



# RETAIL SALES AND ECONOMIC DRIVERS

December 2016

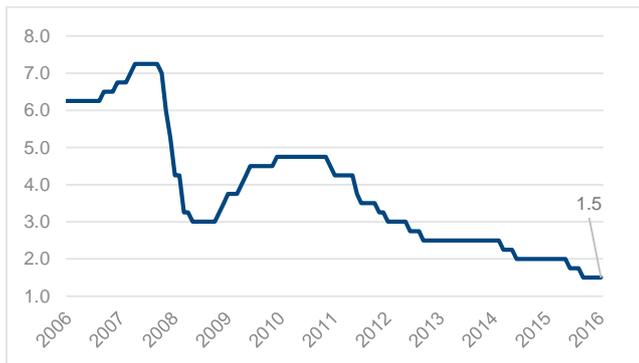
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## Cash Rate

RBA Cash Rate  
December 2016



Source: RBA / Colliers Edge

There was no RBA board meeting held in January 2017, however at the most recent meeting in early December 2016, the RBA kept the official cash rate on hold at 1.5% 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

Despite the broad recovery taking place in bulk commodity markets (which typically strengthen the currencies of commodity exporters such as Australia), the AUD declined -3.18% against the greenback to US\$0.7236 in December. This dynamic is occurring because FX markets continue price in the inflationary impacts of a Trump presidency, together with expectations of a more hawkish stance on US monetary policy. Some emerging currencies have weakened further 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 weakened against the CNY (-2.29% to ¥5.0286), EUR (-2.22% to €0.6872) and GBP (-1.55% to £0.5892) while making gains against the JPY (+0.28% to ¥84.47) and KRW (+0.07% to ₩873.97).

### AUD / USD Exchange Rate (1AUD=USD) December 2016



Source: RBA / Colliers Edge

## GDP

Australia's Gross Domestic Product contracted -0.47% QoQ in 3Q16 dragging down 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

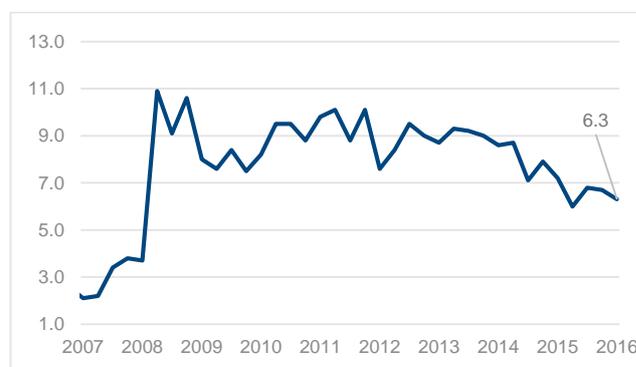


Source: ABS / Colliers Edge

## 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



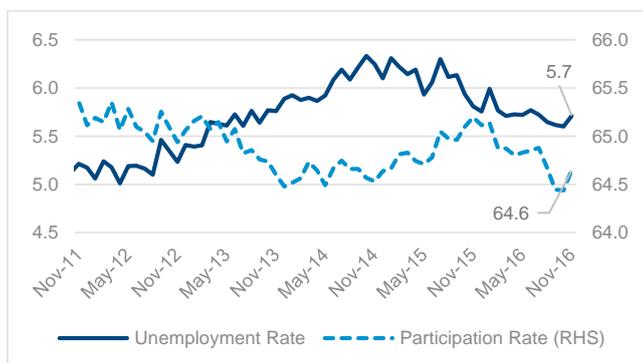
Source: ABS / Colliers Edge

## Labour Market

Australia's unemployment rate increased 10bp to 5.7% in November although the underlying details were far more encouraging than the headline number suggests. After a period of decline, the participation rate rebounded higher to 64.6% while underemployment rate (or underutilisation) fell from 8.7% to 8.3%. Net employment also made the largest gain in a year at 39.06K led entirely by full time employment (+39.27K) and offset only slightly by part time employment declines (-210). From a State perspective, NSW retains the strongest position with a 4.9% unemployment rate that remained static over the month. VIC increased from 5.7% to 6% and QLD also increased from 5.8%

to 6%. SA deteriorated from 6.5% to 7% while WA increased from 6.5% to 6.9%.

