Bulletin

6 February 2012

Australian retailers post flat finish to 2011

Dec retail trade: –0.1%mth; +2.6%yr
Q4 real retail: +0.4%qtr; +1.4%yr

- **Total retail sales dipped 0.1% in December, below consensus and Westpac forecasts of a 0.2% gain. Sales flatlined in the last three months of 2011 although some of this reflected price declines.**
- **The monthly sales detail was mixed with price-driven weakness in food retail, welcome rises in the beleaguered department stores and clothing categories, a flat month for household goods and 'other' retail, and a sharp fall for cafes & restaurants that looks to have been driven by volumes rather than prices. All states except Vic recorded declines, with Vic's gain coming after an unusually large 1.2%mth fall in Nov.**
- **Real retail sales rose 0.4%qtr for the quarter as a whole, below the consensus forecast for a 0.6% gain but in line with Westpac's view. The pace is slower, well below the average 1% pace seen pre-GFC but a touch better than the average of the last four years. Prices were up just 0.1% in the quarter and 1.6%yr. Annual volume growth rose to 1.4%yr though mainly by virtue of a large negative (–0.8%qtr) moving into the base year.**
- **The quarterly detail was mixed with a welcome improvement for clothing, continued pressure for department stores, a solid gain for household goods retail though at the cost of heavy discounting, and declines for 'small ticket' discretionary categories, cafes & restaurants and 'other' retail. The state detail shows an incredible contrast between WA where retail volumes are exploding at 8.4%yr and the rest where annual growth ranges from –0.8%yr to +1.8%yr.**
- **The retail survey continues to point to weak domestic demand conditions and a notable softening in late 2011. While many may dismiss this as due to specific industry challenges rather than a sign of softening consumer spending we believe the retail survey is still a useful indicator when properly interpreted. As such, the Dec report suggests to us a genuine softening in demand.**

The December retail report showed a disappointing Christmas result for retailers. Sales dipped –0.1%mth in Dec after a flat Oct-Nov. The brief burst in nominal sales in the third quarter stalled badly late in the year. Some of this is price-related with a more modest slowdown in volumes (+0.4%qtr in Q4 versus +0.6%qtr in Q3). However momentum still looks to have been slowing into year-end. That was despite back to back interest rate cuts from the RBA suggesting that flaky consumer sentiment and heightened concerns about balance sheets, debt levels and developments abroad (Europe) dominated.

Retail sales – December

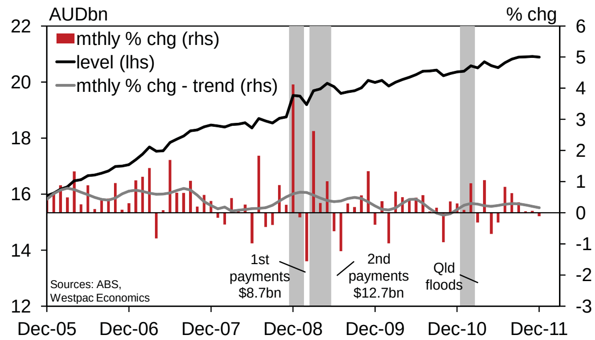
	Level AUDbn	% chg mth		% chg yr	
	Dec-11	Nov-11	Dec-11	Nov-11	Dec-11
sa	20.88	0.1	-0.1	3.0	2.6
trend	20.96	0.2	0.2	2.9	3.0

Chained volumes – Q4 2011

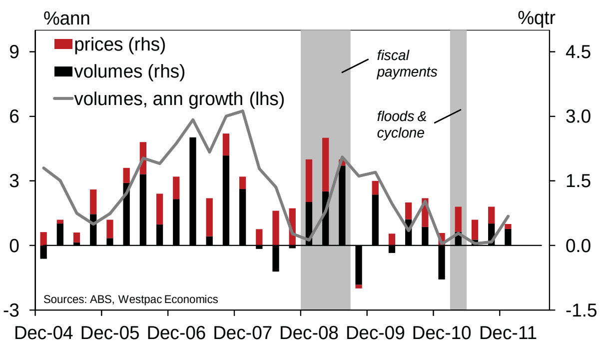
	Level real AUDbn	% chg qtr		% chg yr	
	Q4	Q3	Q4	Q3	Q4
sa	60.77	0.5	0.4	0.2	1.4
trend	60.75	0.4	0.4	0.5	1.0

Source: ABS

Monthly retail sales



Quarterly retail volumes and prices



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Both the monthly and quarterly retail results were below consensus which was looking for gains of 0.2%mth and 0.6%qtr respectively.

