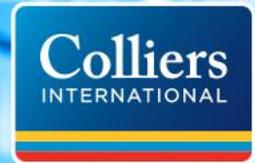


RETAIL SALES AND ECONOMIC DRIVERS

February 2017



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Cash Rate

RBA Cash Rate

March 2017



Source: RBA / Colliers Edge

The RBA Board kept the official cash rate on hold at 1.5% at its March Board meeting, in line with market expectations. The accompanying commentary was almost identical to February's update with the Board's view on global events remaining quite upbeat on the whole. The one caveat was that China's rapid increase in borrowing to fund property and infrastructure construction may pose risks in the medium term, however in the meantime, the by-product of higher commodity prices is obviously assisting the Australian economy. Inflation rates have risen in most countries and long term bond yields have ticked higher despite remaining low in a historical context. The interest rate outlook is generally higher, led by the US while there is no longer the expectation of additional monetary easing in other major economies. In Australia, the economic rotation continues assisted by low interest rates, and most measures of consumer and business confidence remain at or above average. Consumption growth strengthened at the end of

last year although wage growth remains soft. Inflation therefore is likely to remain low implying no real urgency on the Board's behalf to raise rates any time soon. The housing market remains a conundrum for the RBA with conditions quite varied around the country. Prices continue to increase in some markets despite the considerable amount of supply coming online and slowing rental growth. For now the RBA officials will have to take comfort in the supervisory measures already in place despite borrowing for investors having once again gathered momentum.

CPI

Headline CPI

4Q16



Source: ABS / Colliers Edge

Australia's 4Q16 headline CPI rose 0.5%QoQ (exp 0.7%QoQ) from 3Q16 where it increased 0.7%QoQ. The annual CPI growth rate increased from 0.3%YoY in 3Q16 to 1.5%YoY in 4Q16, although this was below consensus expectations of a 1.6%YoY increase. Annual inflation metrics increased across all major cities with the exception of Perth where prices fell from 0.5%YoY in September to 0.4%YoY in this latest result. Sydney retains the highest annual inflation rate which increased from 1.7%YoY to 1.8%YoY. At a category level, the biggest needle mover was alcohol and tobacco which increased 5.9%YoY and 2.8%QoQ in December. Transport fuel also increased substantially over the quarter to 1.7%QoQ up from a -0.5%QoQ decline in September.

The biggest drags were apparel, household goods and communications.

Currency Movements

The Australian dollar had a very strong start to 2017, gaining 6.25% against the USD over the course of January and February. The AUD looks to have been supported by higher commodity prices and also a softening USD on the back of Trump's verbal interventions. Looking forward, it's likely that fiscal spending, inflation and associated rate hikes in the US will work against the AUD. Additionally, the recent commodity rally, (particularly iron ore) may have run its course, given that the main driver here was derived from Chinese policy and global iron ore supplies from Brazil and Australia are increasing. Over February the AUD also made gains against most other major currencies; CNY (+1.38% to ¥5.2811), EUR (+2.61% to €0.726), GBP (+2.25% to £0.6184) and JPY (+0.71% to ¥86.54). The AUD lost ground against the KRW (-1.28% to ₩869.36).

