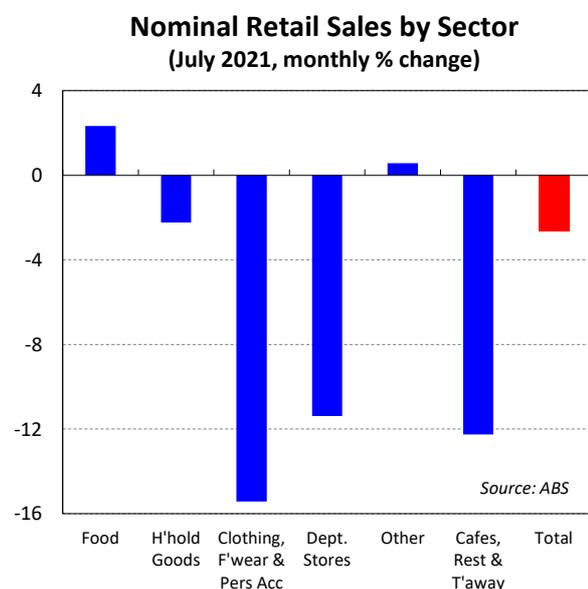
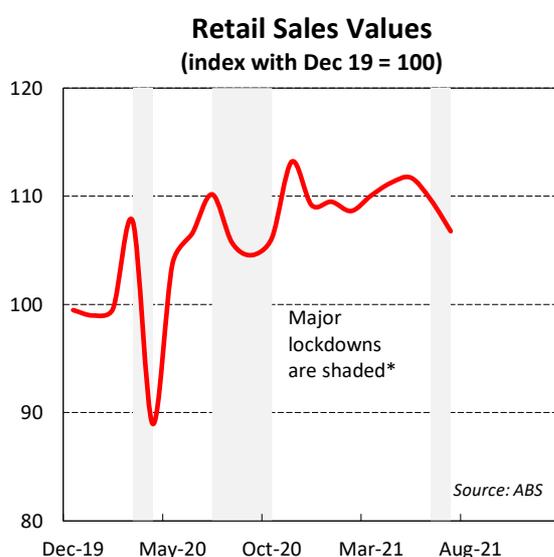


Friday, 27 August 2021

Retail Sales

Spending Clobbered as Lockdowns Bite

- Retail sales continue to be battered by lockdowns. Retail sales fell by 2.7%, to be 3.1% lower over the year to July. This follows a 1.8% fall in June. Retail sales have now fallen by 4.4% over the two months.
- The fall was driven by declines across most states which were in lockdown for all or part of the period. This included NSW (-8.9%), SA (-3.3%) and Queensland (-0.9%). This marked the largest monthly drop in sales in NSW since April 2020 and the third largest fall on record. While Victoria was also in lockdown for part of July, sales rose 1.3% alongside a reopening boost from lockdowns in June.
- Spending patterns were consistent with previous lockdowns. Clothing, footwear & personal accessories, Cafes, restaurants & takeaway food services, and Department stores all saw large double-digit falls. All now sit well below their pre-pandemic levels as at December 2019.
- Meanwhile, food spending increased by 2.3% as people were forced to spend more time at home and stocked up on essential goods.
- The lockdowns across Australia continue to weigh on the near-term outlook. Encouragingly, spending tends to bounce back strongly once restrictions lift. However, restrictions are likely to remain in place for some time, before easing gradually over the December quarter this year.
- We expect the economy to contract by around 2.6% in the September quarter. Next year, we anticipate solid growth of around 5%, as the risk of lockdowns reduces due to a high share of the population being vaccinated.



