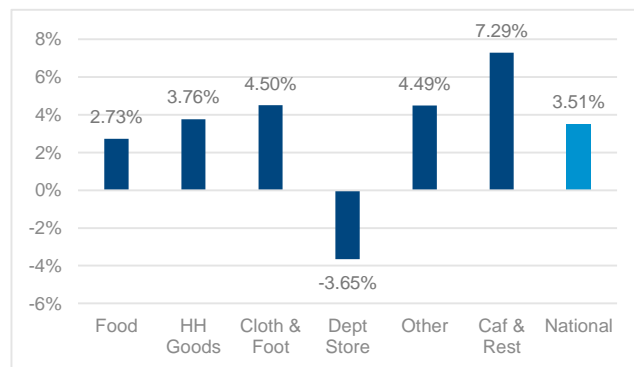
Elsewhere household goods have continued to strengthen, reaching +3.76%YoY in October, up from +3.63%YoY in the prior month. It appears that the small upward tick in housing churn (combination of housing construction together with new and existing dwelling purchases) has played a role here.

Cafes and restaurants have also accelerated to an annualised growth rate of +7.29%YoY, which has occurred despite the AUD's broad strengthening from late 2015. The growth in this category has been driven by surging sales within the takeaway food industry which has now reached +12.27%YoY.

Clothing and apparel has continued to moderate from the highs of mid-2016 to now sit at +4.51%YoY although there

is a substantial amount of variation between states. Department store sales remain very weak having now slipped to an annualised growth rate of -3.65%YoY, however as discussed in the past, this can be attributed to lumpy seasonal sales together with the inclusion of discount department stores. This dynamic has been reinforced by the most recent 1Q17 announcements from both Wesfarmers and Woolworths, where BigW and Target sales declined -5.5% and -17.1% respectively.

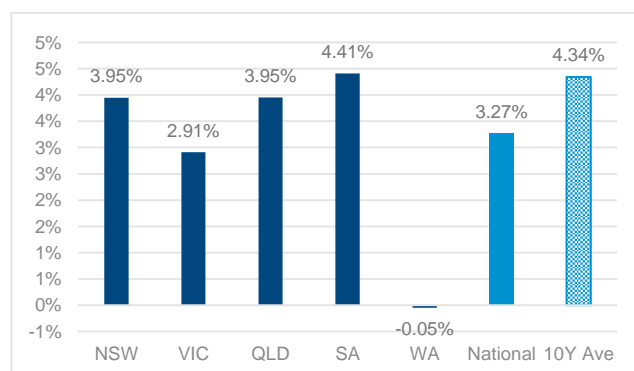
National Retail Sales (% change YoY) By Category – October 2017



Source: ABS / Colliers Edge

October saw Queensland maintain the strong momentum that began in mid-2016 to now reach the highest growth rate amongst key states at +4.51%YoY, exceeding the national rate of +3.51%YoY and 10Y rolling average of 4.37%. South Australia has maintained a high growth rate of +3.87%YoY, followed by New South Wales (+3.75%YoY) and Victoria (+3.36%YoY). Thankfully Western Australia has returned to growth, with the state recording an increase in retail sales of +0.68%YoY, up from the -0.12%YoY recorded in August.

National Retail Sales (% change YoY) By State – October 2017



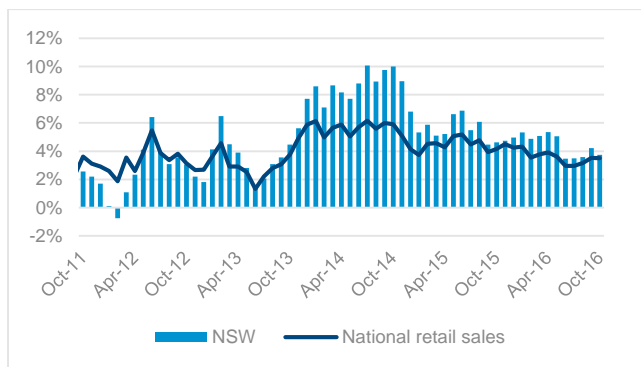
Source: ABS / Colliers Edge

New South Wales

New South Wales makes up 33% of national retail sales and recorded an annualised growth rate of +3.75%YoY in October, behind Queensland and South Australia. The result marks a slight moderation in September's figure of +4.21%YoY although we

concede this figure has been revised significantly higher. New South Wales derives its growth from cafés and restaurants (+6.12%YoY), clothing and footwear (+5.16%YoY) and household goods (+4.96%YoY), while department store sales have been soft (-3.92%YoY) in line with the broader national trends.