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



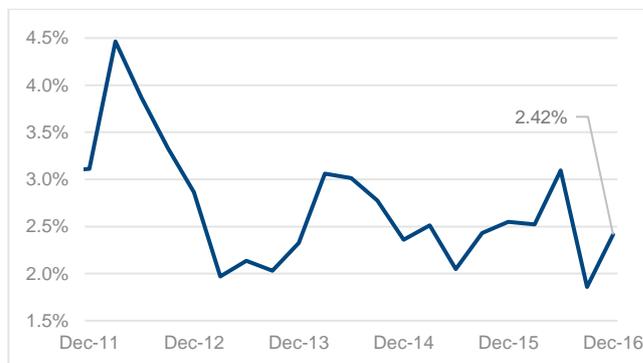
Source: RBA / Colliers Edge

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

Gross Domestic Product (% growth YoY) 4Q16

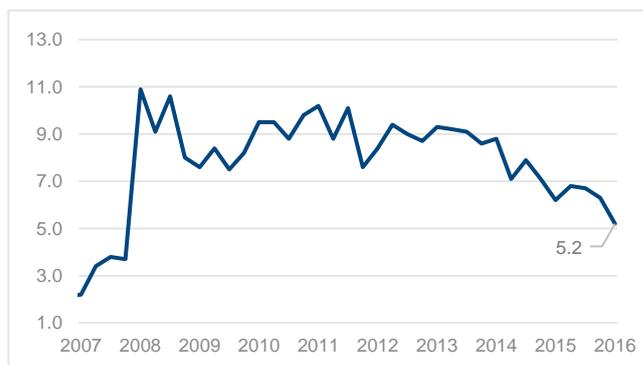


Source: ABS / Colliers Edge

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



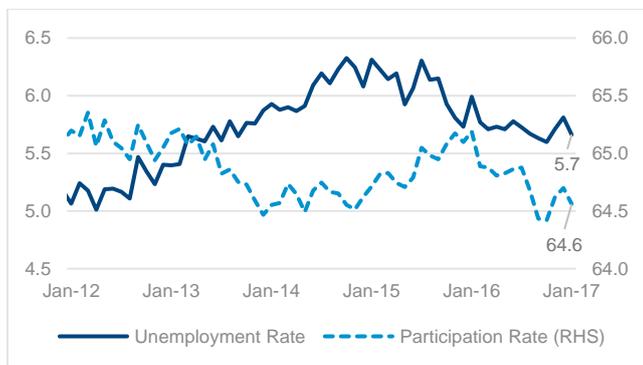
Source: ABS / Colliers Edge

Labour Market

Australia's unemployment rate reverted back to 5.7% on a seasonally adjusted basis in January, after temporarily climbing to 5.8% in December last year. Some of the moderation in unemployment can be attributed to a decline in participation which slipped from 64.7% to 64.6%. Overall job growth of 13.5K exceeded economist expectations of 10K, but unfortunately the skew to part time employment has begun to rear its ugly head once more, following three months of improving composition

trends. Full time employment actually contracted a substantial -4.85K, while part time positions grew by 58.35K. Thankfully, the rolling 12 month employment numbers have bounced off recent lows to climb back above the 100K mark after sinking to 84.81K in November 2016 (the lowest since late 2014).

Australian Labour Market January 2017



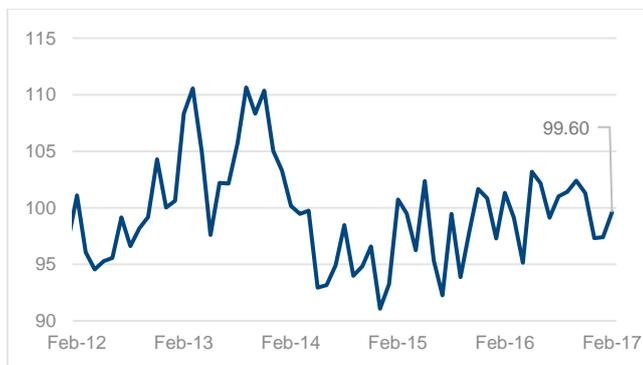
Source: ABS / Colliers Edge

Confidence Metrics

Consumer Confidence

Consumer confidence continued to strengthen in the latest February release, climbing 2.3% from 97.4 to 99.6, just below the breakeven mark where optimists outweigh pessimists. All components of the report have improved as consumers become more positive on the Australian economy. Recent commentary from the RBA may have helped ease concerns the Bank reaffirming its positive growth outlook. Encouragingly for retailers, the results indicate that consumers are a little more inclined towards making major purchases as the 'time to buy a major household item sub index rose 2.2%, building on January's 4.9% bounce. In terms of major concerns, consumers seem wary about the outlook for interest rates, with 60% of respondents expecting higher mortgage rates in 12 months 35% expecting steady rates and just 5% expecting further rate cuts.

Westpac-MI Consumer Confidence February 2017



Source: Westpac-MI / Colliers Edge

Business Conditions

The most recent NAB business survey for January revealed a substantial improvement in both confidence and conditions pointing to an improvement in the domestic economy. Business conditions jumped by a solid 6 points to +16, which is around pre-GFC boom levels. The improvement was due to a rise in overall trading conditions but there was also a noticeable jump in employment conditions which bodes well for the labour market. By industry, the wholesale sector seems to have unwound some gains, but this has been more than offset by improvements in services, while retail and mining have turned positive. Retail labour costs pulled back, which may help explain a reasonably big improvement in profitability in January, and it will be interesting to see if the recent legislative changes around penalty rates will maintain this momentum.

