



RETAIL SALES AND ECONOMIC DRIVERS

May 2017

89.635

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Cash Rate

RBA Cash Rate (%)
June 2017



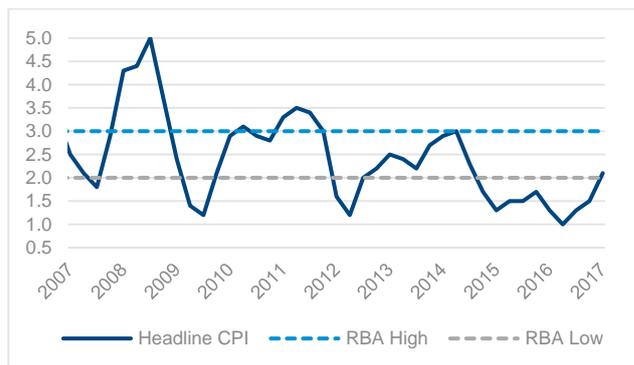
Source: RBA / Colliers Edge

The RBA left the official cash rate unchanged at 1.50% in June for the ninth consecutive board meeting. The accompanying commentary was virtually a carbon copy of the prior release, with the main difference being a small reference to the 1Q17 GDP growth which “is expected to have slowed...reflecting the quarter to quarter variation in growth figures” – an assessment which was confirmed in 1Q17 national accounts release the following day. Looking forward however growth is still expected to increase gradually over the next couple of years to a little above 3%. Discussion surrounding the global economy remained fairly upbeat with only a fleeting mention of climbing debt risks in China. Commentary on the domestic economy is not quite as bullish. The labour market is “mixed” – an understandable assessment given that employment numbers have increased while other metrics such as underemployment remain inflated and wage growth is benign. The RBA has again singled out risks in the housing market where price

movements vary greatly across the country, apartment supply remains elevated and household debt is outpacing household income. The board is hoping that [recently announced regulatory measures](#) together with increases to interest only mortgage rates will help address these risks.

CPI

Headline CPI (% growth YoY)
1Q17



Source: ABS / Colliers Edge

Australia’s 1Q17 headline CPI rose 0.5%QoQ (exp 0.6%QoQ), flat on 4Q16’s 0.5%QoQ. The annual CPI growth rate increased from 1.5%YoY in 4Q16 to 2.1%YoY in 1Q17, which was below consensus expectations of a 2.2%YoY increase. Annual inflation metrics increased across all major cities, led by Melbourne (+2.5%YoY) and Sydney (+2.4%YoY). Perth was flat with zero price growth over the quarter. At a category breakdown there was an increase in many non-discretionary items such as the housing group (+2.5%YoY) due to household utility costs, and the transport group (+3.8%YoY) due to an increase in all fuel types. The health group also increased +3.8%YoY on the back of higher medical and hospital services and a reduction in the proportion of patients who qualify for Medicare subsidies.

Currency Movements

The Australian dollar weakened for a third consecutive month, with the AUD/USD rate slipping -0.33% to US\$0.7450 in May. Lower commodity prices and softer domestic economic data has taken a toll on the Australian dollar in recent months. Financial markets, which in March were pricing in a 50:50 possibility of an end of year rate hike, are now seeing a one in four chance of a rate cut. As such, the currency has been an under achiever over the last few months. Over the course of May, the AUD weakened against almost all major currencies; CNY (-1.22% to ¥5.0903), EUR (-3.07% to €0.6671), JPY (-0.59% to ¥82.61) and KRW (-1.77% to ₩834.59). The AUD gained against the GBP (+0.50% to £0.5821).

