

RETAIL SALES AND ECONOMIC DRIVERS

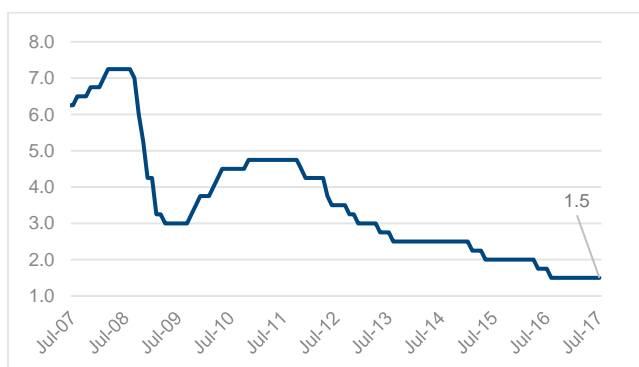
June 2017

89.635

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Cash Rate

RBA Cash Rate (%)
July 2017



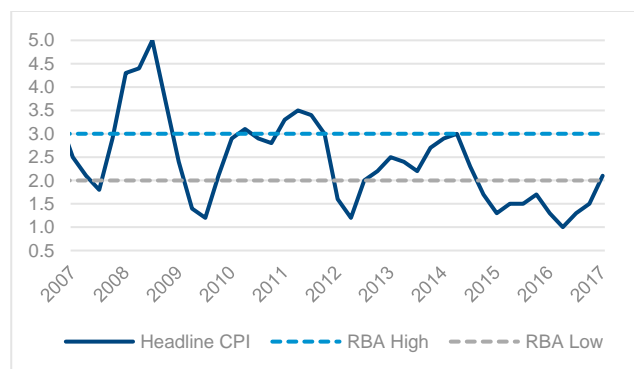
Source: RBA / Colliers Research

The RBA board left the official cash rate unchanged at 1.50% in July for the tenth consecutive board meeting. Commentary on the global economy remains unchanged, noting an improvement in overall conditions, which was evident in a tightening labour market and GDP growth rates that have been revised higher. On the domestic front, the board has updated its commentary to acknowledge that 1Q17 GDP which slowed “as expected” reflecting “temporary factors”. From here the economy is expected to strengthen gradually, assisted through buoyant business sentiment and an ongoing rotation away from mining, although consumer sentiment is fragile. Wages growth is expected to remain low despite steady improvement in the labour market, which aligns with recent underemployment data points. Housing presents the key pain point for the RBA, with officials calling out the wide variation in asset price appreciation across regions, elevated apartment supply and subdued rental growth rates. The ever increasing household debt ratios

recently published by the RBA were also referenced, although [recently announced regulatory measures](#) are anticipated to address these concerns.

CPI

Headline CPI (% growth YoY)
1Q17



Source: ABS / Colliers Research

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

Following three months of broad based declines, the Australian dollar has rebounded 0.32% to 0.7692 in June as global commentary indicates that the US Fed isn't the only central bank considering higher interest rates. Essentially the shifting narrative and trajectory of other central banks is making currencies attractive relative to the US dollar. In addition, the yield gap between US and Australian government bonds has risen in recent weeks, while key commodity price gains have also acted as a tailwind for our local currency. Over the course of June, the AUD gained against all major currencies; CNY (2.66% to ¥5.2067), EUR (0.88% to €0.673), JPY (4.30% to ¥86.16), KRW (5.46% to ₩880.2) and GBP (1.58% to £0.5913).

