



# RETAIL SALES AND ECONOMIC DRIVERS

January 2017

89.635

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## Cash Rate

RBA Cash Rate  
February 2017



Source: RBA / Colliers Edge

At its first meeting of CY17, the RBA board kept the official cash rate on hold at 1.5% where it has remained since August last year. Commentary on the global economy was upbeat, referencing stronger growth in China which in turn has contributed to commodity price growth and a boost to Australia's terms of trade. Higher commodity prices together with a more hawkish stance on US monetary policy has led to higher global inflation levels and long term bond yields. Domestically the RBA holds a fairly positive outlook, with growth expectations of 3% over the next couple of years, implying that our 3Q16 GDP plunge is a short term affair. Australia's economic rotation will continue, supported by low interest rates and a broad easing in local currency strength since 2013. Headline inflation is expected to lift above 2% in 2017 (from 1.5% in 4Q16) although the quantum of uplift will be tempered by the mixed nature of our labour market. There have been hints of improvement in terms of full time jobs and participation, but there is still a way to go on this front. As

such the upward pressure on wage growth is expected to remain elusive. On housing, the RBA notes the pickup investor lending but counters with strengthening lending standards and a more cautious approach from some institutions.

## 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 close to 5% against the USD over the course of January. 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. The AUD also made gains against most other major currencies; CNY (+3.95% to ¥5.2091), EUR (+2.95% to €0.7075), GBP (+2.65% to £0.6048), JPY (+1.73% to ¥85.93) and KRW (+0.76% to ₩880.61).

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



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

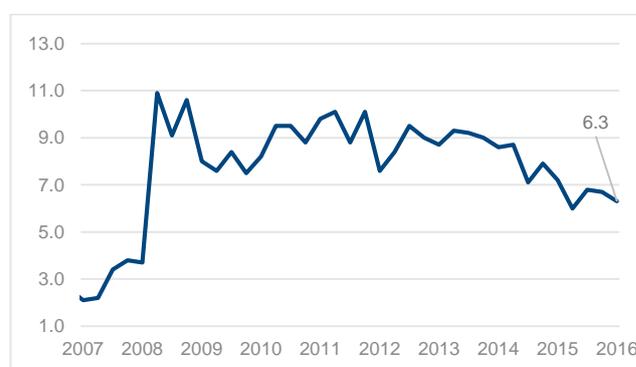


Source: ABS / Colliers Edge

## 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



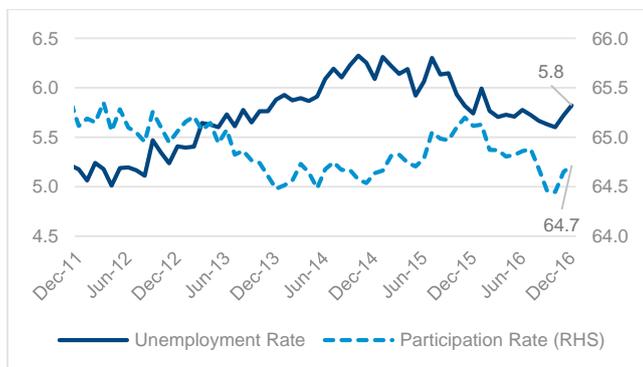
Source: ABS / Colliers Edge

## Labour Market

Australia's unemployment rate increased for the second consecutive month in December 2016, climbing 10bp to 5.8%. While the increase in headline rate isn't ideal, it was also accompanied by the second consecutive step up in participation rate from 64.4% in October to 64.7% in the latest release. On another bright note, overall employment increased 13.48K, exceeding economist expectations of 10K, with the composition skewed to full time sector for the third straight month. December's 13.48K was comprised of 9.32K full time and 4.15K part time jobs. Taking a broader view we note that on a rolling 12 month basis, net employment has been tracking lower since late 2015, dragged down by the full time category. In fact overall net

employment gains for the year through to December 2016 have been the softest since late 2013 where net overall employment gains fell into negative territory.