AUD / USD Exchange Rate (1AUD=USD) May 2017



Source: RBA / Colliers Edge

GDP

Australian GDP expanded by 0.26%QoQ in 1Q17, matching economist expectations of 0.3%QoQ but marking a decline on the 1.11%QoQ recorded in 4Q16. Annual growth slowed to 1.72%YoY, just ahead of expectations (1.6%YoY) but down from the 2.4%YoY rebound experienced in 4Q16. Despite widespread expectations of a downturn, household consumption figures grew by 0.53%QoQ and 2.31%YoY, although this was supported by the non-discretionary sector (utilities, operation of vehicles, insurance, rent and food). Consumption of many discretionary items such as alcohol, apparel and household goods declined over the quarter. We also note that much of this rise in consumption was probably funded through savings, evident in the falling savings rate which now sits at 4.7% - the lowest since September 2008. Funding consumption through an erosion of savings is obviously unsustainable so we will be looking to wage growth for any sustainable uplift. We also note that much of the easing in the headline figures would have been due to seasonal conditions in New South Wales, and Cyclone Debbie that hit Queensland in late March. This goes some of the way to explaining why state final demand was flat in New South Wales (-0.02%QoQ) and Queensland (0.04%QoQ).

Gross Domestic Product (% growth QoQ, YoY) 1Q17



Source: ABS / Colliers Edge

Household Savings Ratio

Australia's household savings ratio continued to decline in 1Q17, falling from 5.1% in 4Q16 to 4.7% in the latest 1Q17 release. This was driven by subdued growth in disposable income being offset by growth in household consumption (0.53%QoQ, 2.31%YoY). The savings rate of 4.7% marks the lowest level since September 2008.

Household Saving Ratio 1Q17



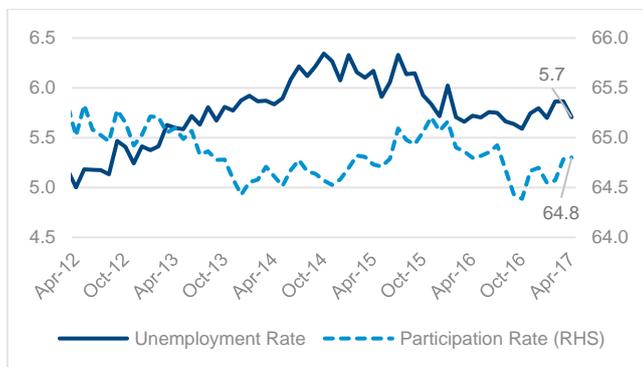
Source: ABS / Colliers Edge

Labour Market

Following the unusually strong labour market data posted in March, consensus expectations were pointing to a sharp moderation in overall employment. However April's data surprised to the upside, with net employment increasing 37.41K, exceeding consensus expectations of a 5K gain. Unfortunately, the gains were skewed to the part time sector, where employment increased 48.97K, while full time positions fell by 11.56K. Even so, the net result was very strong given the expected pullback following March's steady gains. Additionally the participation rate has remained steady at 64.8%, making the headline unemployment rate improvement to 5.7% look even more robust. Meanwhile, rolling 12mth employment growth has been improving consistently after bottoming late last year, with full time gains pulling the metric higher. The underemployment statistic

from February have not yet been updated, and we will be watching this closely given the strong correlation with overall wage growth. Across the nation, headline conditions improved in NSW (-30bp to 4.7%) and WA (-60bp to 5.9%), remained flat in VIC (6.1%) and QLD (6.3%), while deteriorating in SA (+30bp to 7.3%).

Australian Labour Market April 2017



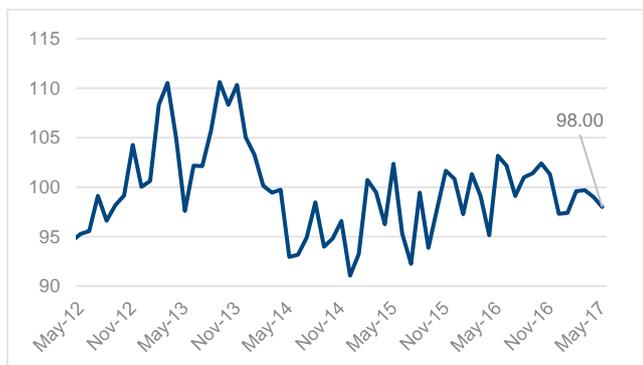
Source: ABS / Colliers Edge

Confidence Metrics

Consumer Confidence

The Westpac measure of consumer confidence slipped further in May, falling to 98 from 99 in April and marking the lowest level since January. Westpac has noted that respondents' confidence in housing and the outlook for house prices deteriorated sharply, while the assessment of the Budget around the outlook for family finances was decidedly weaker. With the survey being conducted both before and after the Budget release, Westpac has highlighted that confidence for those who responded before the Budget fell to 104.8, and for those who responded after it fell further to 92.1. The disappointing readthrough for the government will be that despite its high expectations and its focus on spending (infrastructure, education and health), consumer sentiment remains stuck below the significant 100 level indicating that pessimists outweigh optimists.