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

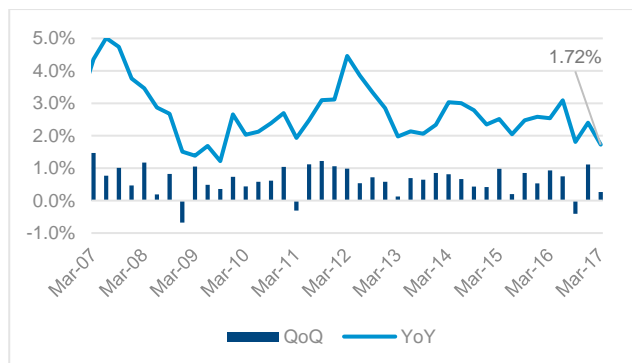


Source: RBA / Colliers Research

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

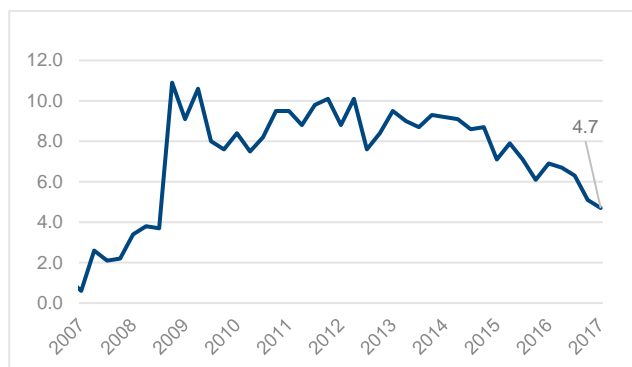


Source: ABS / Colliers Research

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



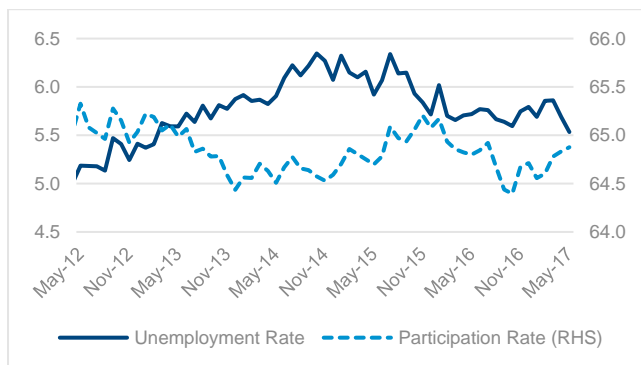
Source: ABS / Colliers Research

Labour Market

Australia's labour market data posted its third consecutive month of robust gains with all underlying metrics heading in the right direction. Following April's 46.14K gain in net employment, May's data revealed a solid gain of 41.96K net jobs. Importantly these figures were bolstered by the full-time segment (52.06K) while part-time employment fell by 10.11K. Rolling 12-month net employment is now firmly in positive territory having bottomed at the end of 2016, led higher by the full-time sector. Meanwhile the unemployment rate has declined, falling from 5.7% in April, to a four year low of 5.5%, and the participation rate has increased to 64.9% (up from 64.8% in April). The closely watched underemployment rate data was also updated in May, which has fallen to 8.8% from 8.9%. This is an encouraging move and explained by the positive momentum that is clearly building in the

Australian labour market. Nonetheless, this metric remains elevated, implying there remains plenty of slack still to be taken up.