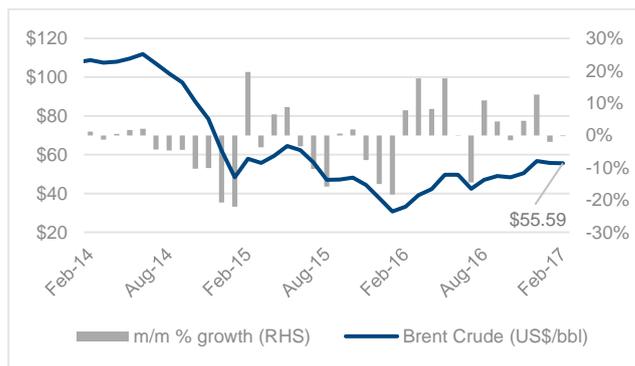
NAB Business Conditions January 2017



Source: NAB / Colliers Edge

Oil Prices

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



Source: Bloomberg / Colliers Edge

Oil markets declined marginally in February with Brent Crude slipping -0.20% to US\$55.59. It appears as though oil prices are being supported by supply constraints as OPEC cut oil production for a second month in February. OPEC is trying to cut output by about 1.2mb/d from 1 Jan 2017, marking the first such deal since 2008 in an attempt to reduce the global supply glut. Success of the strategy has been met with scepticism as previous such attempts to increase oil prices through coordinated production

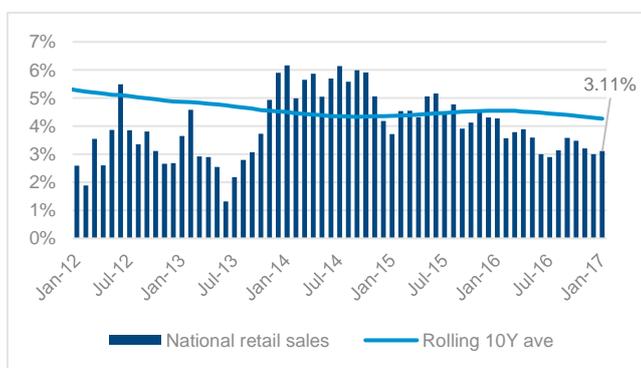
cuts within the cartel have typically failed. For this reason the prospect of higher oil prices from here becomes quite uncertain and hinge on the compliance of OPEC members.

Retail Spending

National

January's retail sales grew by 0.44%MoM, meeting market expectations and providing a welcome gain on December's -0.09%MoM decline. Relative to the prior corresponding period (pcp) of January 2016, overall retail sales grew by 3.11%, up from the 3.00% registered in December. The turnaround witnessed in January was facilitated by household goods, which plummeted last month as the closure of the Masters Home Improvement stores washed though the data. Overall retail sales remain below 10 year rolling averages on both a monthly and annual basis.

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



Source: ABS /Colliers Edge

Looking at the category breakdown, food sales, which account for almost \$10.4 billion, or 40% of overall retail sales, increased 0.22%MoM or 3.49% on pcp in the latest release. It's hard to get a read on whether this sector is moving convincingly into a recovery due to the choppy nature of the data. The supermarket and grocery store sub sector grew 0.18% over the month, although this equates to 3.38% on pcp. Market dynamics within the supermarket sector remain unchanged. Consumer wage growth is quite weak, at 2.0%YoY in 4Q16, and the expansion of operators such as Aldi and Costco are testament to Australian demand for low cost groceries. While an all-out price war between these players is not in the best interest of any retail participant, the entry of Amazon together with others such as Lidl or Kaufland should keep a lid on price inflation.

