

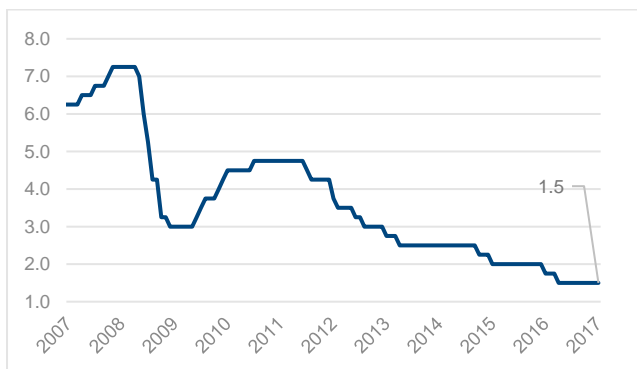
# RETAIL SALES AND ECONOMIC DRIVERS

April 2017

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## Cash Rate

RBA Cash Rate (%)  
May 2017



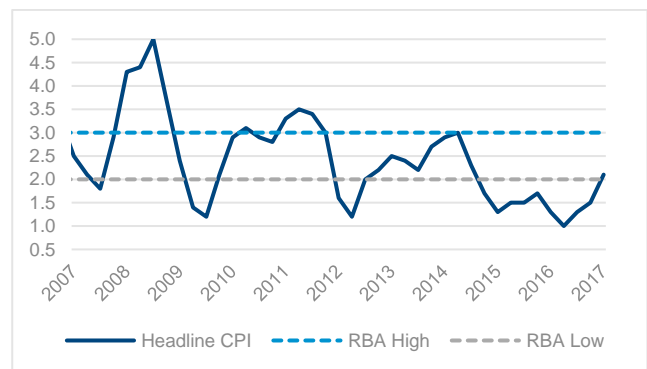
Source: RBA / Colliers Edge

The RBA left the official cash rate unchanged at 1.50% in May for the eighth consecutive board meeting. Much like previous statements commentary on the global economy was fairly upbeat noting tighter labour markets, an upward revision of growth rates, and increased infrastructure spending in China. Global inflation levels and long term bond rates have shifted higher, although remain low in a historical context. Discussion on the domestic economy has changed little with the board noting Australia's ongoing transition from mining investment to export and services growth, assisted by low interest rates. The headline unemployment rate has moved higher, although this has been accompanied by increasing participation and full time employment growth, and the board expects economic growth to increase gradually over the next couple of years to just over 3.0%. Officials acknowledged the recent 1Q17 CPI print which has lifted to just over 2.0%, and noted that underlying inflation, while lower (1.75%), is expected to increase gradually as the

economy strengthens. Finally on housing, the RBA once again highlighted its concerns regarding the rapid price appreciation in some eastern capital cities in conjunction with considerable supply levels and slowing rental increases. The board is clearly hoping that [recently announced regulatory measures by APRA](#) will help address these concerns.

## 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 second consecutive month, with the AUD/USD rate slipping -2.21% to US\$0.7475 in April. Despite the short term bounce above US\$0.75 we have witnessed in early May, the outlook for the rest of 2017 points to further weakening as the US Federal Reserve looks set to raise rates in June and December. In addition, all other major trading currencies will likely outperform the Australian dollar over 2017-18 under the expectation that commodity prices will ease during that period. Over the course of April the AUD weakened against all major currencies; CNY (-2.28% to ¥5.153), EUR (-3.90% to €0.6882), GBP (-5.45% to £0.5792), JPY (-3.00% to ¥83.1) and KRW (-0.72% to ₩849.61).

### AUD / USD Exchange Rate (1AUD=USD) April 2017



Source: RBA / Colliers Edge

## GDP

Australian GDP expanded by 1.4%QoQ in 4Q16, exceeding economist expectations of 0.8%QoQ and marking a significant rebound on the -0.5%QoQ recorded in 3Q16. Annual growth strengthened to 2.4% from 1.9% in 3Q16, but remains below the recent high of 3.1% in June. The weak 3Q16 result caught the market by surprise but coincided with a number of one off events such as bad weather and the disruption of the July Federal election. Since then, the election has passed, RBA rate cuts have had some impact, the mining investment drag has eased, global commodity prices have surged and global conditions have improved generally. Importantly, consumer spending strengthened quite broadly, with growth in household goods, health and services. This result transpired despite households encountering some pressures during the quarter including soft total employment growth numbers and fairly benign wage growth. Looking forward, the labour market will need to strengthen further in order to support a sustained increase in consumer spending. Business investment has also grown together with infrastructure spending. The mining investment drag is waning although there will be some further slippage as gas projects are progressively completed in 2017. From here the outlook remains constructive as RBA rate cuts carried out in 2016 continue to have some impact and housing finance rebounds. Additionally some of the domestic political uncertainty has been removed as the Federal election is now behind us. Additionally, higher commodity