Australian Labour Market May 2017



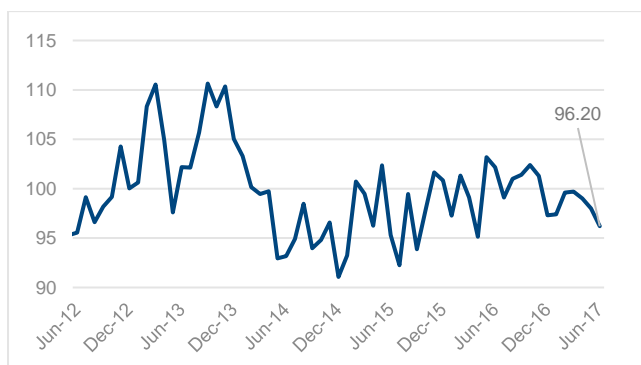
Source: ABS / Colliers Research

Confidence Metrics

Consumer Confidence

The Westpac measure of consumer confidence fell for the third consecutive month in June, slipping 1.8% to 96.2. Despite Australian consumer confidence not being overly weak on an absolute level, it has shown a clear downtrend since mid-2016. Westpac has noted that respondents are feeling increased pressure on family finances and renewed concerns about the economic outlook. Household incomes have remained weak, barely outpacing inflation over the last four quarters while recent increases to mortgage interest rates and electricity costs have most likely contributed to these pressures. A disappointing March quarter GDP update clearly had a hand in the survey results, even though the quarterly growth numbers remained in positive territory. Ahead of the release many market commentators feared the economy may have contracted. Housing related sentiment remains weak, with the “time to buy a dwelling index” remaining near seven year lows. Meanwhile consumer’s house price expectations have continued to decline.

Westpac-MI Consumer Confidence June 2017

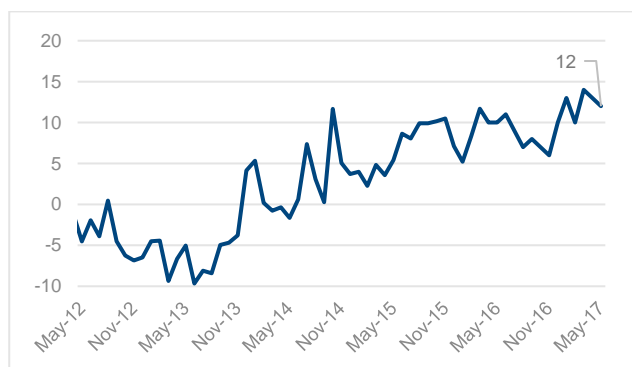


Source: Westpac-MI / Colliers Research

Business Conditions

The business sector continued to look upbeat in the May NAB Business Survey, maintaining the apparent disconnect with the household sector (see consumer confidence trends). Business conditions eased modestly in May, down 1 point to +12 index points, but these levels are still well above the long run average. The strength looks to be quite broad based, with all industries recording positive conditions for only the second time since 2010. The moderation in business conditions this month was driven by profitability, although employment conditions also eased slightly, while sales and trading conditions held steady at fairly elevated levels. Despite easing slightly, employment conditions are holding at solid levels that are consistent with recent improvements in employment growth numbers reported through the ABS. How the disparity between household and business sectors resolves itself will be important for future growth. Optimists may point to solid levels of employment conditions as providing the much needed catalyst to lift the household sector out of its downward trend, however underutilisation within the labour market remains quite high, keeping wage growth subdued and leading consumers to exercise caution with their spending.

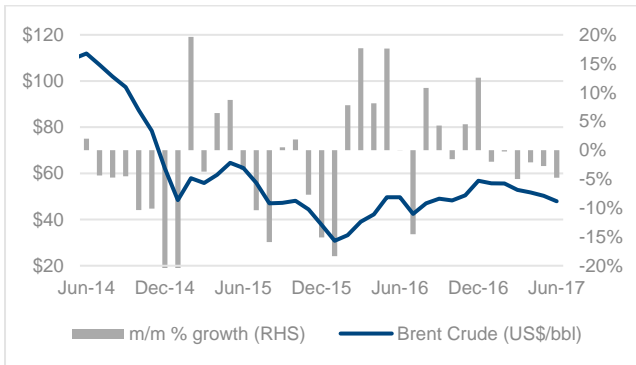
NAB Business Conditions May 2017



Source: NAB / Colliers Research

Energy Prices

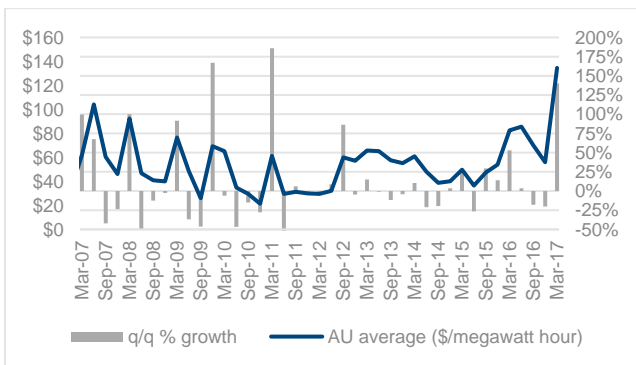
Brent Crude Oil Price (US\$/bbl)
June 2017