The dip in monthly sales drags annual sales growth down to 2.6% from 3.3% in October. Trend growth in sales has also slowed quite abruptly from a 3.5% annual pace in Sep to a 2% pace currently. Nominal sales growth has averaged 5.4%yr since the mid-90s.

The quarterly result brings sales volume growth to +1.4%yr, up from +0.2%yr in Q3 although most of that is a base effect from a weak 2010Q4 result (–0.8%qtr). Real retail sales growth has averaged 3.8%yr over the full history of the survey. Note that the Q4 result was in line with Westpac's forecast and hence has not implications for our Q4 consumer spending and GDP estimates.

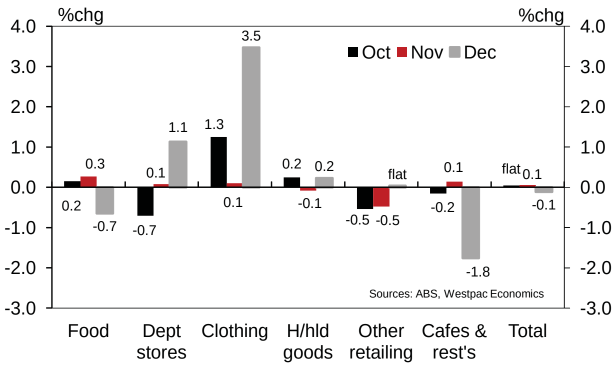
The detail

By category:

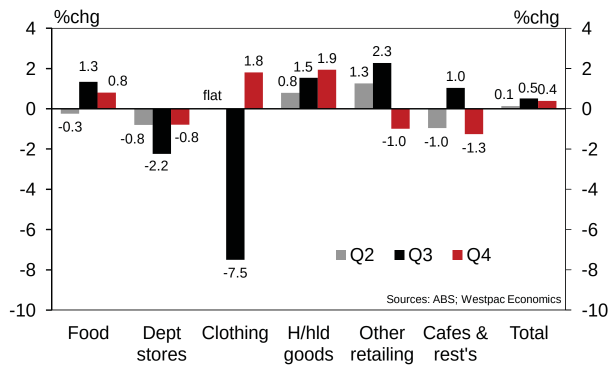
- Food retail (40% of total retail) recorded a 0.7%mth fall in Dec, much of which would have been due to price declines – both reversing spikes in fresh food prices and intense competition between the major supermarkets. Food sales volumes were up 0.8%qtr, prices were down 0.4%qtr.
- Cafes and restaurants (13% of total retail) recorded a sharp 1.8% fall in the last month of 2011, with sales volumes down 1.3%qtr. Some of this may be a reprise of the 'Masterchef effect' that saw a massive (10%) surge in dining out in mid-2010 and seemed to have a similar but more muted boost in 2011.
- Household goods retail, the second largest category of retail (18% of total sales) and a bellwether for discretionary consumer spending continued to have an on-again off again year with Dec sales up just 0.2%mth but a strong volume performance for the quarter (+1.9%qtr) – retailers discounting heavily in the segment.
- The beleaguered clothing and department store categories had a better time of it in Dec with monthly sales up 3.5% and 1.1% respectively although underlying volumes were still low with department stores down another 0.8% in the quarter and a 1.8%qtr gain in clothing only reversing about a quarter of the horrendous 7.5%qtr drop in Q3. Both sectors have been hit hard by fierce competition from super cheap offshore-based online retailers. Industry analysts suggest sales growth in this channel is running at over 100%yr and nearly double that seen in other countries.

The small vs large split showed a flat result for small and a 0.2%mth decline for 'large retailers and chain stores'. The latter