process are boosting national income as we move from construction to production phase.

### Gross Domestic Product (% growth YoY) 4Q16

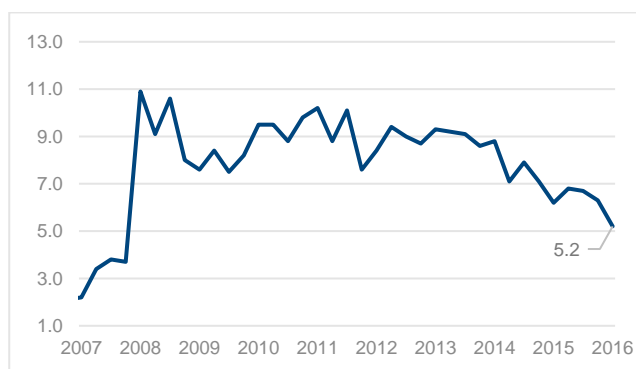


Source: ABS / Colliers Edge

## Household Savings Ratio

Australia's household savings ratio continued to decline in 4Q16, falling from 6.3% in 3Q16 to 5.2% in the latest release. The decline was driven by a combination of income and spending. Household gross disposable income grew 0.2%, while household spending lifted to 1.2%, up from a subdued level of 0.6% in the previous quarter.

### Household Saving Ratio 4Q16



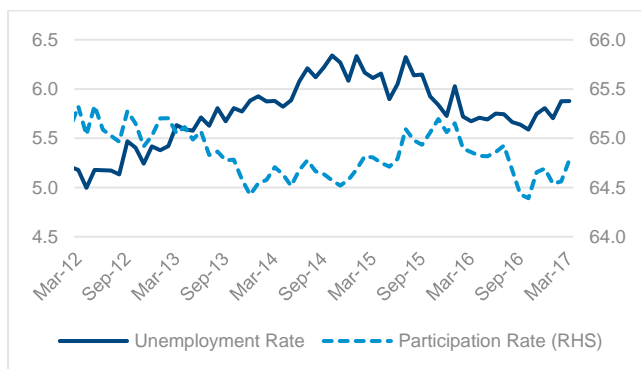
Source: ABS / Colliers Edge

## Labour Market

In contrast to February, March's labour market data release was quite robust, with overall net employment numbers gaining a healthy +60.92K, safely beating economist expectations of just +20K. The full time employment category was the overwhelming driver of growth, up +74.5K, and outstripping the -13.59K decline in part time employment. Meanwhile the participation rate lifted 20bp to 64.8%, the highest since mid-2016. This, combined with overall net employment growth kept the unemployment rate steady at 5.9% and explains the miss versus expectations of 5.8%. Rolling 12 month net employment figures have now turned positive for the first time since August 2016. While the numbers do look impressive, they are a little suspicious – marking the

largest boost in employment gains since the ABS had issues with the survey sample back in October 2015 (+63.3K). Across the nation, conditions improved in NSW (-10bp to 5.1%) and QLD (-20bp to 6.3%), while deteriorating in VIC (-10bp to 6.1%), SA (+40bp to 7%) and WA (+40bp to 6.5%).