Source: Bloomberg / Colliers Research

Oil prices continued to try and find a floor with Brent crude slipping a further -4.75% to US\$47.92 at the June close. This marks the sixth straight month of declines 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 in Australia, 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 through the of June – July period. Wholesale energy prices have already increased significantly.

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



Source: Australian Energy Regulator / Colliers Research

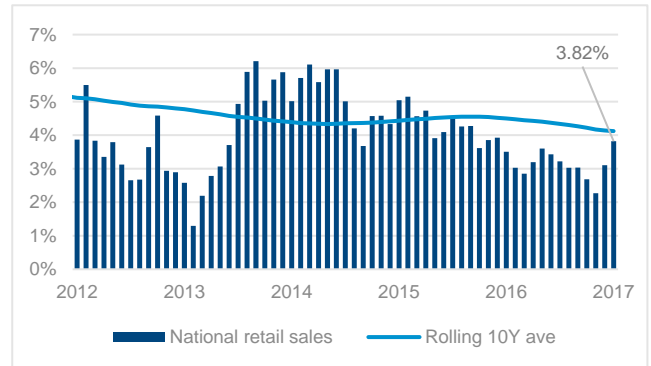
Retail Spending

National

Following April's solid result, many analysts had been expecting some slowdown in the May retail sales release however this didn't eventuate. May's data increased by an impressive 0.65%MoM (ahead of consensus expectations of 0.2%) while April was revised even higher from 0.95% to 0.98%. This translated to an annual growth rate of 3.82%,

the highest rate in thirteen months, while April's annual data was also revised up to 3.11% from 3.08%.

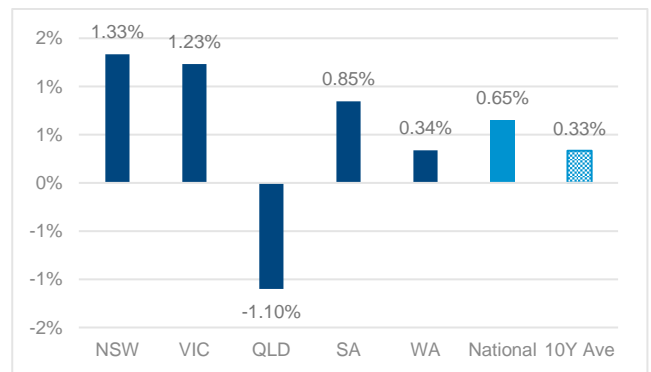
National Retail Sales (% change on pcp)
May 2012-17



Source: ABS / Colliers Research

The monthly data has pointed to very strong growth from the nation's retail power houses, New South Wales and Victoria which registered sales growth rates of 1.33%MoM and 1.23%MoM respectively. Queensland stumbled in May, slipping -1.10%MoM, although we believe the fallout from Cyclone Debbie (which hit the data in March), is still washing through.