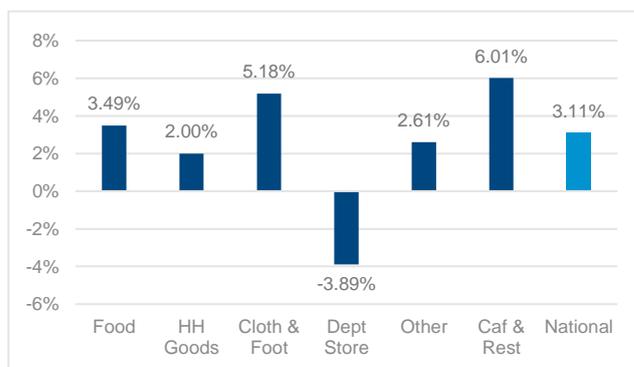
Household goods provided the swing factor in January's retail sales figures, with this category gaining 1.45% over the month and 2% on pcp. It appears as though the failure of Woolworth's Masters Home Improvement business played a significant role in the volatility, given the hardware subsector has recovered substantially from -6.97%MoM in December's release to 1.13%MoM in January. Looking ahead, the effects of the Australian housing boom are not over but the housing cycle is past its peak with building approval activity now slowing. A slower rate of house price growth and new building activity is likely to also mean fewer people moving

house, which is often the trigger for household goods purchases.

Tough times in department stores haven't yet abated, with this category slipping -0.54%MoM in January, and -3.89% on pcp; both metrics representing a deterioration on December's release. There is a combination of drivers here. Firstly the major department stores have been quite slow to react to the myriad of new entrants with developed omni-channels, and turnaround strategies in the form of improved service, smaller store footprints and redevelopments are only now being executed. The second key element dragging down this sector are the domestic Discount Department Stores (DDSs) that have been disrupted by the emergence of low cost offshore fast fashion retailers. Kmart is really the only domestic player that can claim some form of victory in the DDS space which has effectively become a zero sum game. Target and BigW are yet to provide shareholders with any credible turnaround strategy, evident in the recent 1H17 results, where EBIT declined -78.4% and -27.2% respectively.

After a string of steady improvements, the apparel sector has taken a breather, slipping -0.41% over the month, and slowing to a 5.18% gain on pcp. However we note that this sector has bucked the broader trend of softer retail sales, which indicates that Australian consumers are not doing it quite as tough as some media headlines would have you believe. Competition in the sector has without doubt intensified as new entrants look to take advantage of Australia's global tastes, discretionary spend and tourism apparel demand. Therefore it's the retailer's themselves that find themselves in a state of transition. The importance of pricing, inventory management, ranging and omni-channel distribution has created a fairly stark divide within the Australian retailer landscape, and at this stage many domestics are playing catch up.

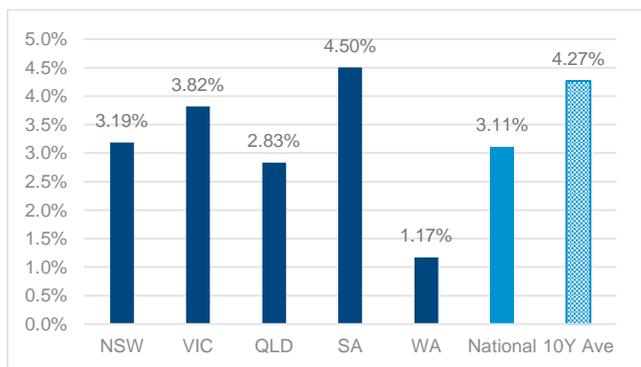
National Retail Sales (% change on pcp) By Category – January 2017



Source: ABS / Colliers Edge

From a regional perspective, it was Victoria that posted the most convincing monthly gain in January, up 1.09%MoM, compared to the -0.54%MoM decline encountered in December. Victoria also gained 3.82% on pcp, thanks to gains in food related services. South Australia has also been solid performer in recent months, chalking up a 0.60%MoM gain in January which translated into a 4.50% gain on pcp. New South Wales slipped below the national average on a monthly basis at 0.24%MoM, although on pcp the result was stronger at 3.19%. Queensland suffered its third consecutive monthly decline at -0.02%MoM, while growth on pcp weakened to 2.83%, down from December's 3.37%. Conditions have remained positive in Western Australia where retail sales grew 0.33%MoM and 1.17% on pcp.