### Australian Labour Market March 2017



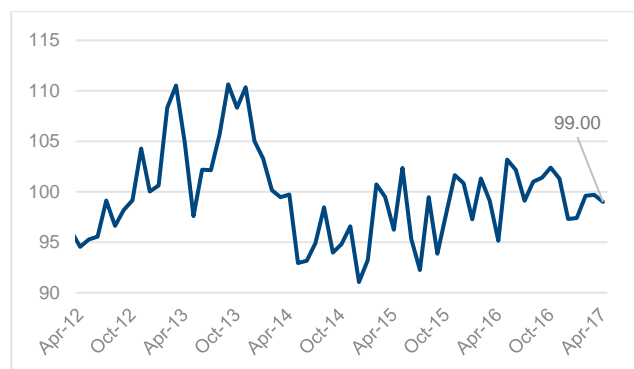
Source: ABS / Colliers Edge

## Confidence Metrics

### Consumer Confidence

Given the amount of volatility in both global and domestic affairs over the past month, the print of 99.0 within April's consumer sentiment index was quite a reasonable outcome. On the domestic front, there has been a significant amount of media attention directed at pricing bubbles and affordability within the residential housing market. There have also been some out of cycle rate increases for mortgage holders, together with a clamp down on interest only lending. Additionally, the headline unemployment rate has been moving higher to just under 6%, albeit with an improvement in full time positions and increasing participation. Internationally, consumers may have been unnerved by rising tensions within the Middle East, together with the more recent escalation of geopolitical events in North Korea. In light of these factors, a -0.7% slip back to 99.0 is quite a good result. Still, April marks the fifth consecutive month where pessimists outweigh the number of optimists, and this sentiment was reflected in elements of the report detail. Unsurprisingly confidence surrounding the labour market deteriorated a little as did confidence within the housing market. The 'time to buy a dwelling' index fell by 3.3%. On the other hand, respondent's perception of their own finances seems to be more upbeat with the 'finances versus a year ago' sub-index lifting 8.5% while 'finances over the next 12 months' sub-index improved 2.4%.

### Westpac-MI Consumer Confidence April 2017

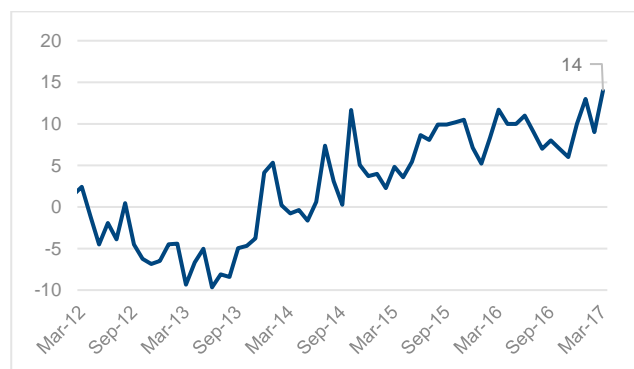


Source: Westpac-MI / Colliers Edge

### Business Conditions

Results from the March business survey were very encouraging suggesting that health in the domestic economy is gaining momentum. The trend of the survey through the end of 2016 was choppy and a little concerning, however the more recent trend has revealed a stark improvement. Business conditions jumped 5 points to reach +14 in March, a level that is well above long-run averages and the highest level since the GFC. Businesses perception of the domestic labour market appears to be more buoyant than the details of consumer sentiment readings and the headline ABS figure would suggest. The caveat here is that conditions within the survey are not uniform – conditions within the major service industries and wholesale trade are driving the result higher while the retail sector dropped into negative territory over the month. Mining has also improved substantially on the back of higher commodity prices, although these are now starting to unwind. The improvement of mining was evident in the state based results, where conditions in WA and QLD lifted. Looking through the volatility, NSW retains the highest conditions of the mainland states followed by VIC.