Westpac-MI Consumer Confidence May 2017



Source: Westpac-MI / Colliers Edge

Business Conditions

In contrast to consumer confidence, the NAB monthly business survey posted a strong result in the most recent April release, with both business confidence and conditions improving, pointing to ongoing strength in business activity in the near term. The business conditions index has been above its long run average level since early 2016 and rose another 2 points in April to +14 index points. This monthly improvement came predominantly from steady profitability and improving employment conditions which aligns with recent ABS labour market data releases through March and April. Most industries are reporting solid levels of business conditions, but the improvement in the month was mainly driven by transport, and encouragingly retail which has been lagging well behind other industries of late. NAB highlight that the business survey has consistently pointed to solid near term economic activity in recent months, while acknowledging the near-term instability to be expected from events such as Cyclone Debbie. As such, NAB expect economic activity to accelerate as we enter 2H17, although longer term, the outlook becomes less certain as growth drivers (LNG exports, commodity prices and housing construction) begin to fade.

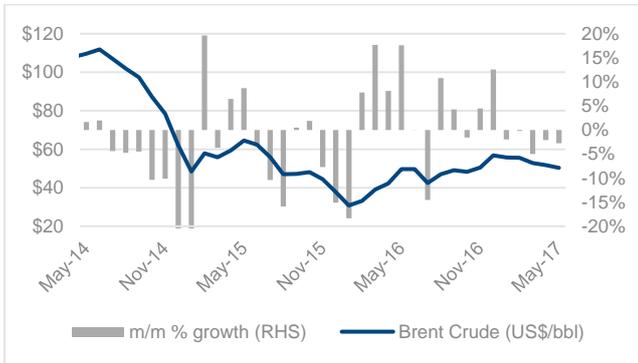
NAB Business Conditions April 2017



Source: NAB / Colliers Edge

Energy Prices

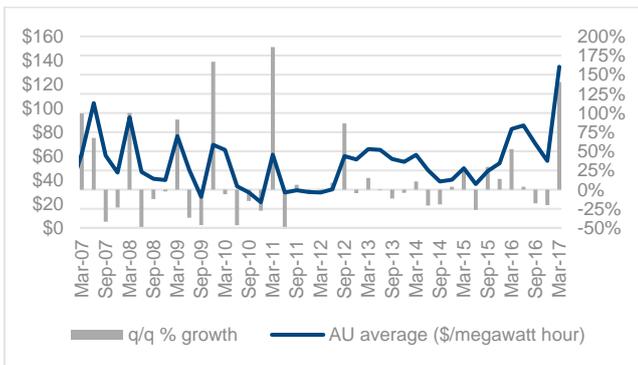
Brent Crude Oil Price (US\$/bbl)
May 2017



Source: Bloomberg / Colliers Edge

Oil prices continued to try and find a floor with Brent crude slipping a further -2.75% to US\$50.31 at the May close. This marks the fifth consecutive fall for both WTI and Brent crude, as prices are weighed down by the market's impatience with the slow pace of inventory drawdown around the globe, even after major oil producers agreed late last year to cut oil production. However lower fuel prices are being offset by fears of higher electricity costs. Due to a lack of clarity on energy policy, investment from producers in the sector has waned and consumers now face the potential for energy shortages. Media reports have pointed to 30% increases in retail energy costs by the end of June or July. Wholesale energy prices have already increased significantly.