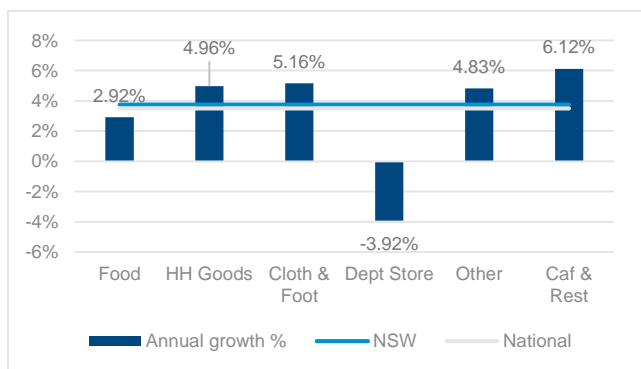
NSW Retail Sales (% change YoY) October 2011-16



Source: ABS / Colliers Edge

Lower interest rates have played into New South Wales's strengths and the State's economic outperformance is being seen on a number of indicators relevant to retail spending, including job gains which have been amongst the strongest in the nation, as well as house prices in Sydney which have contributed to the overall wealth effect. White collar employment and overall population growth is being supplemented with an unprecedented level of infrastructure spending, which will ensure that New South Wales retains its appeal from a business investment perspective.

NSW Retail Sales (% change YoY) By Category – October 2017



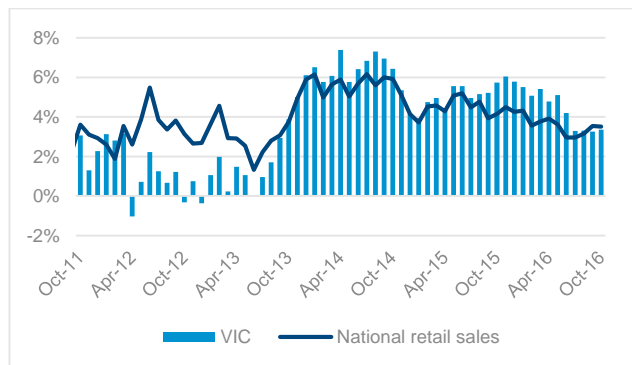
Source: ABS / Colliers Edge

Victoria

Like New South Wales, Victoria makes up a sizeable portion of national retail sales at 26%. Victorian retail sales growth continues to oscillate around the mid-3's coming in at +3.36%YoY, a marginal improvement on September's +3.26%YoY. Victoria's core strengths are derived from the cafés and restaurant sector (+11.13%YoY) which is actually the strongest in that category nationally. Other categories have tended to trail national growth rates lately with food

(+1.92%YoY) household goods (+1.39%YoY) and even apparel (+3.55%YoY) failing to lift meaningfully. In what could be considered a silver lining, the negative print in department store sales growth of -3.29%YoY, outperformed the national category average of -3.65%YoY.

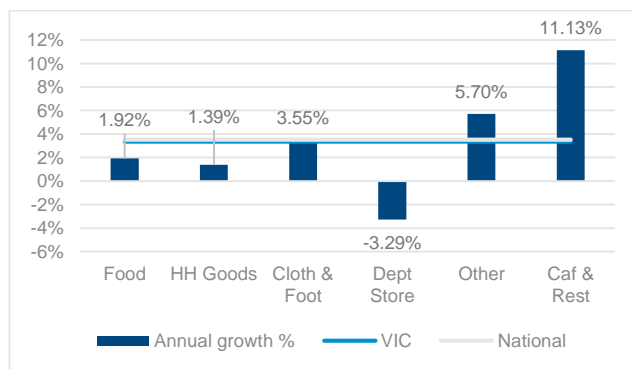
VIC Retail Sales (% change YoY) October 2011-16



Source: ABS / Colliers Edge

In similar fashion to New South Wales, low interest rates have led to strong performance in the housing market and encouraged growth in the service orientated segment of the State economy (finance and insurance, tech and legal services). Additionally the State's population growth is robust relative to the rest of the nation which helps underpin a range of economic indicators including retail spending.

VIC Retail Sales (% change YoY) By Category – October 2017

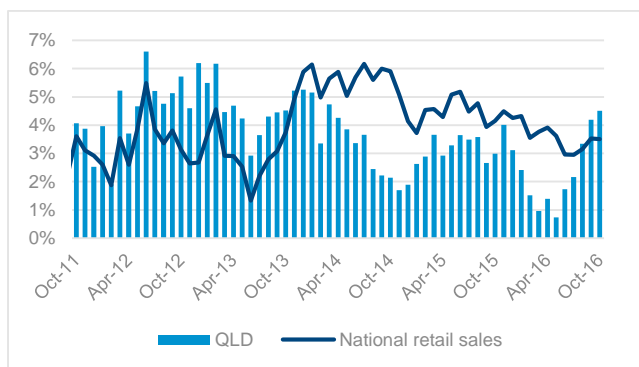


Source: ABS / Colliers Edge

Queensland

The Queensland economy has slowed as construction work on major gas projects has drawn to an end, while falls in energy prices have delivered an additional hit to incomes and prospects of future investment. Population growth – a long time strength of QLD – has slowed to a rate slightly below the national average. The more restrained environment has also meant that Brisbane's house prices haven't risen as much as in Sydney and Melbourne, thereby providing less of a housing wealth boost to households