## Australian Labour Market November 2016



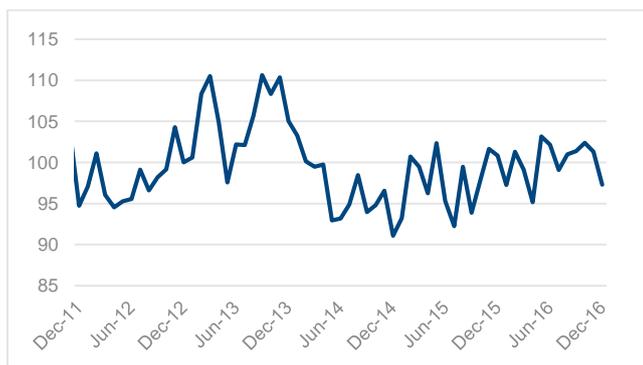
Source: ABS / Colliers Edge

## Confidence Metrics

### Consumer Confidence

Australian consumer sentiment fell 3.9% in December, slipping below the 100 mark to 97.3 which indicates that pessimists hold a clear majority over optimists. This was a disappointing result considering that the index has been very resilient of late, trading in a very thin band of 99.1-102.4 over the last 6 months. Consumers are becoming more concerned about the domestic economy following the recent contraction in 3Q16 GDP data. News that banks have been increasing some lending rates, partly in response to a sharp increase in wholesale rates following the US election, has also unnerved consumers around the interest rate outlook.

### Westpac-MI Consumer Confidence December 2016



Source: Westpac-MI / Colliers Edge

### Business Conditions

NAB has not released a survey for November, however 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.

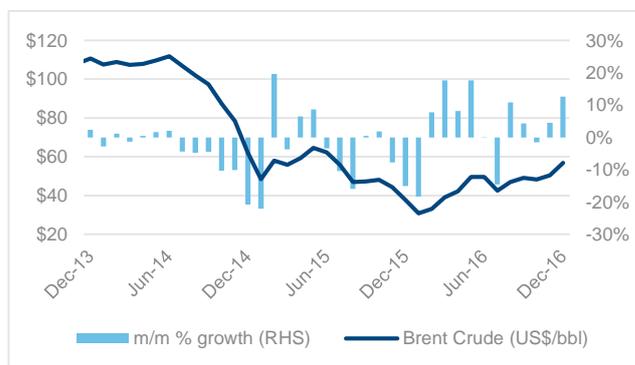
## NAB Business Conditions October 2016



Source: NAB / Colliers Edge

## Oil Prices

### Brent Crude Oil Price (US\$/bbl) December 2016



Source: Bloomberg / Colliers Edge

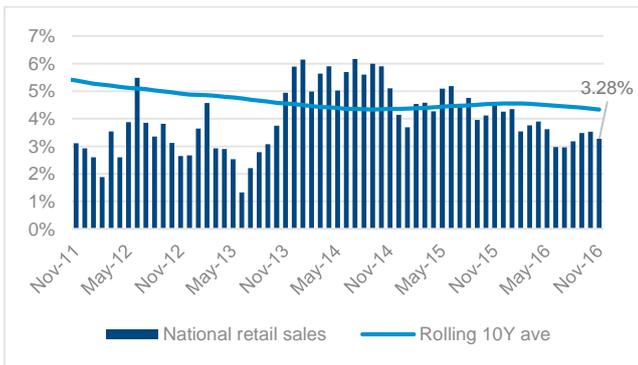
Oil markets continued to surge through December with Brent Crude finishing the month at US\$56.82/bbl (+12.58%MoM). The recent gains through the latter months of 2016 stem from a surprise resolution at OPEC's Vienna meeting on 30<sup>th</sup> November. While the prior Algiers meeting was opaque in terms of how production cuts were going to be allocated amongst members, the November meeting provided the market 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 will likely 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

ABS retail sales figures suffered a small amount of payback in November, slipping to a national growth rate of 3.28%YoY, down slightly on October's 3.53%YoY print and below the rolling 10 year average of 4.34%. Even so, a growth rate in excess of 3% is respectable and well in excess of the most recent GDP growth figures which cratered to just 1.76%YoY in the 3Q16 release. On a monthly basis, retail sales grew 0.20% in November, marking a decline on October's 0.49%.