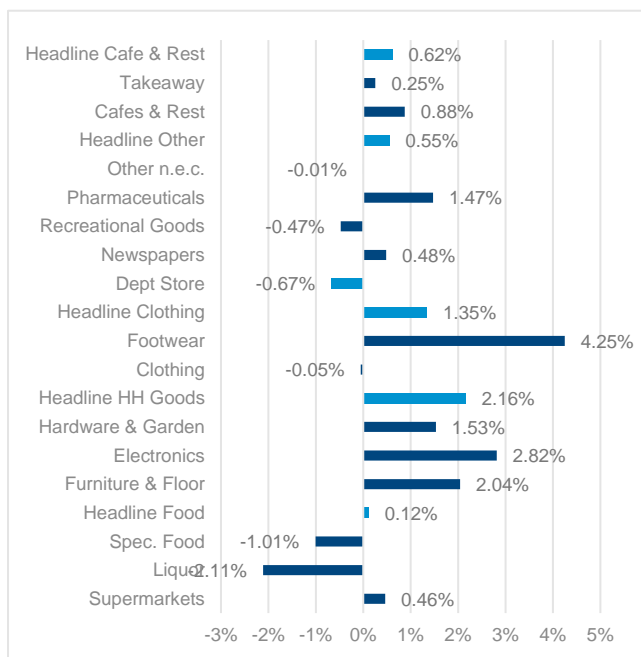
National Retail Sales (% change MoM)
By State – May 2017



Source: ABS / Colliers Research

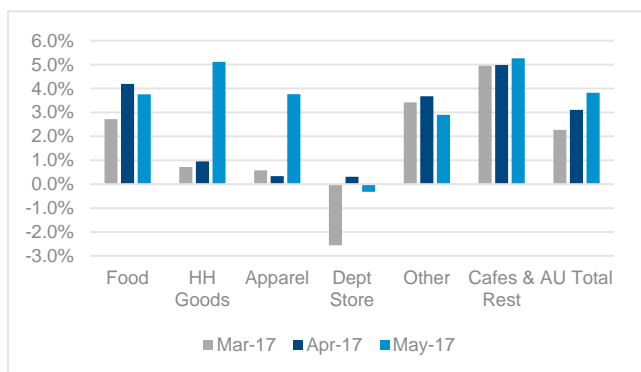
We had been noticing a skew to growth within the non-discretionary sector, as the headline food category, supported by liquor and supermarket sales, experienced relatively strong growth from mid to late 2016, and the discretionary sectors stalled. Encouragingly, growth is returning to some of the discretionary sectors such as apparel and household goods, while cafes and restaurants continue at a steady clip. Unfortunately, department stores continue to struggle, weighed down by the discount department store sub-category.

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



Source: ABS / Colliers Research

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

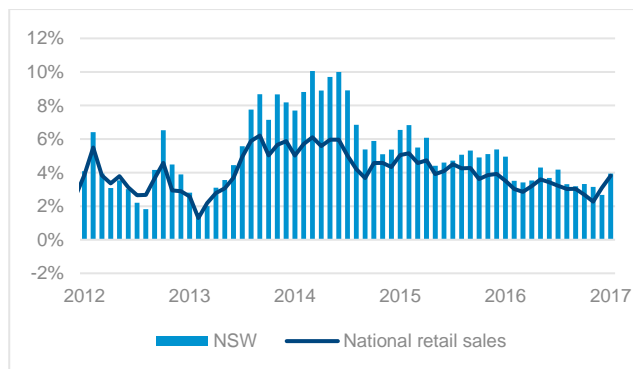


Source: ABS / Colliers Research

New South Wales

After a period of sluggish growth, New South Wales enjoyed a respectable 1.33%MoM lift to retail sales in May, marking the highest monthly rate across all major states and the biggest uplift since June 2015. New South Wales sales are being lifted by growth in the household goods category (+3.67%MoM) together with apparel (+1.94%MoM) and hospitality related spending (+2.21%MoM). Department stores remain weak slipping -0.48% over the month.