### Australian Labour Market December 2016



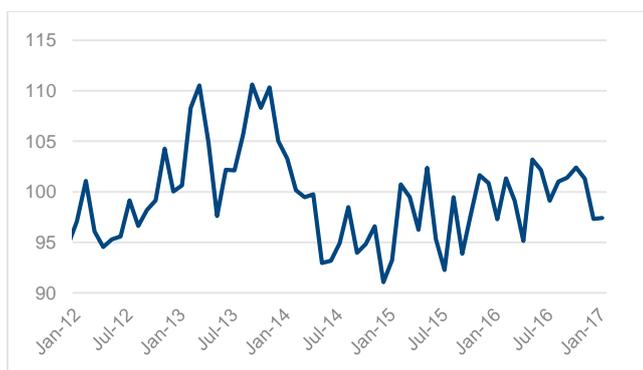
Source: ABS / Colliers Edge

## Confidence Metrics

### Consumer Confidence

Following December's 3.9% decline, consumer sentiment was little changed in January, climbing just 0.1% from 97.3 to 97.4. At this reading the number of pessimists continue to outweigh the number of optimists for the second consecutive month. The absence of a gain in January is disappointing given that equity markets rallied over the survey period, however we note the uncertainty being generated by the US election and the hangover from the domestic 3Q16 GDP print (-0.5%QoQ). On a brighter note, the unemployment expectations index edged lower (improved), indicating that respondents are holding a more favourable view of their employment prospects.

### Westpac-MI Consumer Confidence January 2017



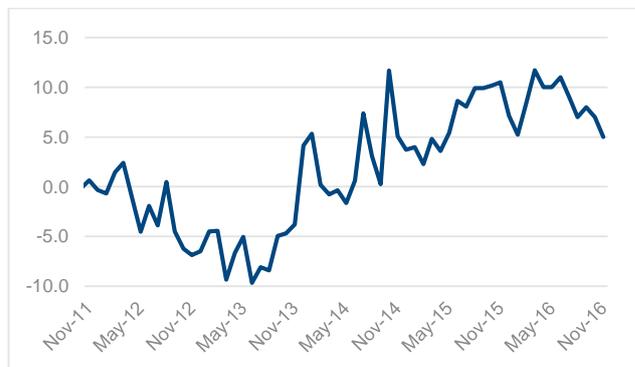
Source: Westpac-MI / Colliers Edge

### Business Conditions

The November NAB business survey suggested further moderation in the non-mining sector as business conditions deteriorated over the month, dropping back to the long run average for the first time since mid-2015. Both 'trading conditions' and 'profitability' elements of the conditions index

declined. The retail industry has been a drag on the survey, which correlates with some of the softness in retail sales data we've witnessed recently. The mining industry has actually improved over the month, while service industries remain the best overall performers.

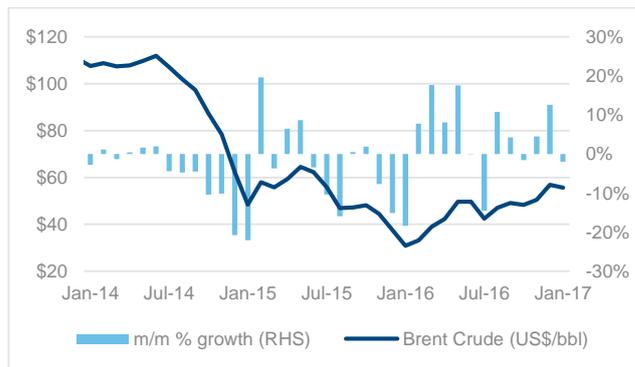
### NAB Business Conditions November 2016



Source: NAB / Colliers Edge

## Oil Prices

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



Source: Bloomberg / Colliers Edge

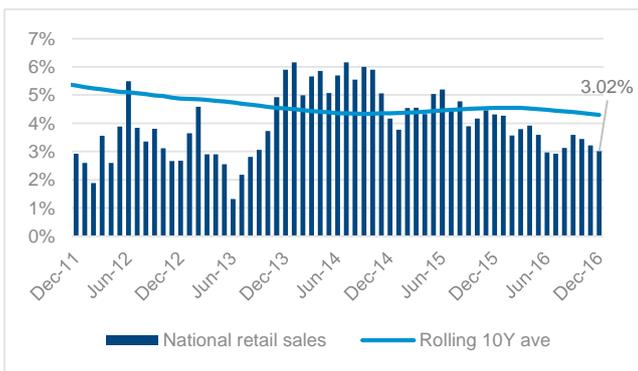
Oil markets declined marginally in January with Brent Crude slipping -1.97% to US\$55.70. The price surge from January 2016 lows has surprised the market given much of the strength is derived from the assumption that OPEC (and some non-OPEC members) will commit to supply cuts agreed to in late 2016. For now at least it appears that suppliers intend to honour their agreements with oil markets beginning to tighten. Looking forward however, rising US output from non-conventional producers could temper future price increases.