### National Retail Sales (% change YoY) November 2011-16



Source: ABS /Colliers Edge

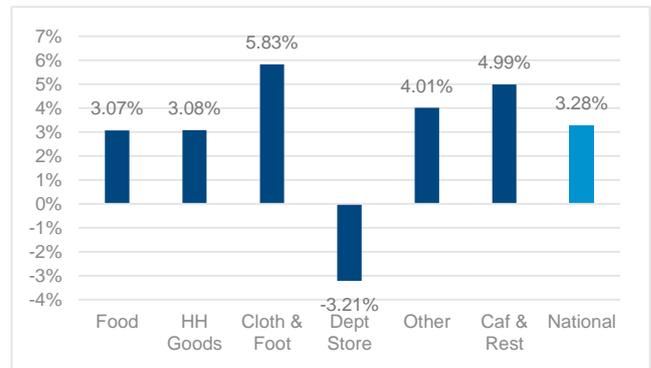
Growth rates tempered in 3 of the 6 main sales categories, however with the exception of department stores, all remained in positive growth territory over a year-on-year (YoY) basis.

Food which makes up 40% of all retail sales volumes continued to strengthen, sitting at 3.07%YoY, up on October's rate of 2.69%YoY. The broad level of strengthening in this category from mid-2016 has been a little puzzling given the high level of competition within Australia's supermarket industry and the substantial investment in pricing that is taking place across the majors. We expect that Aldi will continue to expand its share of basket through expansion into 'fresh', while the widely anticipated entry of Amazon in mid-2017 will no doubt maintain downward pressure on supermarket pricing and margins.

Clothing and Footwear was the standout performer in November growing 5.83%YoY, up significantly on October's 4.57%YoY rate. The result was driven by growth in the clothing sub sector (+6.70%YoY) which bodes well for shopping centre specialty sales. Department store's meanwhile continue to flounder with this category chalking up its fifth consecutive decline to currently sit at -3.21%YoY. The silver lining here is that despite remaining in negative territory, the result marks a slight improvement on Octobers -3.64%YoY rate. As mentioned in prior notes, this poor performance 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.

The rate of growth in household goods tempered slightly from 3.91%YoY in October to 3.08%YoY in November. Household good sales have been quite resilient given the correlation with housing churn (the construction and acquisition of housing) appears to have broken down throughout the second half of 2016, while dwelling approvals has also been quite volatile, particularly in the apartment market.

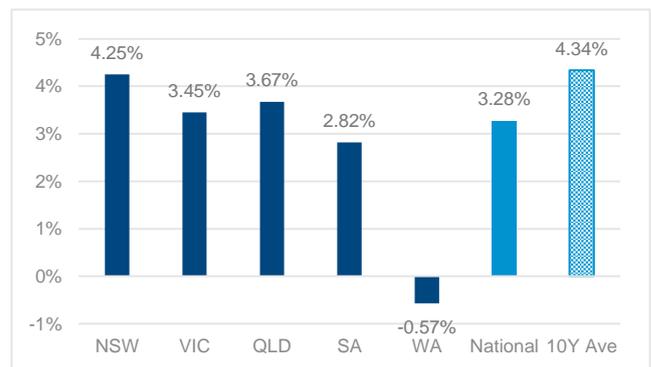
### National Retail Sales (% change YoY) By Category – November 2017



Source: ABS / Colliers Edge

New South Wales led the State based growth rates at 4.25%YoY, up on October's 3.79%YoY, Queensland growth tempered to 3.67%YoY, down on the prior months 4.52%YoY growth rate, but still strong enough to retain the second highest growth rate and exceed the national average. Victoria improved from 3.41%YoY in October to 3.45%YoY in November which also placed the State ahead of the national growth rate. Meanwhile South Australia underperformed coming in at 2.82%YoY while the prior month was revised significantly lower from 4.41%YoY to just 3.88%YoY. Western Australia retail sales slumped -0.57%YoY in November although the October figures were revised higher to +0.64%YoY from flat growth.