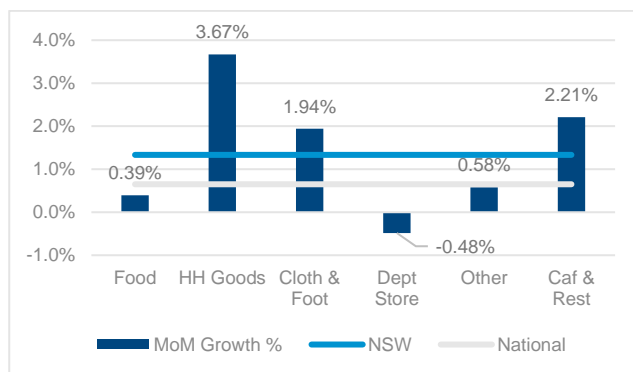
NSW Retail Sales (% change YoY) May 2012-17



Source: ABS / Colliers Research

New South Wales has enjoyed its position as one of the fastest growing states 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 prior to May 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 – May 2017

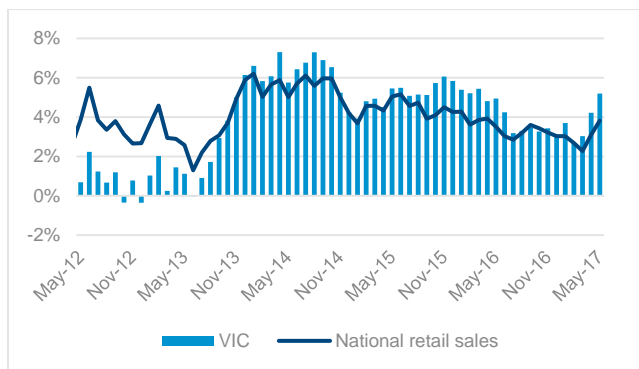


Source: ABS / Colliers Research

Victoria

Victoria appears to be moving from strength to strength, as retail sales growth rates chalked up the fourth month of consecutive increases. May's retail sales growth came in at 1.23%MoM, up from 1.05%MoM in April, and like New South Wales, the strength is emanating from more of the discretionary sectors. Household goods led the state higher at 3.03%MoM, followed closely by apparel (+1.81%MoM) and other sales (+1.69%). Cafes & restaurants were flat, although department stores bucked the national trend to lift 0.53%MoM. Victoria continues to lead national sales growth on an annual basis at 5.19%YoY.

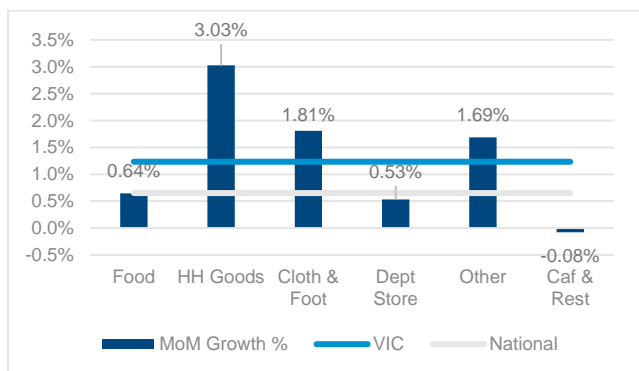
VIC Retail Sales (% change YoY) May 2012-17



Source: ABS / Colliers Research

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 – May 2017



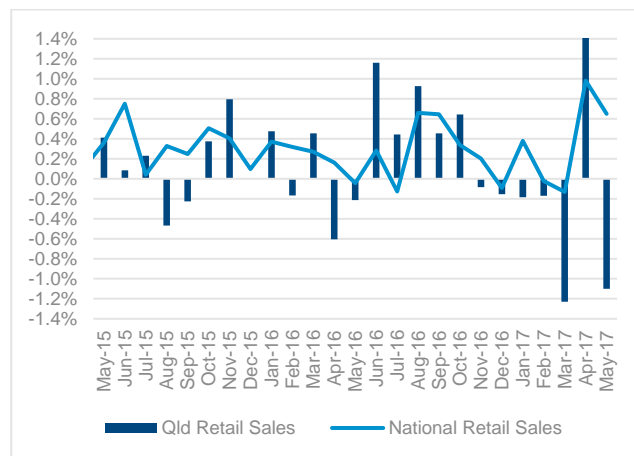
Source: ABS / Colliers Edge

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 during 2017. On a brighter note, the lower AUD has assisted indicators such as tourism nights and numbers of foreign students, although we note the local currency is on the rise once more. 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.