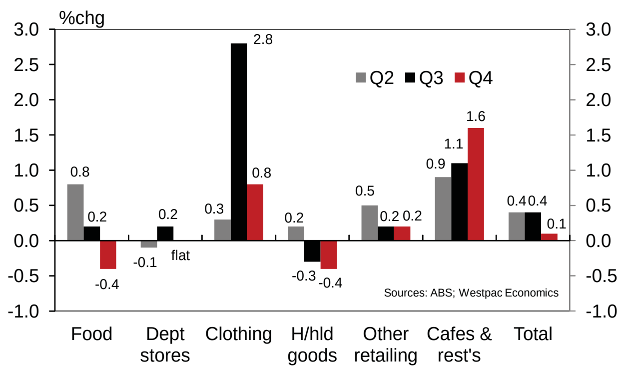
Monthly retail sales by store type



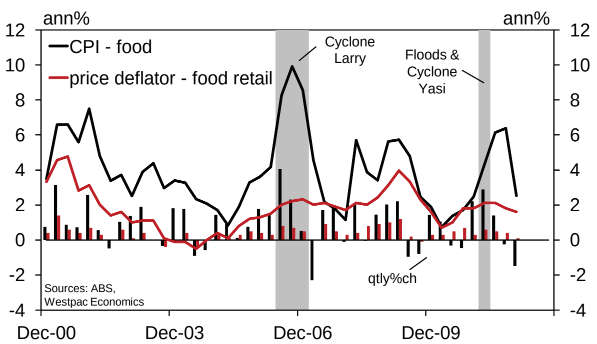
Quarterly retail volumes by store type



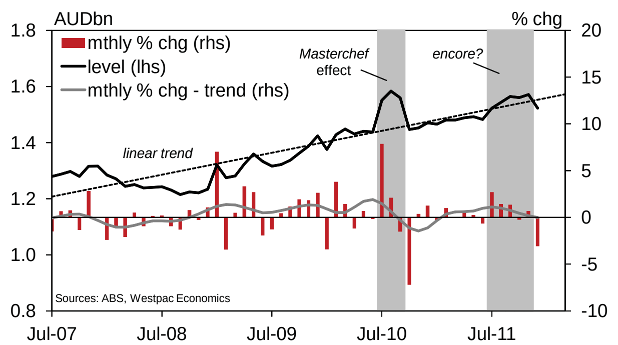
Quarterly retail prices by store type



Food prices: CPI vs retail deflator



Cafes & restaurants



likely reflects pressures on department stores, clothing chain stores and price-driven declines for the major supermarkets. Both sizes recorded slowdowns from Q3 to Q4.

One of the most striking aspects of the detail is the gap emerging between retail sales in mining-led WA and the rest of the nation. The gap is not so big for the December month with the 0.7%mth dip in WA in line with most other states: Qld down –1.4%mth; NSW –0.2%mth; SA down –0.7%mth; and although Vic was the only state to record a monthly gain in retail sales (+1.5%mth) this was on the back of a big fall in Nov (–1.2%mth).

It is a completely different story for volumes though with WA recording a 1.8%qtr gain vs zero to +0.7%qtr gains elsewhere. And this is the fourth quarter in a row the west has outstripped the rest. Retail volume growth is tracking an explosive 8.4%yr in WA compared to just 0.5%yr across the other states. Most notably, the mining boom Mk 2 is much more narrowly based that the earlier boom which saw strong gains in retail in Qld and the other states as well. Westpac has long argued that this boom would have much more limited 'spillovers' to the rest of the economy due to the cautious, debt-averse stance of consumers and the Government's focus on fiscal consolidation that is seeing less of the income recirculated to consumers via tax cuts and Government spending.

Big picture

The soft finish to 2011 marks the fourth successive year of disappointing sales growth for retail. This extended period of poor sales is considerably worse than that seen in the early 1990s recession.

The question of course is how much this reflects broader consumer demand and how much is due to specific issues facing the retail sector – online competition, shifting spending patterns (especially from goods to services) and other less commented on drivers such as the sharp swings in tourist flows (both outbound and inbound) and the drop-off in foreign student arrivals. Our analysis suggests these are all significant contributors to the under-performance of retail sales compared to broader national accounts measures of total consumer spending.

However that is not a reason to dismiss the retail survey out of hand. Some of the influences are overstated – recall that 40% of retail is basic food, which is unlikely to suffer from online competition etc, and despite the name, retail does have a significant service components, particularly the fast-growing cafes and restaurants segment.

We still see some value in this indicator when correctly interpreted. The December retail report shows a slowing in sales that is consistent with the weak readings on consumer sentiment and reports from consumer-sector businesses (both retail and non-retail) covered in various business surveys. As such, it suggests a genuine softening in demand is underway. Interest rate cuts should work to offset the slowdown but with the weakening in labour markets set to slow household incomes and savings rates likely to stay at elevated levels, consumer demand is likely to remain soft through the first half of 2012.

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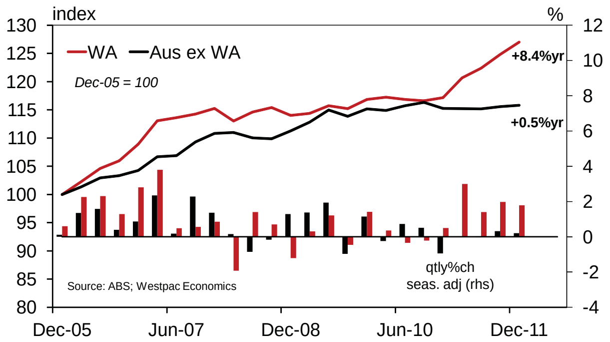
Retail sales: west versus the rest



Retail sales: weaker than 1990s recession