Wholesale Electricity Prices (\$/megawatt hour)
March Quarter 2017



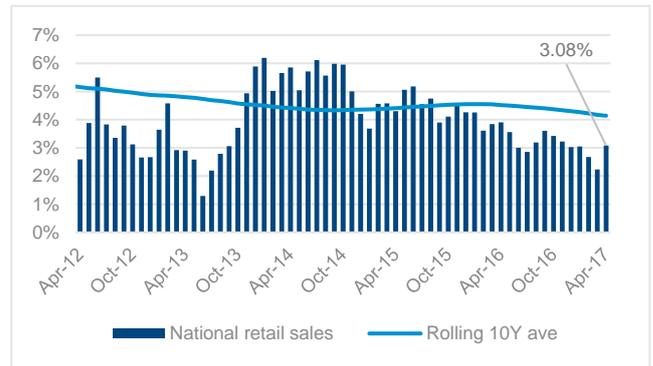
Source: Australian Energy Regulator / Colliers Edge

Retail Spending

National

Retail sales rebounded a hefty 0.95%MoM in April, beating expectations of a +0.3%MoM expansion, and marking the biggest monthly leap since September 2014. Meanwhile the annual retail sales figure climbed 3.08%YoY, up from March's 2.24%YoY rate.

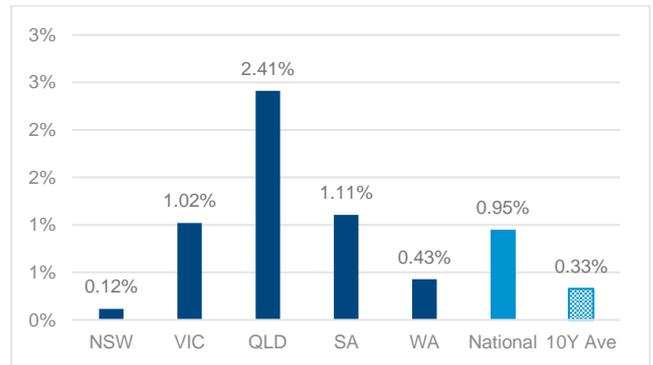
National Retail Sales (% change on pcp)
April 2012-17



Source: ABS / Colliers Edge

The monthly data revealed a very strong rebound from Queensland, up 2.41%MoM following a Cyclone Debbie induced slump of -1.25%MoM in March. The results from other states were reasonable, although New South Wales is lagging on an annual basis due to soft performance in some discretionary categories. Retail sales in Western Australia remains weak.

National Retail Sales (% change MoM)
By State – April 2017

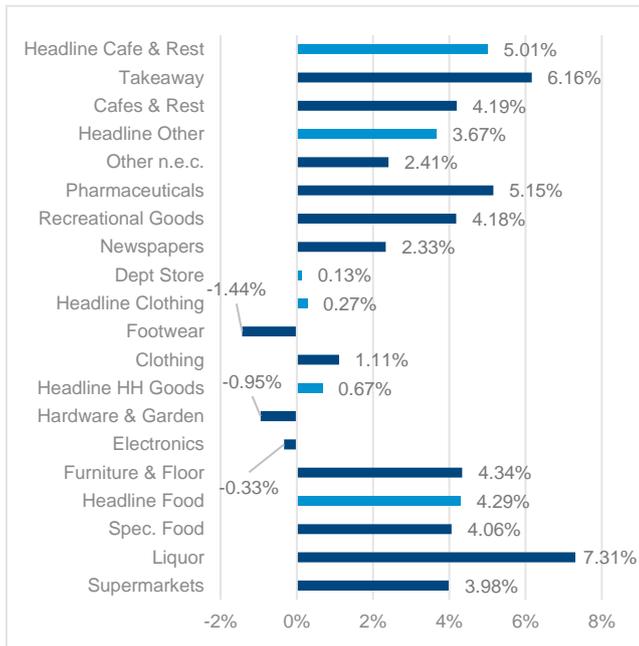


Source: ABS / Colliers Edge

One trend that is becoming clearer with every release is the divergence between discretionary and non-discretionary spending. Headline food sales have been increasing with April's figures sitting at 1.19%MoM and 4.29%YoY, spurred higher by liquor and specialty food together with supermarket spending.

We also note the strong growth that is occurring within the hospitality sectors, with sales at cafes and restaurants up 1.12%MoM and 5.01%YoY, accounting for 14% of overall retail sales. This aligns with the very deliberate move by Australian landlords to place more emphasis on "experience based shopping" which is leveraged to food offerings.