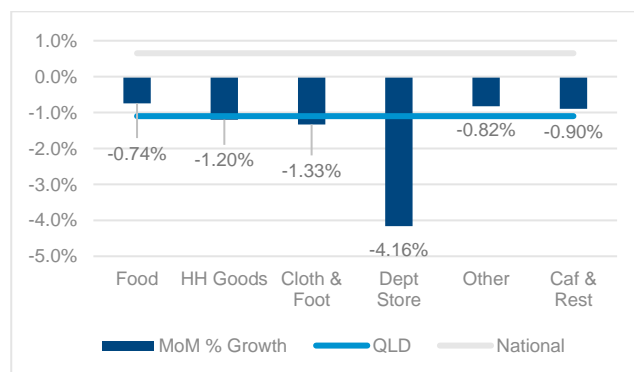
QLD Retail Sales (% change MoM) May 2012-17



Source: ABS / Colliers Research

The rebound in Queensland's retail sales following a Cyclone Debbie induced fall in March appears to have been short lived, with retail sales growth slipping drastically again in May. The -1.10%MoM decline is in stark contrast to other states which points to volatility in the data that should hopefully wash through in coming months. May's weakness has pulled the annual numbers lower, at 3.07%YoY, below the national average of 3.82%YoY. The monthly weakness was broad based, which supports the case of disruption through natural disaster as opposed to a targeted sector related sell-off. Even after factoring in May's weakness, the annual growth rates for most categories remain healthy, particularly across food (+4.68%), household goods (+5.22%) and hospitality (+6.6%).

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

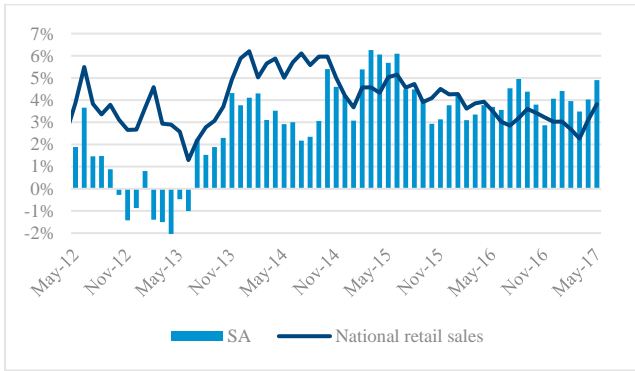


Source: ABS / Colliers Research

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 aforementioned 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.

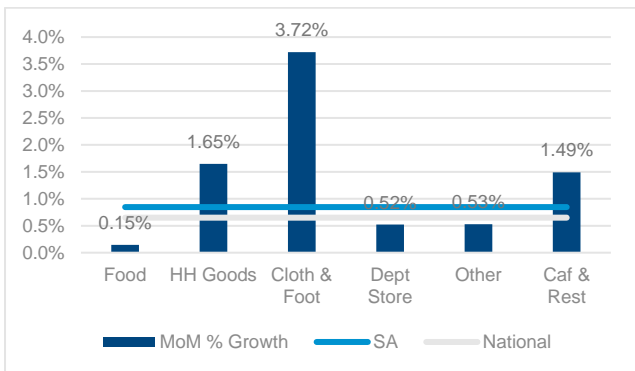
SA Retail Sales (% change YoY) May 2012-17



Source: ABS / Colliers Edge

South Australia experienced another solid month of retail sales growth, up 0.85%MoM and retaining the second highest annual growth rate amongst the major states at 4.90%YoY. Apparel sales were the standout at 3.72%MoM and the highest for the category nationally. Other discretionary sectors registered pleasing results including household goods (1.65%MoM), hospitality (1.49%MoM) and department stores (0.52%MoM). Food sales were flat at 0.15%MoM.

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



Source: ABS / Colliers Research