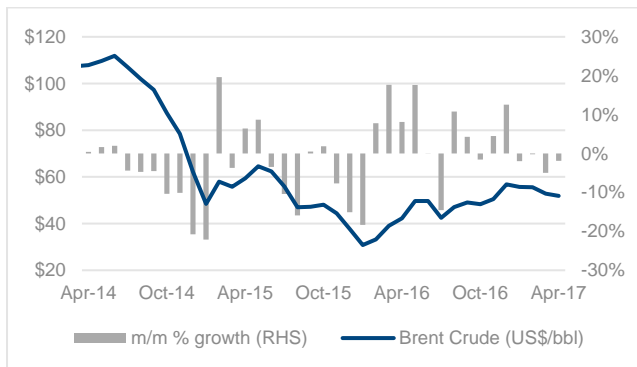
### NAB Business Conditions March 2017



Source: NAB / Colliers Edge

## Oil Prices

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



Source: Bloomberg / Colliers Edge

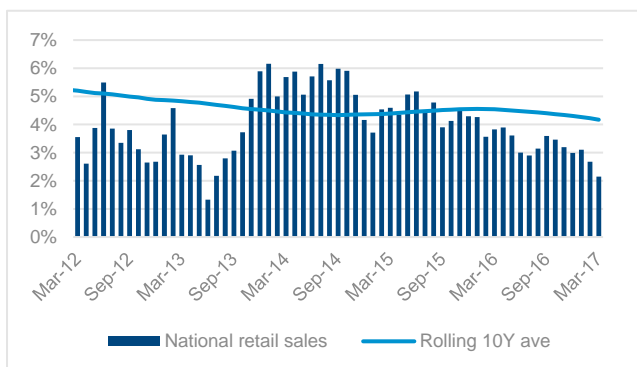
Oil prices continued to try and find a floor with Brent crude slipping a further -2.08% to US\$51.73 at the April close. This marks the fourth consecutive fall for both WTI and Brent crude, as prices are weighed down by the market's impatience with the slow pace of inventory drawdown around the globe, even after major oil producers agreed late last year to cut oil production. OPEC meets once again on May 25 to discuss the extent of those reduction benchmarks. Despite OPEC's efforts, the glut has been slow to shift, and any increase in futures pricing will only entice non-conventional US shale production to come back online.

## Retail Spending

### National

Retail sales declined again in March, slipping -0.13%MoM and missing consensus expectations of a 0.3%MoM expansion. The annual retail sales growth rate has fallen to 2.15% in March, down from 2.68% in February to reach the lowest point since June 2013.

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

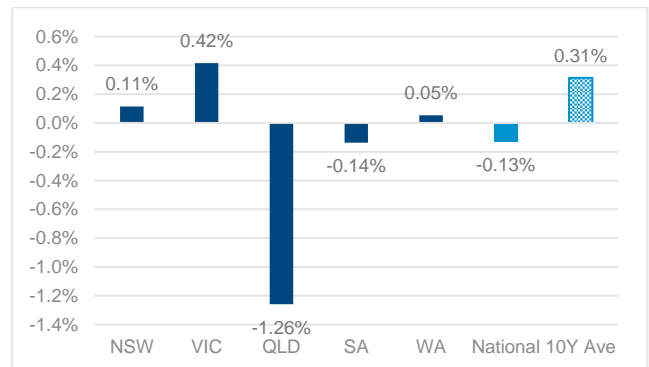


Source: ABS / Colliers Edge

The monthly data indicates that New South Wales and Victoria were the best performing states, while Queensland suffered a rapid deterioration, presumably due to the fallout

from Cyclone Debbie. Apparel and pharmaceuticals registered the strongest gains, while food and the remaining discretionary categories registered month on month declines.

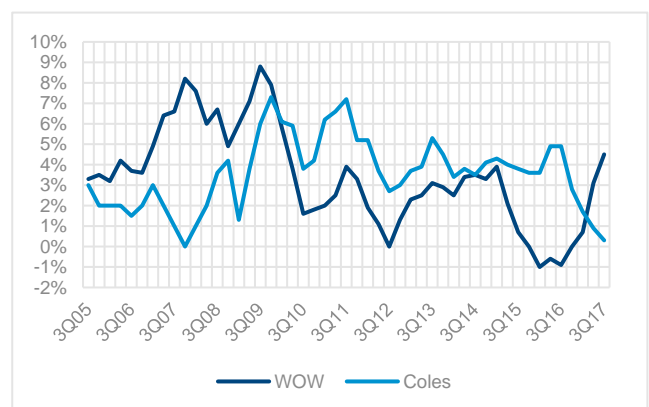
NSW Retail Sales (% change MoM)  
By State – March 2017



Source: ABS / Colliers Edge

Food sales have declined for the first month since June 2016, falling -0.47%MoM, down from 0.20%MoM in February. The weakness over the month looks to be broad based, with all subcategories of supermarkets (-0.35%), liquor (-0.69%) and specialised food retailing (-1.18%) chalking up declines. The weakness over the month has dragged down the annual growth of food sales which came in at 2.62% in March, down from a recent high of 3.67% in February. Given the heightened level of competition within the supermarket sector, it had been difficult to reconcile the steady growth recently witnessed in food sales, although we acknowledge the recent quarterly results announced by Woolworths (WOW). Within the result WOW LFL sales in the March quarter were up 4.50% - the strongest since 1Q10 and well ahead of Coles (0.30%). Looking forward we expect that ongoing growth at Aldi, combined with the imminent entry of Kaufland will keep a lid on food price inflation.