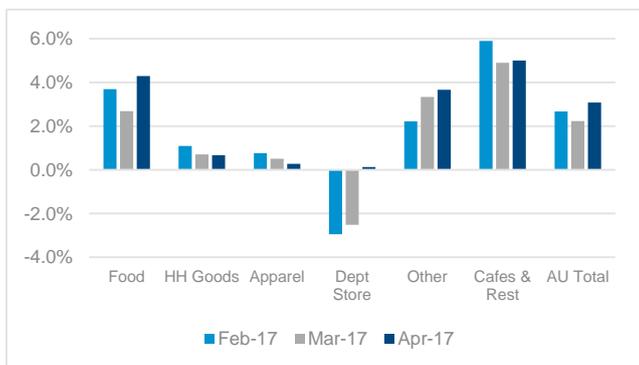
Retail Sales by Sub-category (% change MoM) April 2017



Source: ABS / Colliers Edge

Unfortunately, discretionary spending sectors such as apparel, department stores and household goods are not demonstrating such consistency. Department stores did experience a rebound over the month, up 2.47%MoM, following March's -0.50%MoM decline. This has pulled the annual sales for the category into positive territory, following six months of negative YoY growth rates. Apparel sales enjoyed a period of strength through mid and late 2016, although recent performance has been quite weak. This latest data release saw apparel sales grow 0.27% (both over the month and year), although this growth is likely to be supported though increased sales activity over the Easter period. We note that the major department stores have initiated winter sales, implying that many other operators will follow suit, so next month's data should reflect this trend. As Myer CEO Richard Umbers has noted, this reliance on clearance sales is not a sustainable strategy.

National Retail Sales (% change YoY) By Category – 3mth Snapshot



Source: ABS / Colliers Edge

Household goods sales have returned to growth over the month following declines through February and March which is encouraging. Even though the Masters Home Improvement failure has washed through the retail sales data, we are mindful that several residential housing indicators, together with regulatory measures, are pointing to further moderation in the housing market. This could act as a headwind for sales growth in the household goods sector moving forward.

Housing Churn vs Household Goods (% change YoY)

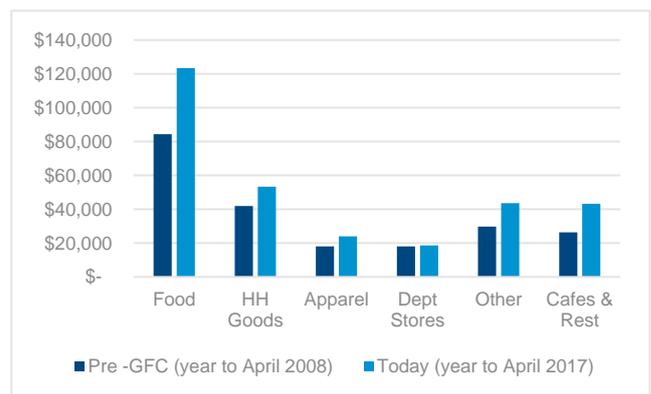


Source: ABS / Colliers Edge

Pre-GFC vs today

Given the poor sentiment in the retail sector, we have decided to look at how retail sales today compare to retail sales when sentiment was arguably far more buoyant – just prior to the GFC. We have compared retail sales in the year to April 2017 vs the year to April 2008. Annual sales in the year to April 2008 totalled \$218.6bn vs \$306.6bn in the year to April 2017. Sales are higher in dollar terms than they were pre-GFC across all categories.

Australian Retail Sales (\$m)

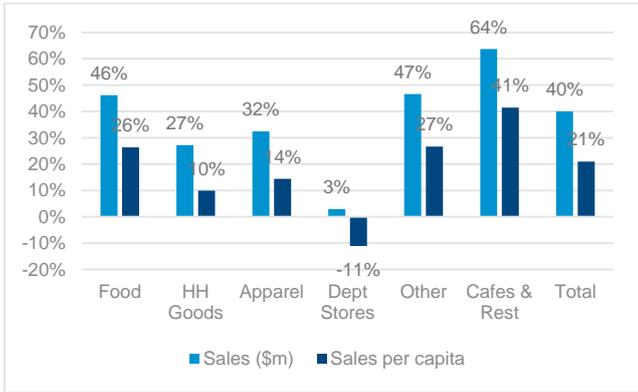


Source: ABS / Colliers Edge

Factoring in population growth (21,148,928 in 2008 vs 24,473,627 in 2017), we have calculated retail sales per capita across all sectors and the growth between pre GFC and today. Even after factoring in population growth, most sectors have made gains in sales, although we note the highest growth has occurred in the non-discretionary and food related categories.