National Retail Sales (% change on pcp) By State – January 2017

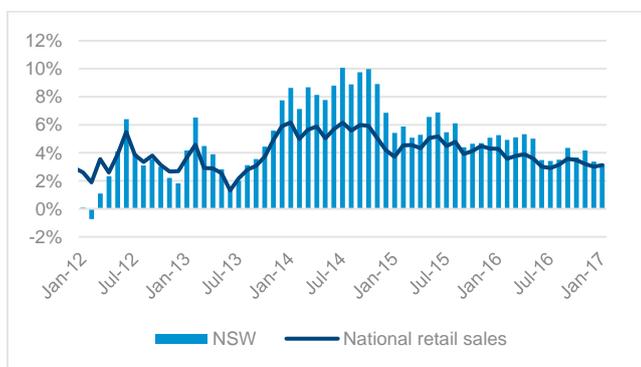


Source: ABS / Colliers Edge

New South Wales

New South Wales makes up 32% of national retail sales and recorded a growth rate of 0.24%MoM or 3.19% on pcp. Strength in New South Wales is derived from the apparel sector (+5.87% on pcp), cafes & restaurants (+4.76% on pcp) and food sales (+4.28% on pcp). Department stores were the weakest category falling -4.75% on pcp in January, marking a deterioration on December's -2.10% and the seventh consecutive decline on an annual basis. This category was also quite soft over the month, down -2.09%MoM.

NSW Retail Sales (% change on pcp) January 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.

NSW Retail Sales (% change on pcp) By Category – January 2017

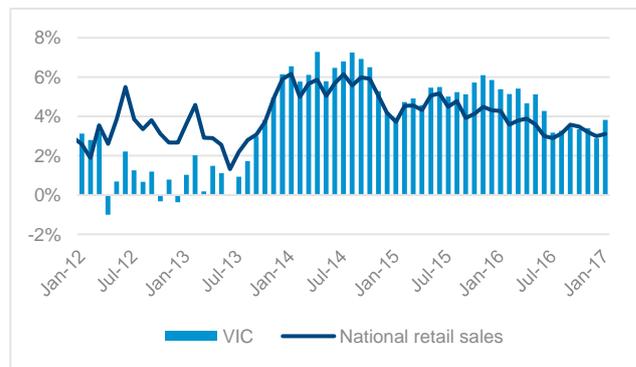


Source: ABS / Colliers Edge

Victoria

Like New South Wales, Victoria makes up a substantial portion of national retail sales at 26%. Victorian retail sales grew 1.09%MoM or 3.82% on pcp in January. Cafes and restaurants returned to growth over the month, up 1.82%MoM and 8.79% on pcp spurred higher by both cafes and takeaway services. Apparel is the other key performer in the state growing 6.09% on pcp, down slightly on December's 7.35% gain. Household goods recorded an improvement in January, up 3.43% on pcp, assisted by both the hardware (+0.93%), electrical (+1.03%) and homewares (+11%) categories. Department stores staged a small recovery, up 0.76%MoM, although this still led to a -1.36% decline on pcp.

VIC Retail Sales (% change on pcp) January 2012-17

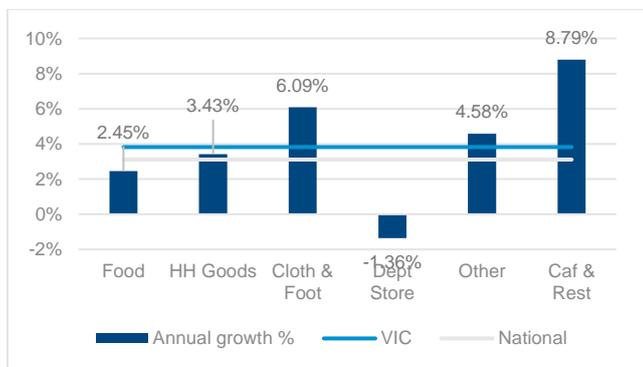


Source: ABS / Colliers Edge

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 on pcp) By Category – January 2017