WOW vs Coles  
LFL Quarterly Sales Growth



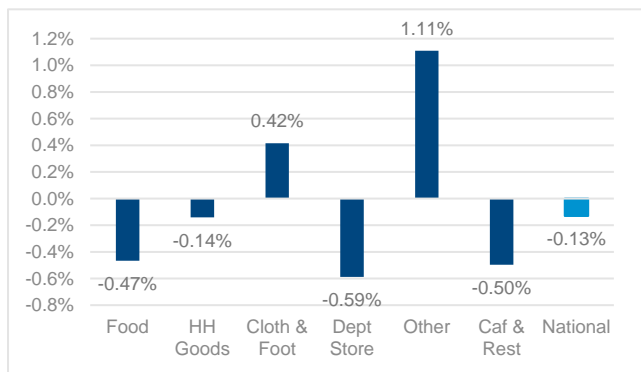
Source: Company Reports

After two months of consecutive declines, apparel sales increased 0.42% in March due to an improvement in footwear sales (1.40%MoM) while clothing was flat (-0.08%MoM). The annual growth rate for the headline apparel category has slowed materially to just 0.56%YoY due to a decline in clothing sub category, while footwear has been a little more resilient. This



comes as listed landlords complete 3Q17 sales reporting where there has been a broad moderation in speciality sales. We note that results between land lords have been mixed, with sales resilient across more productive portfolios. There have also been mixed results across the mini-major sector, and this has been greatly impacted by the closure of retailers such as Pumpkin Patch, Payless Shoes and Dick Smith.

### National Retail Sales (% change MoM) By Category – March 2017



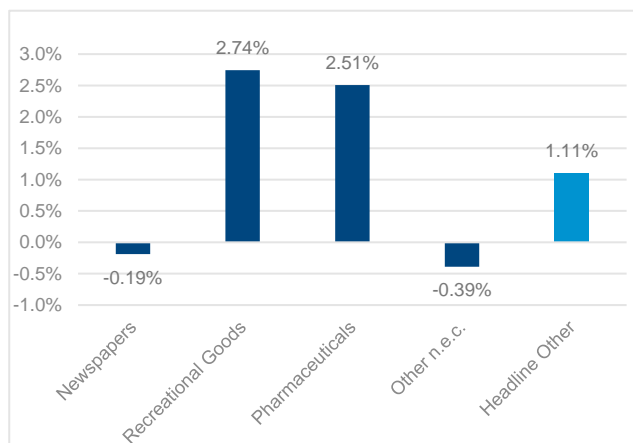
Source: ABS / Colliers Edge

Department store sales declined -0.59%MoM in March, marking a continuation of the choppy data we have experienced since September last year. This unconvincing trend has caused the annual data to roll over substantially, with this time series remaining almost entirely in negative territory since mid-2016. The department store category has been long suffering as the majors attempt to implement turnaround strategies and discount department stores face intensifying competition from low cost offshore fast fashion retailers. Looking forward the probability for M&A is high given the activity in Myer's share register, recent poor performance of Target and BigW (3Q17 sales down -18.1% and -8.6% respectively), and the entrance of Kaufland which will be looking to gain scale in the Australian market.

Household good sales declined -0.14%MoM in March, a slight improvement on February. Meanwhile the annual growth figure sits at 0.56%, having not yet fully recovered from the decline in hardware sales that hit the data in December 2016. Sales outside hardware, such as furniture, floorcoverings and electronic goods have been more robust, although some leading housing indicators such as approvals, financing and churn are pointing to softness in the sector.

'Other' retail sales recorded the most impressive growth figures, gaining 1.11%MoM and 3.26%YoY. The strength was derived from the underlying categories of pharmaceutical sales (2.51%MoM) and recreational goods (2.74%MoM).