QLD Retail Sales (% change YoY) October 2011-16

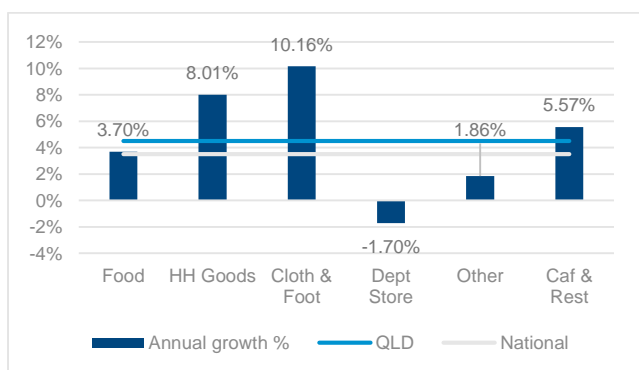


Source: ABS / Colliers Edge

However it's possible that Queensland has seen the worst of these headwinds as the monthly retail sales data becomes increasingly upbeat upon every release. From a low of +0.73%YoY in April 2016, Queensland retail sales growth rates have recovered steadily to reach +4.51%YoY at Octobers' reading. In fact Queensland is now leading the national in terms of growth rates among the major States despite making up 21% of overall retail sales nationally.

The Queensland segment results are also very encouraging, led by clothing and footwear which climbed to a 10.16%YoY growth rate in October. Household goods (+8.01%YoY) and food (+3.70%YoY) outstripped their respective national category growth rates, although cafes and restaurants continued to move along at a healthy clip of 5.57%YoY, albeit just below the categories national growth rate. We maintain the view that growth in the State's tourism sector will contribute the ongoing recovery in retail sales growth.

QLD Retail Sales (% change YoY) By Category – October 2017



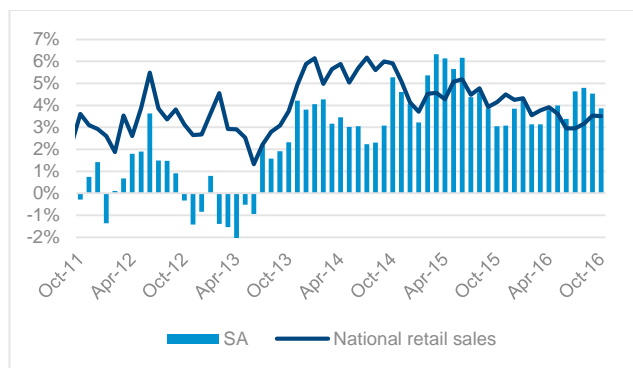
Source: ABS / Colliers Edge

Despite the difficult period that QLD has been navigating its way through, the longer term fundamentals for the state appear brighter. Relatively high Sydney housing prices should help send people in the direction of QLD while a lowered AUD should help the State's tourism sector. Retailers may continue to face a challenging environment in the near term, but a recovery is expected over time.

South Australia

South Australia continues to face a number of headwinds including ongoing challenges in its manufacturing sector, high unemployment and low population gains. Its housing market hasn't delivered the size of gains to household wealth witnessed in Sydney and Melbourne. That said, the announcement of the Federal Government to build submarines will help the State's manufacturing sector, while the State will also be a big beneficiary of a lower AUD over time.

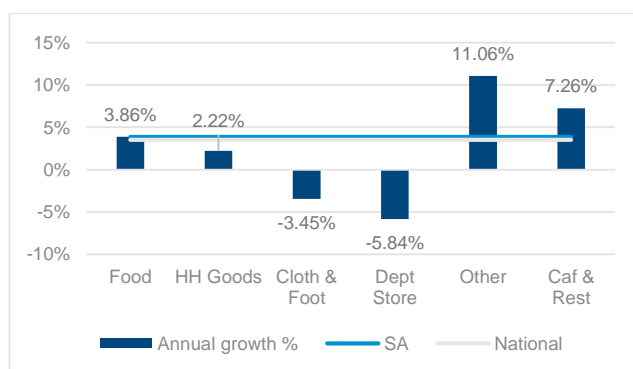
SA Retail Sales (% change YoY) October 2011-16



Source: ABS / Colliers Edge

South Australia stepped back from its number one position in terms of annual retail sales growth, with October's figure coming in at +3.87%YoY, although remained ahead of the national average (+3.51%YoY). The State's strength was derived from the 'other' category which climbed +11.06%YoY which in turn was driven by healthy growth in cosmetic, pharmacy and recreational good sales. The food category also grew 3.86%YoY, outpacing the categories national growth rate by over 100bps. Cafés and restaurants continue to perform well, up +7.26%YoY. Unfortunately the performance of apparel retailers and department stores has deteriorated significantly with these sectors declining -3.45%YoY and -1.70%YoY respectively.

SA Retail Sales (% change YoY) By Category – October 2017



Source: ABS / Colliers Edge