

# Aus retail sales perk up a bit

## July retail sales +0.7%*mth* vs mkt f/c +0.4%

### Previous months also marked higher

- Retail sales posted a better month in July, rising 0.7%, with previous monthly gains in May and June also marked up from 0.2% to 0.4%. The net result is a significantly more upbeat picture for retail which now shows trend sales growing at a 5.2% annualised pace over the last 3 months.
- There were some quirks in the detail, most notably a very sharp 5.3% rise in cafes & restaurants retail which may in fact be valid given the hugely popular *Masterchef* television series that was reaching its final stages in July. Other segments were more mixed with persistent weakness in other discretionary categories like household good retail (-1.7%*mth*) and department stores (-0.7%*mth*).
- The July retail report has significantly altered the complexion of recent trends. What was a disconcertingly insipid rate of sales growth, travelling at close to stalling speed in per capita terms, now looks a little healthier. That said, the upturn is still underwhelming with consumer caution still an apparent restraining factor.

Retail sales rose 0.7% in July, well above market expectations of a 0.4% rise and Westpac's forecast of a 0.5% increase. The upbeat tone was amplified by upward revisions to May and June, from 0.2%*mth* previously to 0.4%*mth*, which also lifted the trajectory of trend sales growth from the 0.3%*mth* published for June last month to a consistent series of 0.4%*mth* reads for the three months to July. That mightn't sound like a lot but it is the difference between a subdued 3% annual pace that was difficult to reconcile with upbeat consumer sentiment and 2% population growth, and a more robust 5%+ pace that also makes more sense.

Note that the revisions also lift the estimate for Q2 nominal retail sales from +0.9%*qtr* published previously to +1.2%*qtr*. With retail items accounting for 35% of total consumer spending, the +0.3ppt upgrade gives upside risk to our Q2 consumption and GDP estimates, which currently stand at 0.8%*qtr* and 0.9%*qtr* respectively.

The revisions also improve the profile for annual growth rates which have now risen from 1.2%*yr* in May to 2.1% in June and 4.0% in July. However, these still need to be treated with caution as the base for annual comparisons still includes months affected by the 2009 fiscal stimulus payments to households. The acceleration partly reflects the fact that round two of the payments peaked in May and were winding down in July 2009. These base effects won't completely drop out until November.

#### The detail

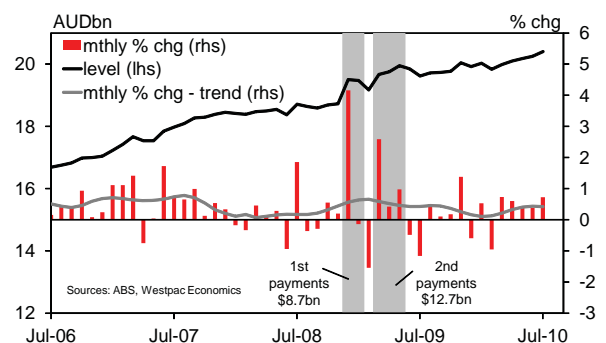
In terms of the detail there were some notable quirks. In particular, the July sales data showed a very sharp 5.3% rise for cafes,

#### Retail sales – Jul 2010

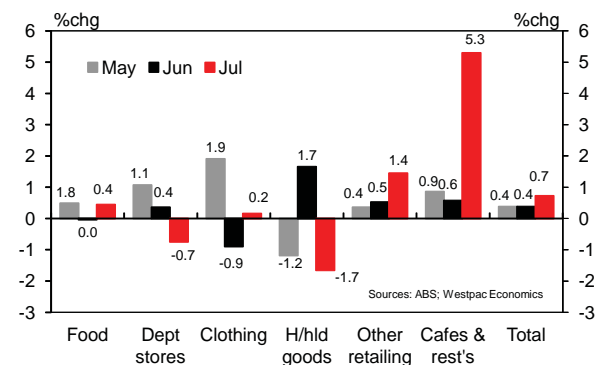
	Level AUDbn	% chg mth		% chg yr	
	Jul 10	Jun 10	Jul 10	Jun 10	Jul 10
sa	20.40	0.4	0.7	2.0	4.0
trend	20.34	0.4	0.4	3.8	3.8

Source: ABS

#### Monthly retail sales



#### Retail sales by store type



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restaurants and takeaways. Although this makes July the second largest monthly sales rise for this category since the move to low inflation in the early 1990s (excluding the GST introduction period) it may actually be valid. The sub-category detail shows the rise was entirely concentrated in the cafes and restaurants component which saw sales rise a whopping 8.5% while takeaways posted a tepid 1.4% gain. The rise was also registered across all the major states, with this subcategory posting gains of 9% in NSW, 5.4% in Vic, an amazing 17.6% in Qld, 10.5% in SA and a more subdued 3.5% in WA.