### National Retail Sales (% change MoM) "Other" – March 2017

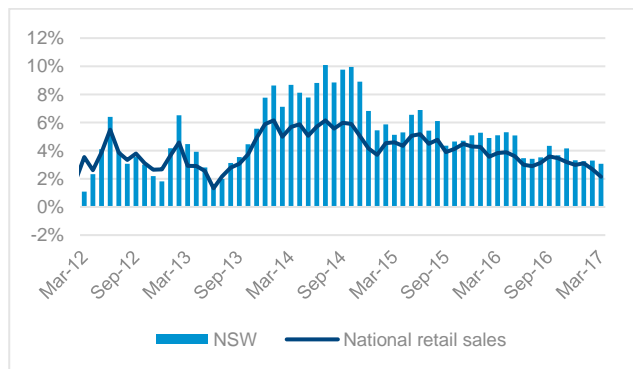


Source: ABS / Colliers Edge

### New South Wales

New South Wales currently makes up 33% of national retail sales and recorded a growth rate of 0.11%MoM or 3.07%YoY in the most recent March data release. The state enjoys broad based retail strength across all categories with the exception of food and cafes & restaurants, which declined 1.01% and 0.69% over the month respectively. On an annual basis, all categories outside department stores (-0.47%YoY) have experienced growth.

### NSW Retail Sales (% change YoY) March 2012-17



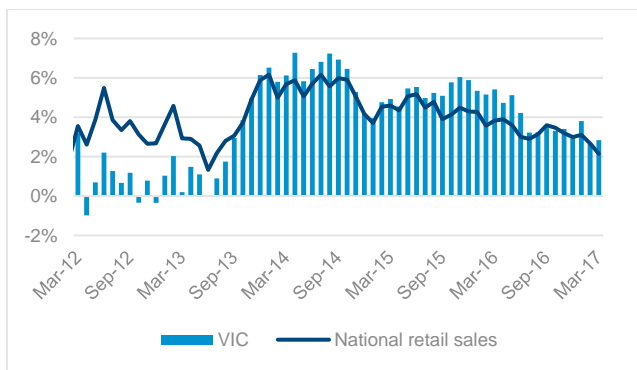
Source: ABS / Colliers Edge

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 the lead enjoyed by New South Wales versus the overall growth in retail spending across the nation has been narrowing of late, New South Wales has chalked up several years of outperformance on the retail turnover front. Looking forward, it appears as though conditions for retail spending will favour New South Wales given that population growth is lifting, supported by significant investment in infrastructure development.

## Victoria

Like New South Wales, Victoria makes up a substantial portion of national retail sales at 26%. Victorian retail sales were the strongest nationally over a monthly period in March, gaining 0.42%MoM and 2.84%YoY. Victoria derived its strength over the month from cafes & restaurants (1.97%MoM) and 'other' (2.31%MoM). All other categories were quite weak, particularly apparel (-1.25%MoM) and department stores (-0.94%MoM). Household goods registered a second consecutive month of declines (-0.15%MoM) which is a little concerning given the amount of housing related construction taking place in Australia's south eastern states, although this sector has retained a positive annual growth rate of 2.26%YoY.

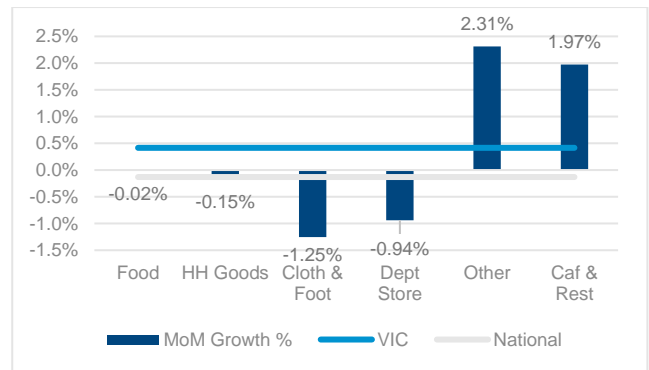
### VIC Retail Sales (% change YoY) March 2012-17



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, with New South Wales only recently creeping ahead in terms of housing approval numbers. Victoria has also been investing heavily in infrastructure, although not quite to the same extent as New South Wales. House prices in Victoria are still buoyant which in turn is supporting retail spend and housing construction. At the same time 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 – March 2017