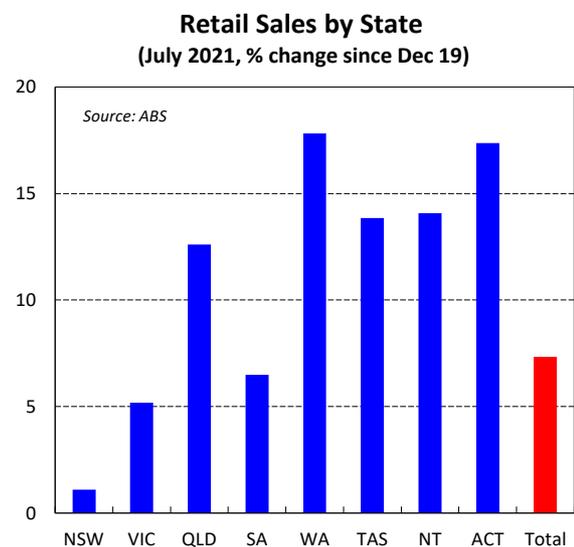
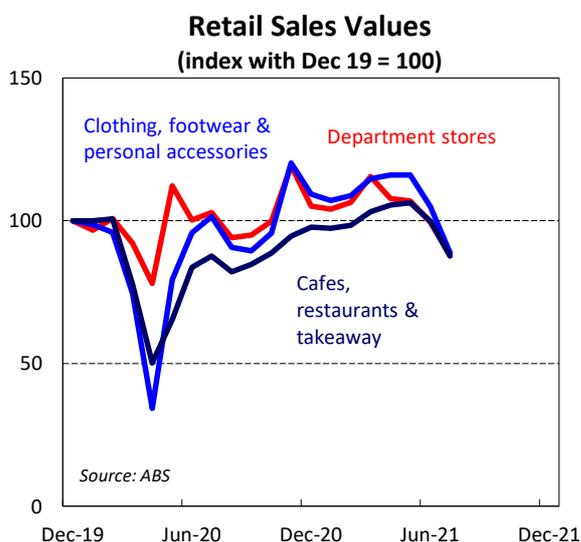
Lockdowns across New South Wales, South Australia and Queensland continued to negatively impact retail sales in July. Retail sales fell by 2.7%, to be 3.1% lower over the year to July. This follows a 1.8% fall in June. Retail sales have now fallen by 4.4% over the two months. This is the first annual fall in the series since April 2020.

The fall was driven by declines across most states which were in lockdown for all or part of the period. This included NSW, which saw a large fall of 8.9%, SA and Queensland. This marked the largest monthly drop in sales in NSW since April 2020 and the third largest fall on record for the state. However, Victorian retail sales increased. While it was also impacted by lockdowns for part of July, the increase reflected a recovery from prior lockdowns in June.

As expected, sales fell the most across categories that are heavily impacted by lockdowns and stay at home restrictions. Clothing, footwear and personal accessory retailing saw the largest percentage fall, down 15.4%, to be 12.4% lower over the year to July. Cafes, restaurants and takeaway food services were hit hard, down by 12.3%, to be flat over the year. Department stores also saw a large fall of 11.4%, to be down 14.3% over the year. All now sit well below their pre-pandemic levels as at December 2019.

Food retailing (largely grocery stores) has consistently benefitted from lockdowns, as people are forced to spend more time at home, and less time eating out at cafes and restaurants. Plus, spending at grocery stores gets a boost from hoarding behaviour associated with the introduction of lockdowns. This trend continued in July. Food retailing rose 2.3% over the month. Food retailing has now hit its second highest level in the history of the series.

Household goods were also down 2.2% in the month. This sector benefited strongly from a substitution by consumers away from services and towards goods during lockdowns in 2020 as mobility was restricted. While sales have reduced from the peaks in 2020, they remain elevated and are over 15% above pre-pandemic levels. Other goods increased 0.6% in July as consumers continued to shop online while they were stuck at home.



States and Territories

Unsurprisingly, NSW saw the largest declines in spending. Sales were down 8.9%, to be 10.6% lower over the year. The state was in lockdown for the entire period. NSW retail sales levels are now at their lowest level since April 2020 and are only around 1% above pre-pandemic levels.

SA also saw a large fall of 3.3% as the state was in lockdown for one week during July. Over the year, sales were down 6.3%. Queensland was also impacted by short lockdowns during July and

fell by 0.9%, to be down 1.6% over the year.

Counterintuitively, Victoria rose by 1.3%, even though it was in lockdown for part of the month. The increase was driven by a recovery from lockdowns in June. Annual growth remained in positive territory, at 3.5%.

The remaining states and territories all saw growth in the month. Tasmania was up 2.7%, the NT was up 2.2%, sales in the ACT grew by 2.1%, and WA was up 1.2%.

Encouragingly, sales are still above pre-pandemic levels across all states and territories.

Outlook

The lockdowns across Australia continue to weigh on the near-term outlook. Retail sales have taken a hit, as has consumer confidence.

Encouragingly, history has shown that consumer spending tends to bounce back strongly once restrictions lift, partly reflecting pent up demand. Restrictions are likely to remain in place for some time, before easing gradually over the December quarter this year.

We expect the national economy to contract by around 2.6% in the September quarter. This will take growth over 2021 to around 2.4%, down from our previous expectation of a little over 3%. This is a large reduction and means growth over 2021 will be slightly below the long-run average of around 2.6%.

Next year, we anticipate solid growth of around 5%, as the likelihood of lockdowns declines alongside high levels of vaccination. Ongoing significant monetary and fiscal support, as well as large saving buffers accumulated since the onset of the pandemic will support the rebound in activity.

The pace of vaccinations has increased considerably in the past few weeks. This is particularly the case in NSW. If the current pace is sustained, we expect to reach the Federal government's target of 80% by November. This will place the country on a good footing to lift restrictions and should see lockdowns becoming a less common tool to manage outbreaks.

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