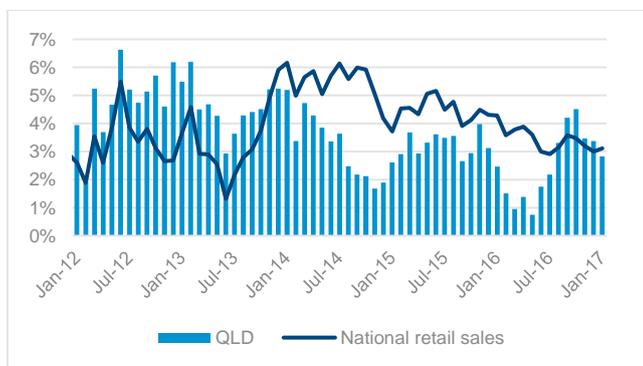


Source: ABS / Colliers Edge

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 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 on pcp) January 2012-17



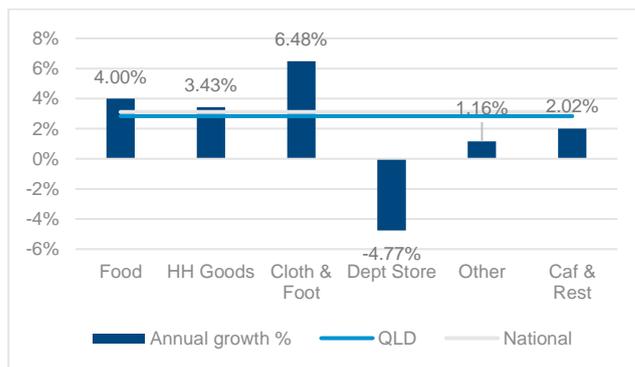
Source: ABS / Colliers Edge

After a period of steady improvement between April and October to a high of 4.51%, sales growth has moderated to

2.83% on pcp in January, down from December's 3.37% rate. The month-on-month growth rate has also moderated to -0.02%, marking the third consecutive monthly decline in retail sales.

The decline amongst Queensland categories was broad based with cafes and restaurants, 'other' sales, department stores, apparel and food retailing all moderating on pcp. The only sector to stage a convincing recovery over the period was household goods where all subcategories improved on pcp

QLD Retail Sales (% change on pcp) By Category – January 2017

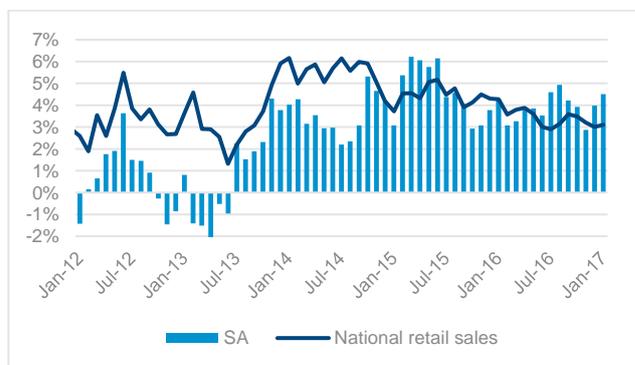


Source: ABS / Colliers Edge

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.

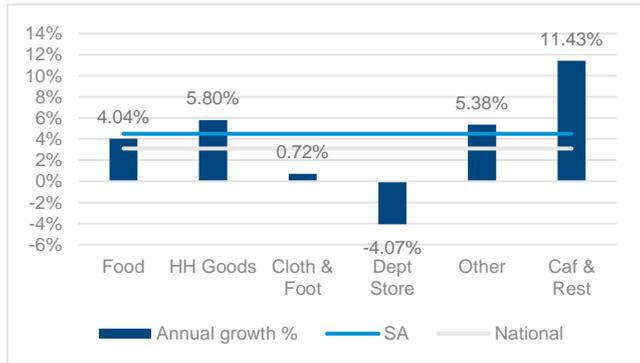
SA Retail Sales (% change on pcp) January 2012-17



Source: ABS / Colliers Edge

Despite the challenges mentioned above, South Australia managed to chalk up the highest retail sales growth rate of all major states in December at 4.50% on pcp, up on the 3.98% recorded in the prior month. This headline performance was supported by growth in cafes and restaurants and food sales which exceeded national averages. Household goods staged a fairly substantial recovery, up 5.80% on pcp vs the 0.41% recorded in December.

SA Retail Sales (% change on pcp) By Category – December 2016



Source: ABS / Colliers Edge