# Retail Spending

## National

First it was the supermarket wars, followed by a slump in Discount Department Store sales that hampered National retail sales numbers. Now it seems the fallout from Masters is weaving its way through the national data. ABS retail growth numbers declined for a second consecutive period in December, slipping to an annual growth rate of 3.02%YoY, down from November's 3.22%YoY. On a monthly basis, retail sales growth contracted -0.08%MoM, the first negative print since mid-2016.

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



Source: ABS / Colliers Edge

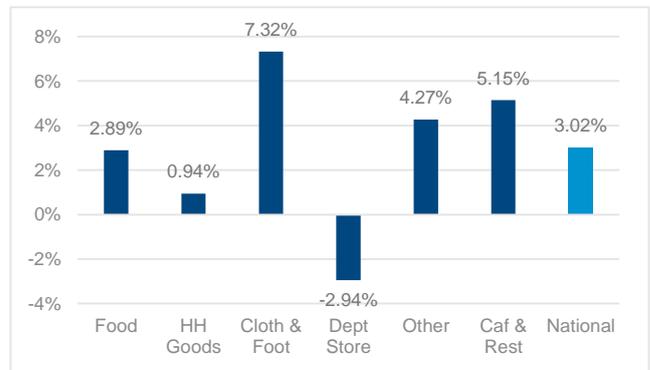
From a category perspective, 'food' which makes up 41% of overall retail sales, grew 2.89%YoY, just off November's 2.99%YoY rate. Over the month, the supermarket sales growth actually increased from 0.28%MoM to 0.5%MoM suggesting that perhaps the period of sustained food price deflation is now behind us. This theme is slightly at odds with the substantial pricing investment that is taking place across the majors. We continue to believe that Aldi's expansion into 'fresh', combined with the potential entrance of other offshore players will maintain pressure on pricing and margins.

The clothing and footwear category continued to be the standout performer in December, growing 7.32%YoY, marking its strongest annual rate since June 2016. This category has enjoyed steady growth from late 2014, which bodes well for shopping centre specialty sales. Department store sales remain in the doldrums, slipping -2.94%YoY in December which was a slight improvement on November's -3.25%YoY. On a monthly basis, department store sales managed to creep into positive territory at 0.27%MoM. The poor performance of the Discount Department Stores (DDSs) is the key catalyst here and investors will be looking to 1H17 earning results from WES and WOW for strategy updates from Target and BigW respectively.

Household goods sales growth slipped to just 0.94%YoY, down from 2.84%YoY in November. Over the month this category actually contracted -2.30%MoM which is the strongest monthly decline since October 2012. It appears that underlying hardware, building and garden supplies are the cause of the poor performance, with this subsector growing just 1.76%YoY (vs November 9.77%YoY) and -

6.57%MoM (vs November 1.39%MoM). While slowing growth in the residential housing market has been a concern for this sector, the fallout of Masters looks to be contributing to the rollover we are now witnessing.

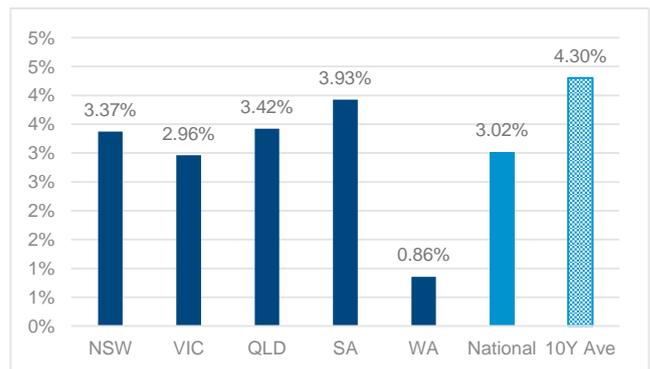
### National Retail Sales (% change YoY) By Category – December 2016



Source: ABS / Colliers Edge

South Australia achieved the highest growth rate of all major states on both an annual (3.93%YoY) and monthly (1.21%MoM) basis, which is a welcome reversal from November's slump. Queensland tempered for a second month to 3.42%YoY, down on November's 3.56% but remains ahead of the national average. After building steadily from mid-2016, New South Wales retail sales growth has tempered a little to 3.37%YoY while contracting -0.34% over the month. Victoria has also slowed in December to 2.96%YoY, slipping below the national average and contracting -0.45% over the month. Western Australia retained the weakest annual growth rate of 0.86%YoY, although over a monthly basis, performance improved to 0.56%MoM, up from November's -0.62%MoM decline.