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



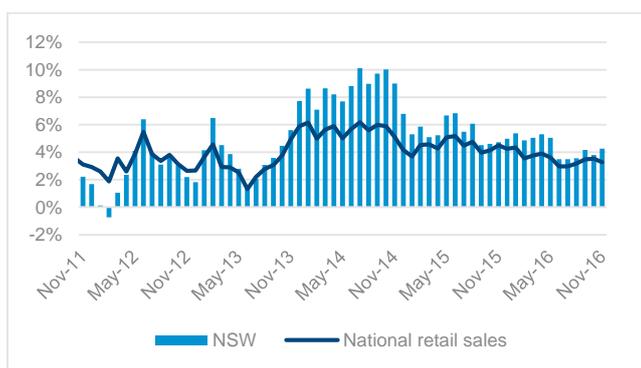
Source: ABS / Colliers Edge

## New South Wales

New South Wales makes up 33% of national retail sales and recorded a growth rate of 4.25%YoY in November, which was the highest across all major States and an improvement on the prior

month. New South Wales derives its strength from the clothing and footwear category which increased to 7.51%YoY, up from 5.27%YoY in the prior month. Although the strength in New South Wales is quite broad, with cafes and restaurants (6.59%YoY) also strengthening over the month, supported particularly by takeaway food services (17.46%YoY). Food retailing also improved, assisted particularly by liquor sales which increased to 9.45%YoY, up from 4.60%YoY in the prior month. Headline household goods moderated to 4.91%YoY, although within the sub sectors, hardware supplies lifted substantially from 14.57%YoY to a substantial 20.42%YoY rate.

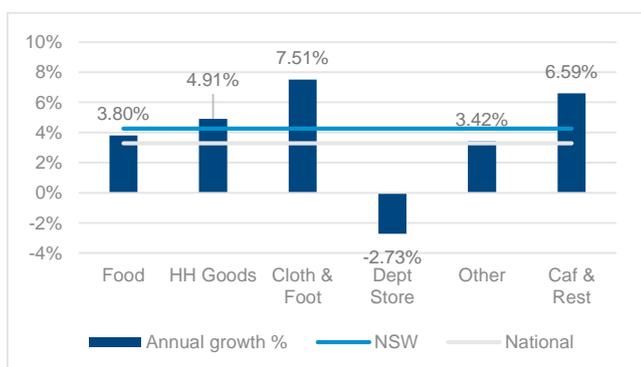
### NSW Retail Sales (% change YoY) November 2011-16



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 – November 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 continue

to oscillate around the mid-3's coming in at 3.45%YoY, up slightly on October's 3.41%YoY. The highest growth was witnessed in the cafes and restaurants category at 6.42%YoY although this was a substantial fall on October's 11.16%YoY. Clothing and footwear outperformed at 4.90%YoY which was an improvement over the month thanks to growth in sales of footwear and personal items. Headline household goods growth appears mediocre at just 2.17%YoY however this masks an 11.87%YoY surge in furniture and floor covering sales. Department store sales had a negative print of -1.17%YoY although on a brighter note, the quantum of fall was less than October's result of -3.32%YoY.

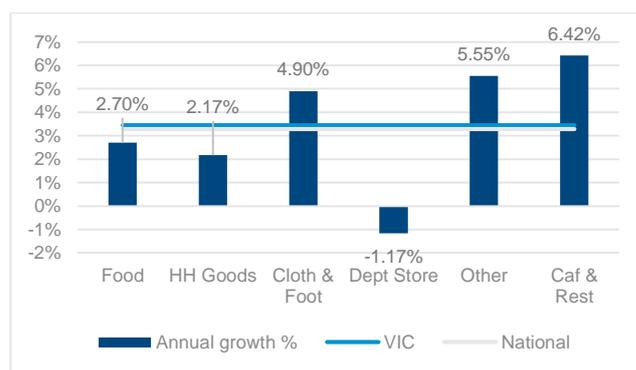
### VIC Retail Sales (% change YoY) November 2011-16