Department stores have been the laggards, especially on a per capita basis where sales are lower today than they have been on a per capita basis. The growth in department stores (which contains the troubled DDS category) has moved onto other market players, especially new entrant mini-majors with more successful strategies.

Retail sales growth – pre-GFC vs today (Total vs per capita)

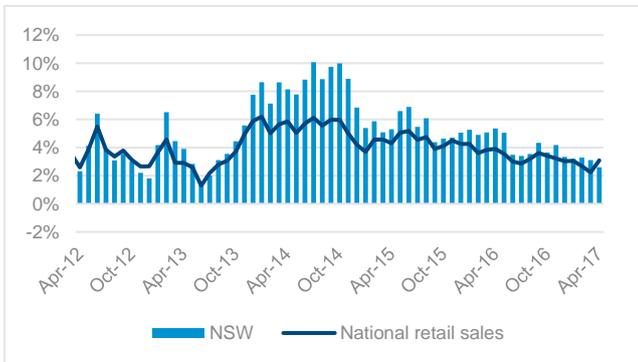


Source: ABS / Colliers Edge

New South Wales

New South Wales makes up 33% of the nation's retail sales, however April's release pointed to some weakness in a state that has long been the engine room of retail sales growth across the nation. New South Wales April sales lifted 0.12%MoM which was the weakest of all the major states, dragged lower by household goods, apparel and 'other' sales. Even department store and hospitality related sales came in below the national average of 0.95%MoM. This weakness over the month is dragging down the annual numbers, which contrasts to other states such as Queensland and Victoria where sales are rebounding. It could be that caution surrounding the housing market on the eastern seaboard is beginning to take hold of consumer spending, however it's too early to call a convincing trend at this point.

NSW Retail Sales (% change YoY) April 2012-17

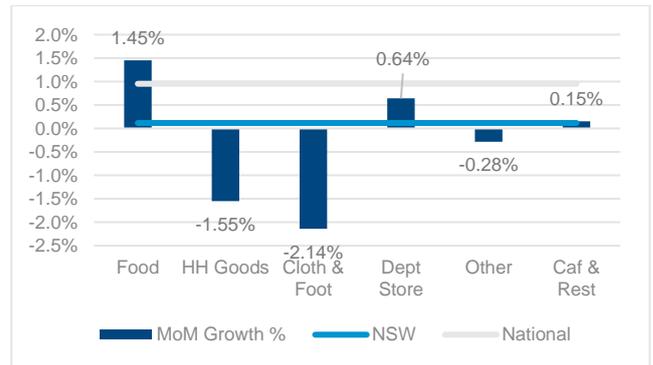


Source: ABS / Colliers Edge

New South Wales has enjoyed its position as one of the fastest growing State's in the nation, having benefitted from the tailwinds of low interest rates and the significant

infrastructure investment. Rates continued to shift lower through 2016, providing a second wind for the State's housing prices. In turn, higher housing prices have been keeping the home fires burning in terms of consumer spending, although now it appears those tailwinds could be waning. As such, the lead enjoyed by New South Wales versus the overall growth in retail spending across the nation has been narrowing of late although the state still contributes heavily to the nation's consumption. Even though recent retail sales figures in New South Wales have been weaker than expected, population growth and infrastructure development bode well for economic growth.