### National Retail Sales (% change YoY) By State – December 2016



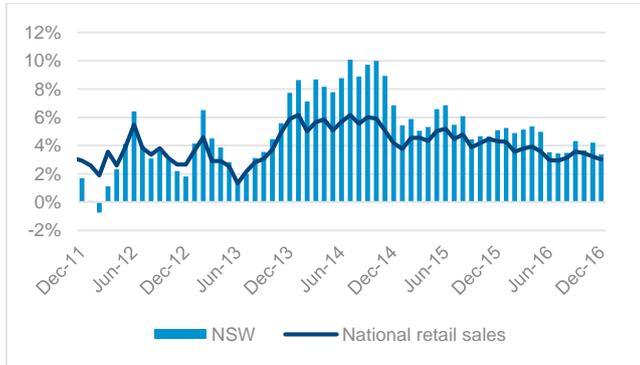
Source: ABS / Colliers Edge

## New South Wales

New South Wales makes up 33% of national retail sales and recorded a growth rate of 3.37%YoY and -0.34%MoM, marking a deterioration over the period. New South Wales was supported by sales growth in food (3.64%YoY), clothing and footwear (7.61%YoY) and cafes and restaurants (4.12%YoY), all of which exceeded state and national retail sales growth. Meanwhile Household goods slipped to 2.44%YoY from 4.58%YoY in

November, mainly due to a steep fall in hardware and building supplies. Department store sales remained in negative territory at -1.85%YoY, although performance in this sector is slowly recovering from a low of -5.34%YoY recorded in July 2016.

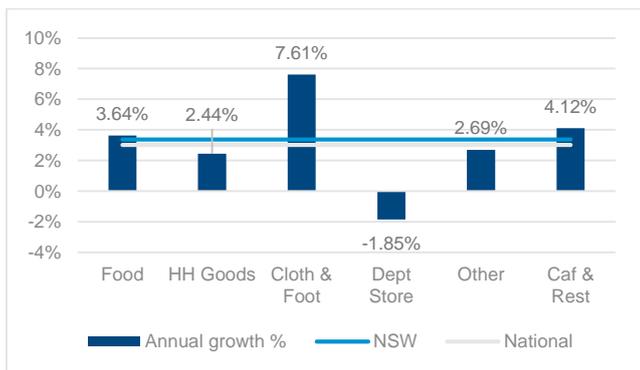
### NSW Retail Sales (% change YoY) December 2011-16



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 YoY) By Category – December 2016



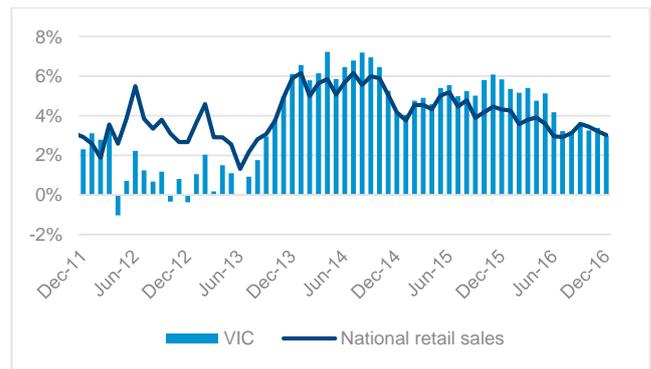
Source: ABS / Colliers Edge

## Victoria

Like New South Wales, Victoria makes up a substantial portion of national retail sales at 26%. Victorian retail sales grew 2.96%YoY in December, slipping below the 3% mark

for the first time since September 2013. Over the month, retail sales contracted -0.45%. Slowing growth in the food category (1.48%YoY) has dragged overall performance lower, with both sales growth in supermarkets and specialised food retailing declining steadily from mid-2016. Household goods (2.11%YoY) also came in below the state and national average as growth rates in hardware, building and electrical supplies moderated. On a brighter note, the clothing and footwear category surged to 7.86%YoY from 5.09%YoY in November. Underlying sales of cafés, restaurants and catering services also appear to be resilient having lifted to 6.58%YoY.