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 – November 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) November 2011-16

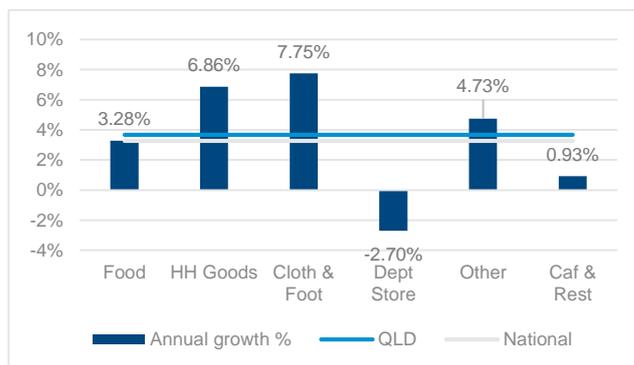


Source: ABS / Colliers Edge

However recent retail sales releases suggest that perhaps the worst of a painful rotation away from mining is behind us as retail sales growth rates recover. From a low of just 0.73%YoY in April 2016, Queensland's retail sales growth rates have recovered to a high of 4.52%YoY in October before slipping slightly in the most recent November release to a still respectable rate of 3.67%YoY. Queensland now boasts the second highest retail sales growth rate across the nation, and comprising 21% of total retail sales volumes.

The category breakdown for Queensland is also encouraging, led by clothing and footwear which grew at a 7.75%YoY rate, albeit down on October's 10.09%YoY. This performance was spurred by the underlying clothing category which is growing at a steady 12.19%YoY. Household goods are also performing well, achieving a 6.86%YoY rate of growth in November, driven by strong sales in furniture, floor coverings and homewares (7.96%YoY). Food sales were fairly steady at 3.28%YoY in November, down slightly on October's 3.62%YoY rate, however café and restaurant sales were a little disappointing, coming in at just 0.93%YoY following October's encouraging 5.53%YoY release. The catalyst here was a steep fall in takeaway food service to just 1.55%YoY from 6.77%YoY in October. Much like the national retail sales results, Queensland's department store sales have remained in negative territory, deteriorating further from -1.64%YoY in October to -2.70%YoY in November.

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



Source: ABS / Colliers Edge

So 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) November 2011-16

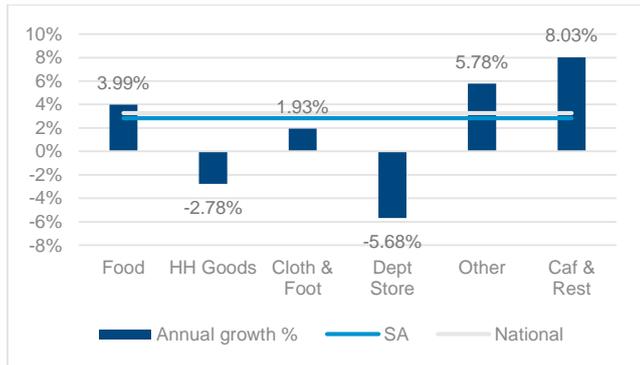


Source: ABS / Colliers Edge

South Australian retail sales, which make up 7% of the national total came in at 2.82%YoY in November, down just over 100bp on October's 3.88%YoY to sit below the national average of 3.28%YoY. Cafes and restaurants appear to be performing well growing at 8.03%YoY in November, marking an improvement on October's 7.06%YoY result. Unlike other States which have been witnessing strong growth in takeaway food services, South Australia is being driven by restaurants and catering services which are now sitting at 13.53%YoY. "Other" sales continue to

stand out at 5.78%YoY albeit a decline on October's 11%YoY rate. Sales of pharmaceutical goods have been the catalyst in this sector spiking to 14.14%YoY in October before falling back to 6.92%YoY in November. Food sales recorded a 3.99%YoY rate which exceeded that categories national average. Elsewhere, household goods disappointed, falling to -2.78%YoY from October's 2.27%YoY growth rate. Department stores were predictably poor, declining -5.68%YoY which was slightly better than the prior month's result.

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



Source: ABS / Colliers Edge