NSW Retail Sales (% change MoM) By Category – April 2017

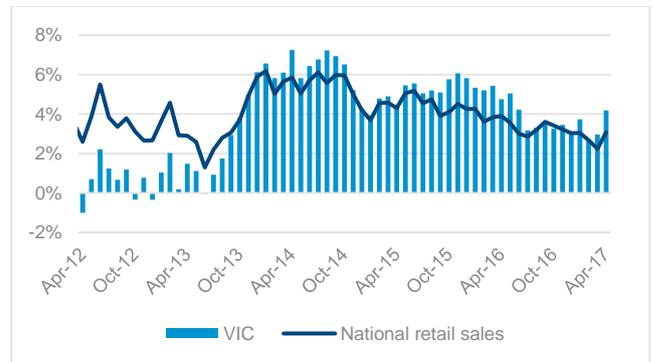


Source: ABS / Colliers Edge

Victoria

Like New South Wales, Victoria makes up a substantial portion of the nation's retail sales at 26%. However, in contrast to New South Wales, Victoria retail sales have been gathering pace each month; Feb (-0.28%), Mar (0.42%), Apr (1.02%). Encouragingly, while the broader national trend has been for non-discretionary spending, Victoria achieved some of the highest growth from discretionary categories such as Household goods (0.73%MoM), apparel (3.70%MoM) and department stores (3.54%MoM). This has all contributed to Victoria now leading the nation from an annual retail sales perspective at 4.19%YoY.

VIC Retail Sales (% change YoY) April 2012-17

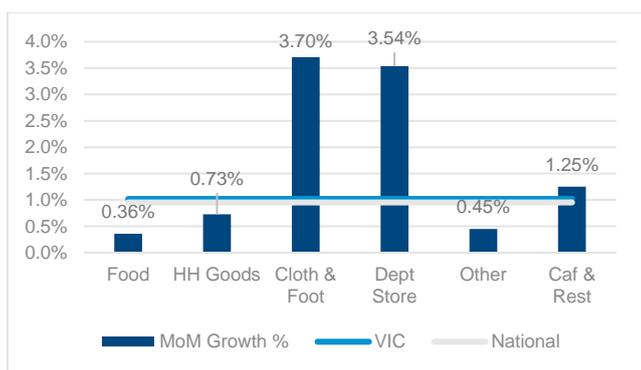


Source: ABS / Colliers Edge

With lower interest and exchange rates providing a vital tail wind, Victoria has seen growth in its economy consistently rising since the Australian dollar peaked several years ago. Victoria has

continued to see some very strong growth in the housing construction sector, although so far the slowing of the residential housing market does not seem to be tempering the retail sector. Victoria has also been investing heavily in infrastructure, although not quite to the same extent as New South Wales. Additionally, the success of Victoria's economy in recent years has only enhanced its appeal further, attracting people from elsewhere in both other States and other nations. In turn, that virtuous cycle has also kept employment growth in positive territory – certainly well ahead of the national average.

VIC Retail Sales (% change MoM) By Category – April 2017

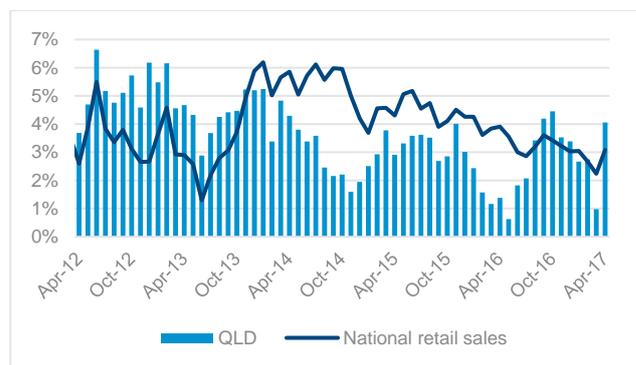


Source: ABS / Colliers Edge

Queensland

Queensland's economic growth has been on the rise, however this has been mainly a result of the export sector which doesn't have the same impact on the domestic economy as say for example, growth in the professional services sector. Nonetheless, Australia will soon be the world's largest exporter of gas, and Queensland will be a major contributor in taking that title. Some of the challenges being faced by Queensland include natural disasters, below average wage and population growth together with falling business investment volumes as the resource related projects ended. The recent spike in coal prices is without doubt encouraging, but the value of overall coal projects in Queensland amounts to just over \$3 billion, much of which will reach completion by mid-2017. On a brighter note, the lower AUD has certainly taken time to filter through, but can now be readily seen in indicators such as tourism nights and numbers of foreign students. In addition, the higher Sydney house prices climb, the greater the likelihood that economic refugees will look to Queensland for a home, perhaps supporting the State's future population to an extent.