We suspect the underlying reason behind the rise is the hugely popular *Masterchef* television series which was reaching its final stages in July. The final episode on July 25 set a ratings record for a non-sporting event in Australia. And although the show's premise encourages viewers to try making more adventurous meals at home, the showcasing of particular chefs and restaurants anecdotally resulted in a surge in demand for dining out as well.

The retail picture was much more mixed outside of the cafes and restaurants category, particularly for discretionary segments. Food retail rose 0.4% after a flat May. Household goods retailers had a particularly disappointing month with 1.7% fall in sales completely unwinding June's 1.7% gain. July was also disappointing for department store sales (-0.7% after a subdued 0.4% rise in June) and clothing retailers (+0.2% but only clawing back part of June's 0.9% fall).

The state picture continues to show Vic and NSW leading the way with trend retail sales growth rising at annualised rates of 9.6% and 7.1% respectively. Sales are travelling at a 5% annual pace in Qld and contracting at an alarming 4.8% pace in WA. The weakness out west is difficult to reconcile with the state's strong jobs growth and rising household incomes over the last six months. It may reflect concerns surrounding the Government's proposed mining tax at the time.

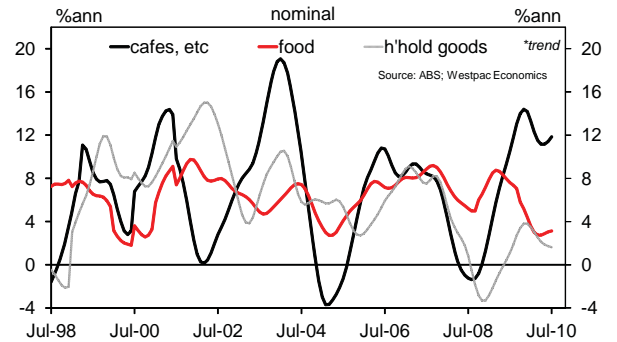
The gap between large and small retailers has now reversed with smaller retailers posting smoothed annual growth of 3%yr in July compared to 2.1%yr for the big retailers and chain stores. Clearly a lot of the reversal can be attributed to the splurge on restaurants.

**Big picture**

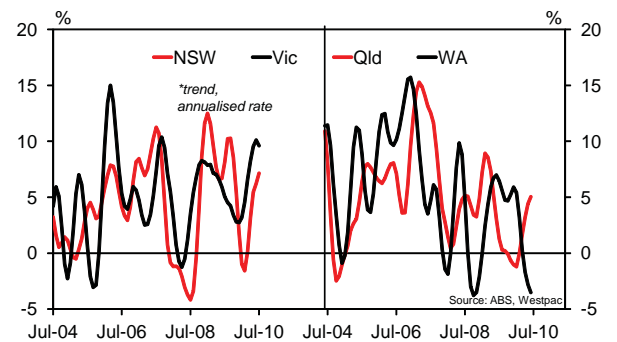
The July retail report has changed the complexion of recent trends. What was a disconcertingly insipid rate of sales growth, travelling at close to stalling speed in per capita terms, now looks somewhat healthier. The upturn is still underwhelming though. Sales are rising at a more respectable pace but at 5-5½% the annualised rate remains only in line with long run average rates. Expansions typically see retail sales rise at well over 7% with double-digit growth in bellwether discretionary categories like household goods retail. Consumer caution is clearly still a restraining factor.

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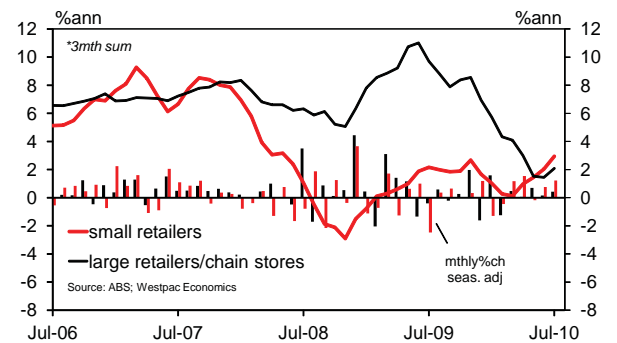
**Retail sales: 'staples' vs 'discretionary'**



**Retail by state**



**Retail sales: small vs large**



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