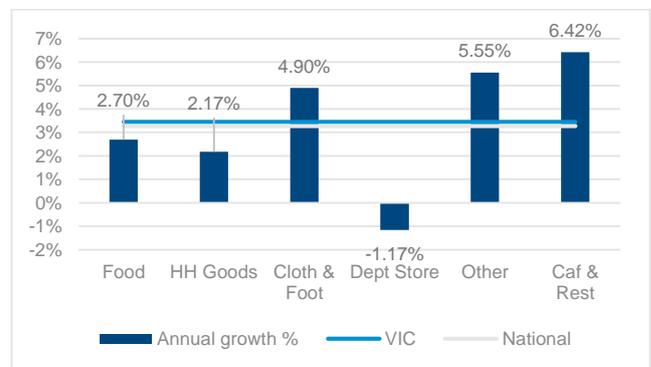
### VIC Retail Sales (% change YoY) December 2011-16



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 YoY) By Category – December 2016

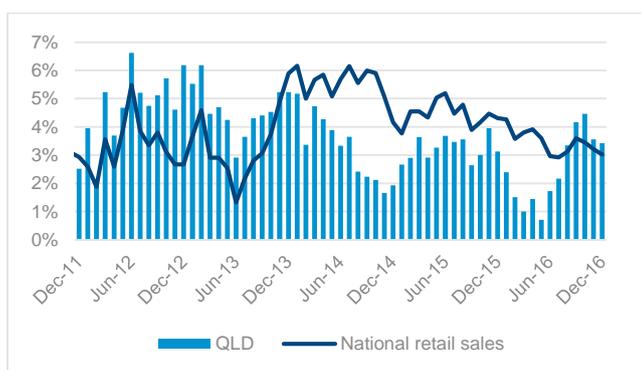


Source: ABS / Colliers Edge

## 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 YoY) December 2011-16

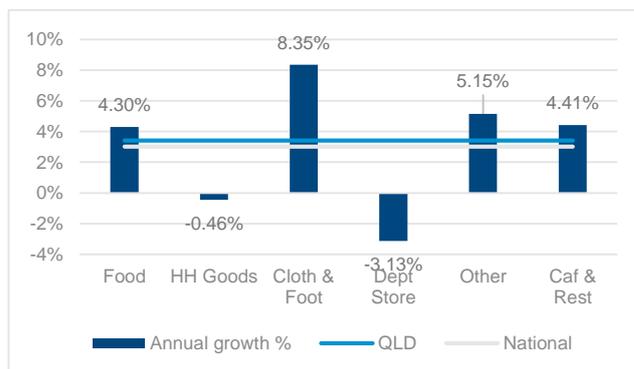


Source: ABS / Colliers Edge

After a period of steady improvement between April and October to a high of 4.47%YoY, sales growth has moderated to 3.42%YoY, down from November's 3.56%YoY rate.

Household goods dragged November's performance lower, contracting -0.46%YoY in November, due to soft conditions in hardware and building supplies (-6.86%YoY). Department store sales also suffered further in December, slipping -3.13%YoY, down on November's -2.74%YoY rate. Outside these categories, conditions were more buoyant with clothing and footwear climbing 8.35%YoY, up on November's 7.84%YoY. Cafes and restaurants also surged ahead, up 4.41%YoY, assisted by increasing rates of growth in both underlying categories. Supermarket sales growth also accelerated in Queensland, increasing to 4.07%YoY and bucking the national trend.

### QLD Retail Sales (% change YoY) By Category – December 2016



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) December 2011-16



Source: ABS / Colliers Edge

Despite the challenges mentioned above, South Australia managed to chalk up the highest retail sales growth rate in December at 3.93%YoY, up on the 2.84%YoY recorded in the prior month. Headline performance was supported by 3.15%YoY growth in food sales which exceeded the national average. Additionally the clothing and footwear category achieved the highest growth rate across all major states at 9.83%YoY, up substantially on the 3.55%YoY recorded in the prior month. The sales of pharmaceutical goods also accelerated to 11.15%YoY in December. Meanwhile household goods sales disappointed,

coming in flat over the month while department stores declined -3.99%YoY.

### SA Retail Sales (% change YoY) By Category – December 2016



Source: ABS / Colliers Edge