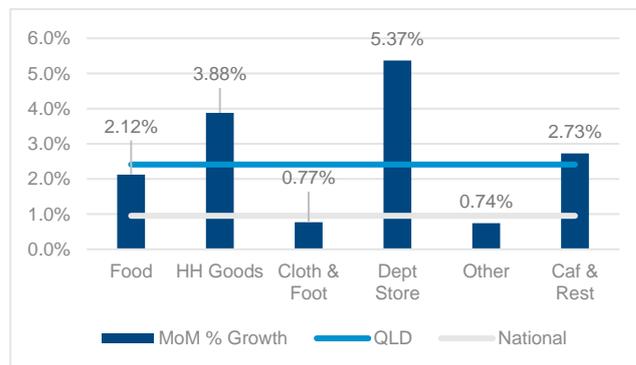
QLD Retail Sales (% change YoY) April 2012-17



Source: ABS / Colliers Edge

Thankfully Queensland experienced a sharp rebound in April retail sales, following a Cyclone Debbie induced slump through March. Retail sales swung from -1.25%MoM to 2.41%MoM in the latest release, dragging the annual result higher to 4.05%YoY. Like Victoria, the sources of Queensland's strength were encouraging with household goods (3.88%MoM), department stores (5.37%MoM) and cafes & restaurants (2.73%MoM) all of which exceeded state and national results comfortably.

QLD Retail Sales (% change MoM) By Category – April 2017

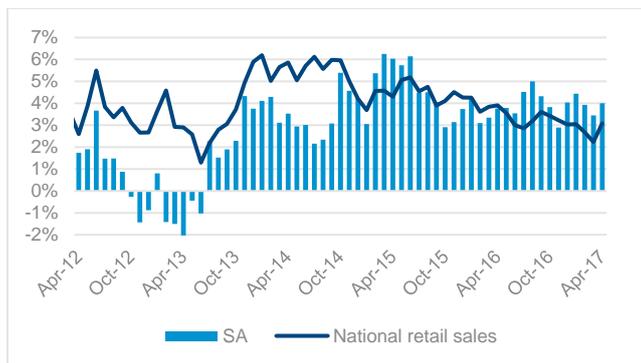


Source: ABS / Colliers Edge

South Australia

Unfortunately, South Australia hasn't enjoyed the resources boom of Queensland and Western Australia. Nor has it experienced the housing boom of New South Wales and Victoria. The state has also faced two main challenges; one being a loss of critical mass in manufacturing, the other being a reliance on Federal funding which has come under extreme pressure. However, the loss of manufacturing giants such as Holden car manufacturing provided strength for lobby groups, with South Australia now having secured a sizable portion of the domestic build, and maintenance of Australia's new submarines. Population growth has been suffering because of the afore mentioned themes, although retail sales strength appears to have held its own and housing finance is holding up better than most other States. Car sales are also solid.

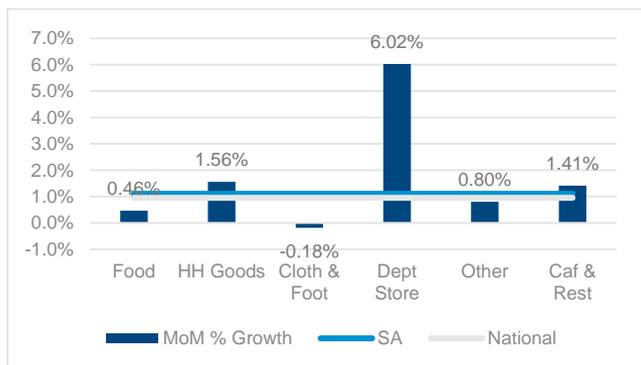
SA Retail Sales (% change YoY) April 2012-17



Source: ABS / Colliers Edge

South Australian retail sales rebounded strongly in April, gaining 1.1%MoM to mark the strongest result since December last year. Department stores were the strongest performing category, up 6.02%MoM marking the best performance in that category across the nation. Sales of household goods (1.56%MoM) and cafes & restaurants (1.41%MoM) also exceeded both state and national averages over the month.

SA Retail Sales (% change MoM) By Category – April 2017



Source: ABS / Colliers Edge