

Australian retail sales: December dip casts doubt over pace of consumer revival

Dec retail trade: -0.7% mth (mkt -0.2%); $+2.1\%$ yr Q4 real retail: 1.1% qtr (mkt 1.0%); 3.4% yr

- Monthly retail sales fell 0.7% in December after a 1.5% rise in November and a 0.3% gain in October. The result was well below market expectations of a 0.2% dip and casts renewed doubt over the pace of consumer spending heading into 2010. Annual sales growth fell to 2.1%yr in December from 7.1%yr in November but this was mainly due to base effects from the policy-induced jump in sales in December 2008.
- Q4 real retail sales were slightly above market expectations, with a 1.1% rise in the quarter to be up 3.4%yr. Nominal sales rose 1.2%qtr. Prices were surprisingly subdued, rising just 0.1%qtr.
- The category detail showed weakness in December was concentrated in food retail (40% of total), dept stores and clothing. Household goods and 'other' retail were more resilient with a solid 2.5% rise in cafes and restaurants. Notwithstanding the monthly fall, the spending detail continues to exhibit the usual pattern seen in upturns with weaker growth in staples and accelerating sales for discretionary and housing-related items.
- The figures imply retail components of consumption will add about 0.35ppts to Q4 GDP after subtracting 0.2ppts in Q3. However, consumer spending appears to be on a more moderate uptrend heading into 2010. Data volatility will continue to make pinpointing trends in consumer spending difficult in the months ahead.

The December retail sales report was full of surprises. The monthly data showed a surprise drop in sales but figures for Q4 as a whole showed slightly stronger than expected sales volumes and much weaker price pressures than had been suggested by the CPI. While the volume rise points to a bigger positive consumer contribution to Q4 GDP growth, the monthly undershoot raises serious questions about the underlying pace of expenditure.

The detail

Monthly retail sales dropped 0.7% in December. This was well below market expectations of a 0.2% fall and our more upbeat forecast of a 0.5% rise. Westpac's view was based on buoyant consumer sentiment, solid gains in retail sales in previous months (October +0.3% and November +1.5%) and clear signs within the spending detail of a quickening in key cyclical components (i.e. discretionary spending categories, housing-related items, and outside of retail, spending on vehicles). Other positives were the solid recovery in jobs (up 1.8% in 2009H2) and strong population growth (+2.1% in the year to June 2009). Against this, policy-

Retail sales – December

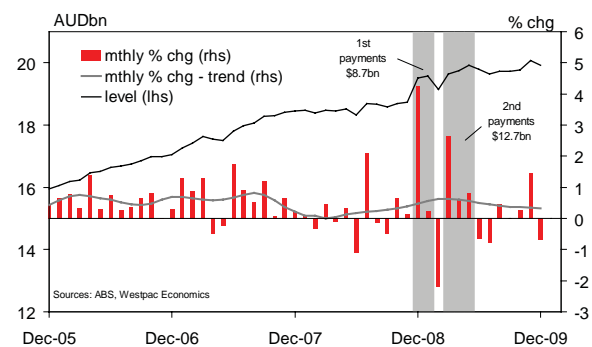
	Level AUDbn	% chg mth		% chg yr	
	Dec 09	Nov 09	Dec 09	Nov 09	Dec 09
sa	19.93	1.5	-0.7	7.1	2.1
trend	19.98	0.4	0.3	6.0	5.9

Chained volumes – Q4 2009

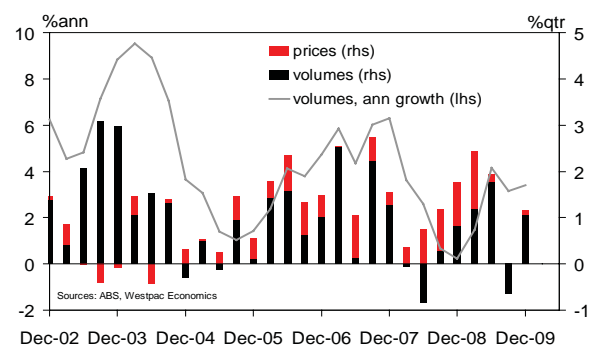
	Level real AUDbn	% chg qtr			% chg yr	
	Q4	Q3	Q4	Q3	Q4	
sa	57.44	-0.7	1.1	3.2	3.4	
trend	57.51	1.3	1.3	3.3	4.5	

Source: ABS

Monthly retail sales



Retail sales: volumes and prices



related negatives were expected to be negligible with the let-down from last year's fiscal boosters ending in August and resilient sentiment in late 2009/early 2010 suggesting little impact from initial rate rises.

It's never wise to put too much stock in a single data point, especially when it comes to volatile monthly series, and especially around the problematic Christmas seasonal period. However, the decline in December retail sales clearly casts doubt over the extent to which spending is picking up. While we do not think it marks the beginning of a renewed round of weakness for the consumer, and it may even be shown in time to be something of a rogue, the fall-back in sales points to a much more subdued sales trend. Indeed, trend retail sales growth is now travelling at about a 4% annual pace compared to previous estimates that had suggested it was accelerating towards 5.5%+.