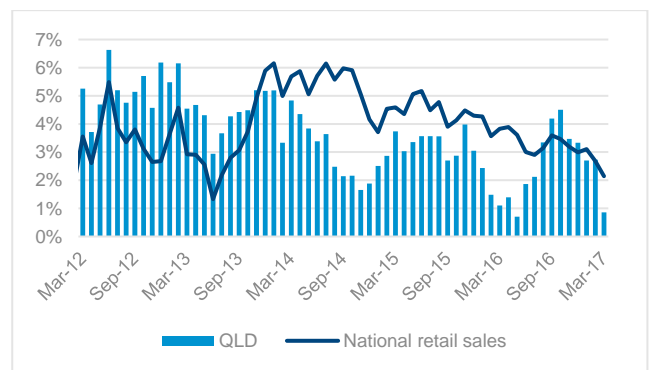


Source: ABS / Colliers Edge

## 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 drew to a close. 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) March 2012-17

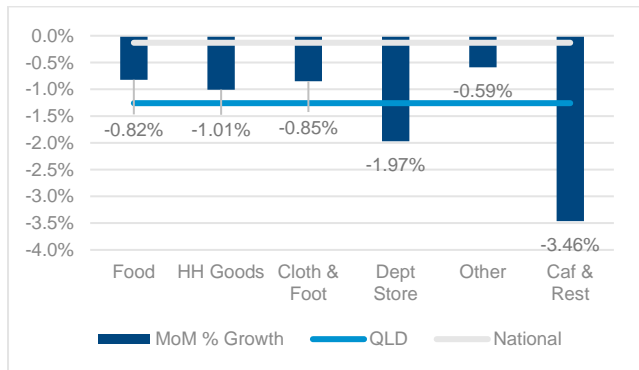


Source: ABS / Colliers Edge

Queensland experienced a sharp decline within the March retail sales data, which fell -1.26%MoM to be the worst national performer. This dragged the annual data lower to 0.86%YoY, down from 2.73%YoY in the prior month. It appears the sales data has been impacted by Cyclone Debbie which hit the state in mid

to late March. All categories experienced declines over a monthly period, led by cafes & restaurants -3.46%MoM and department stores (-1.97%MoM). It's likely that the effects of Cyclone Debbie will flow into April's data however we expect a rebound to follow – all other things remaining consistent.

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

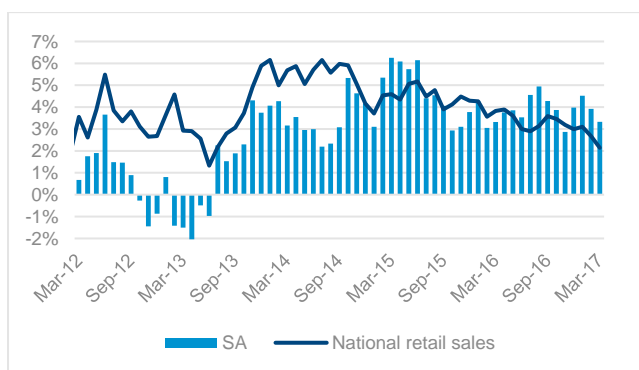


Source: ABS / Colliers Edge

## 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 as a result 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) March 2012-17

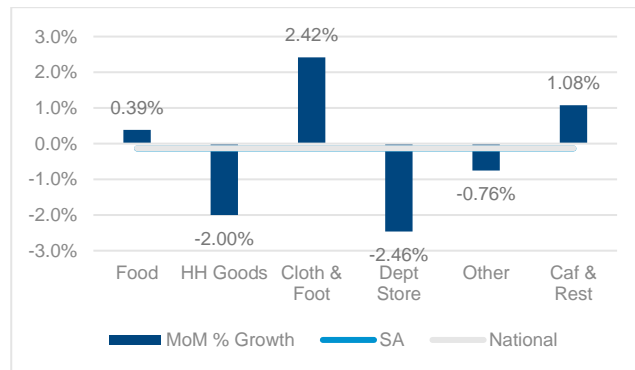


Source: ABS / Colliers Edge

South Australian retail sales were mixed over March, with cafes & restaurants (1.08%MoM), apparel (2.42%MoM) and food (0.39%MoM) making gains while household goods (-

2.00%MoM) and department stores (-2.46%MoM) experienced declines. On an annual basis, South Australia retains the highest growth rate amongst the states at 3.33%YoY.

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



Source: ABS / Colliers Edge