That said, the composition of sales continues to point to a quickening in discretionary and housing-related segments consistent with a cyclical upturn. The main negatives in December were recorded in 'staple' categories, particularly food retail (40% of total), department stores and clothing. Sales were more resilient for household goods, and actually rose 0.4% for the sub-group most closely linked to housing construction: furniture, floor coverings and house wares. And notably, sales posted a 2.5% rise in the bellwether group for discretionary spending: cafes and restaurants.

Figures for Q4 as a whole also contained a surprise but to the upside. An expected rebound in retail prices in Q4 did not occur with prices rising just 0.1%qtr and 1.5%yr. CPI components had pointed to something closer to 1%qtr and 2.5%yr! This meant that although nominal sales for the quarter were weaker than expected, sales volumes came in broadly in line at +1.1%qtr vs median forecast of +1.0%.

Looking at retail prices at the group level, prices were weaker than expected for food (+0.6%qtr vs a 1.4% rise in the Food component of the CPI), with significant price declines recorded by department stores and clothing, segments that the CPI data suggested had surprisingly resilient pricing in late 2009.

Big picture

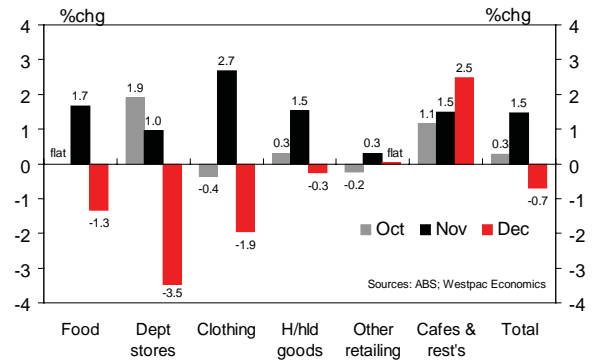
Overall, the 1.1% rise in real retail sales suggests retail components of consumer spending will add about 0.35ppts to Q4 GDP after subtracting about 0.2ppts in Q3.

However, the monthly data also suggests consumer spending is carrying somewhat less momentum than had been suggested in previous months. One of the key unknowns heading into 2010 is the extent to which lingering caution – particularly concerns about high debt levels – inhibits the expected cyclical recovery in spending. If consumers remain focussed on saving and paying down debt, the spending recovery is likely to be insipid.

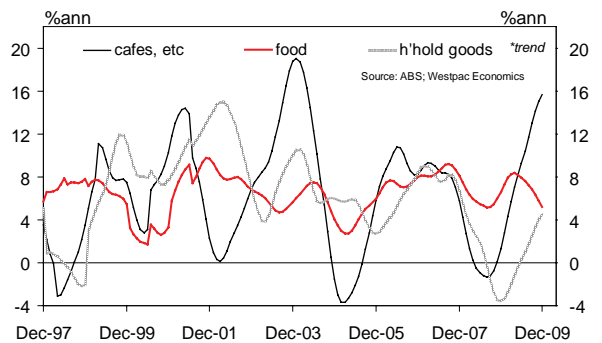
The December sales dip may be an early sign that caution is having a bigger restraining influence than we initially thought. Or it may just be a blip. Unfortunately it's going to take some time yet before we get clarity on this. Volatility in monthly retail sales will continue to make pinpointing trends in expenditure very difficult. Indeed, these issues are unlikely to be resolved by the March RBA Board meeting, even with another month's data.

Matthew Hassan, Senior Economist, ph (61-2) 8254 2100

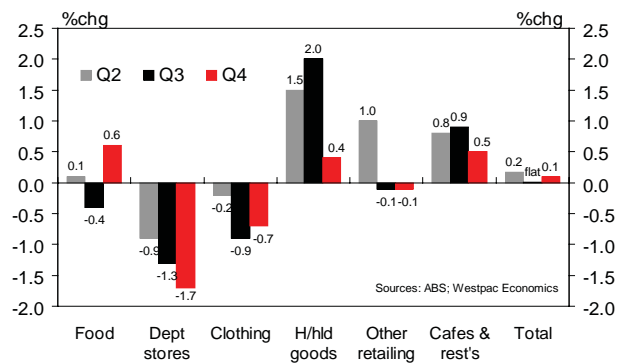
Retail sales by store type



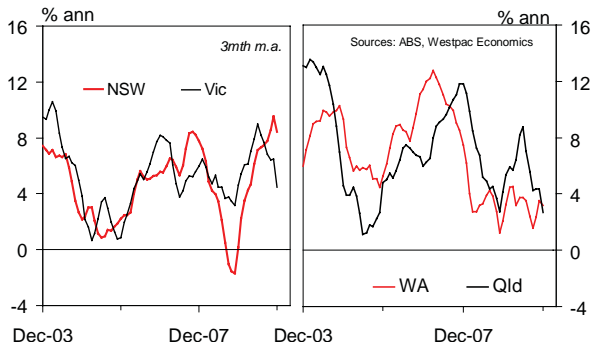
Retail sales: 'staples' vs 'discretionary'



Retail prices by store type



Retail by state



Past performance is not a reliable indicator of future performance. The forecasts given above are predictive in character. Whilst every effort has been taken to ensure that the assumptions on which the forecasts are based are reasonable, the forecasts may be affected by incorrect assumptions or by known or unknown risks and uncertainties. The results ultimately achieved may differ substantially from these forecasts.