

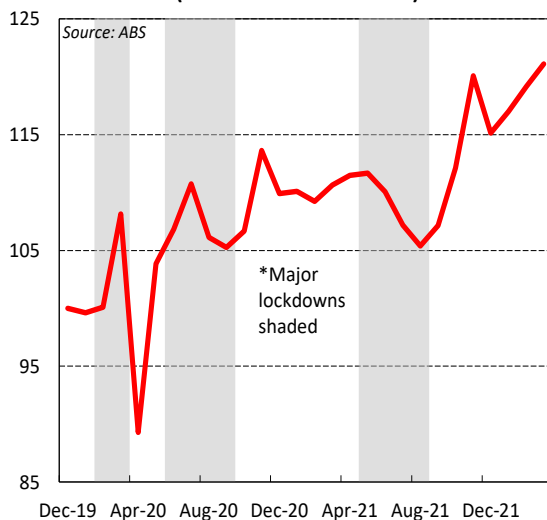
Wednesday, 4 May 2022

Retail Sales

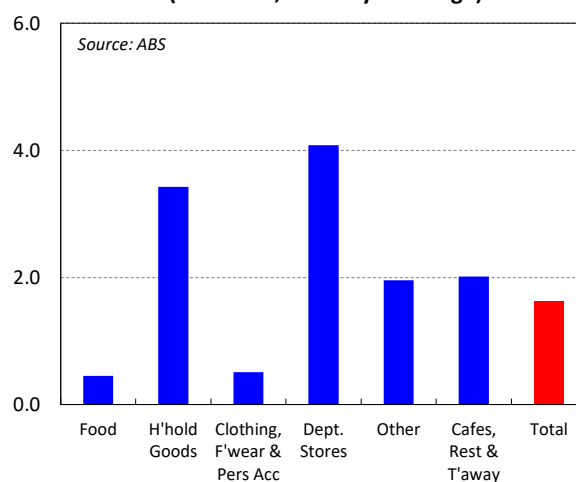
Sales Hit Record As Price Pressures Grow

- Retail sales rose by 1.6% in March, following strong gains of 1.8% and 1.6% in February and January, respectively. In annual terms, retail sales were 9.4% higher and rose to be more than 21% above pre-pandemic levels. The increase led to sales hitting a new record high.
- The key question is how much of the rise in recent months has been driven by price increases versus a lift in activity. The strong March quarter inflation outcome suggests price increases account for a sizable share. Sales volumes data for the quarter will be released next week.
- Spending rose in Queensland and NSW despite flooding across large parts of both states in late February and early March. WA and the NT also experienced solid gains, while SA was the outlier, where sales declined.
- Sales increased across all categories of spending. Sales in department stores and on household goods led the rises in March, jumping by 4.1% and 3.4%, respectively. Spending on clothing, footwear & personal accessories, and food was weakest, both rising by 0.5% in March.
- The outlook for consumer spending is solid. Unemployment is low, wages growth is expected to increase, and household balances sheets are strong.
- However, consumer sentiment has been dented by rising inflationary pressures and the prospect of higher interest rates. These headwinds may weigh on spending, as highly indebted households have less income to spend on other goods and services.

Retail Sales Values
(index with Dec 19 = 100)



Nominal Retail Sales by Sector
(Mar 2022, monthly % change)



Retail sales rose by 1.6% in March, following strong gains of 1.8% and 1.6% in February and January, respectively. In annual terms, retail sales were 9.4% higher and rose to be more than 21% above pre-pandemic levels (as of December 2019).

The strong gains in recent months have led to the level of retail sales rising to a new record high, surpassing the previous high in November 2021, before the impact from the Omicron variant.

Retail spending grew strongly despite impacts from flooding across parts of NSW and Queensland. Inflationary pressures have also increased in recent months, as indicated by the very strong March quarter inflation outcome last week. The key question is how much of the rise in recent months has been driven by price increases versus a lift in activity. The strong inflation outcome suggests price increases account for a sizable share. Sales volumes data for the quarter, which adjust for price changes, will be released next week.

By states and territories

Retail spending rose 3.4% and 1.8% in Queensland and NSW, respectively, despite flooding across large parts of both states in late February and early March. Sales may have been boosted by households catching up on some spending following the floods.

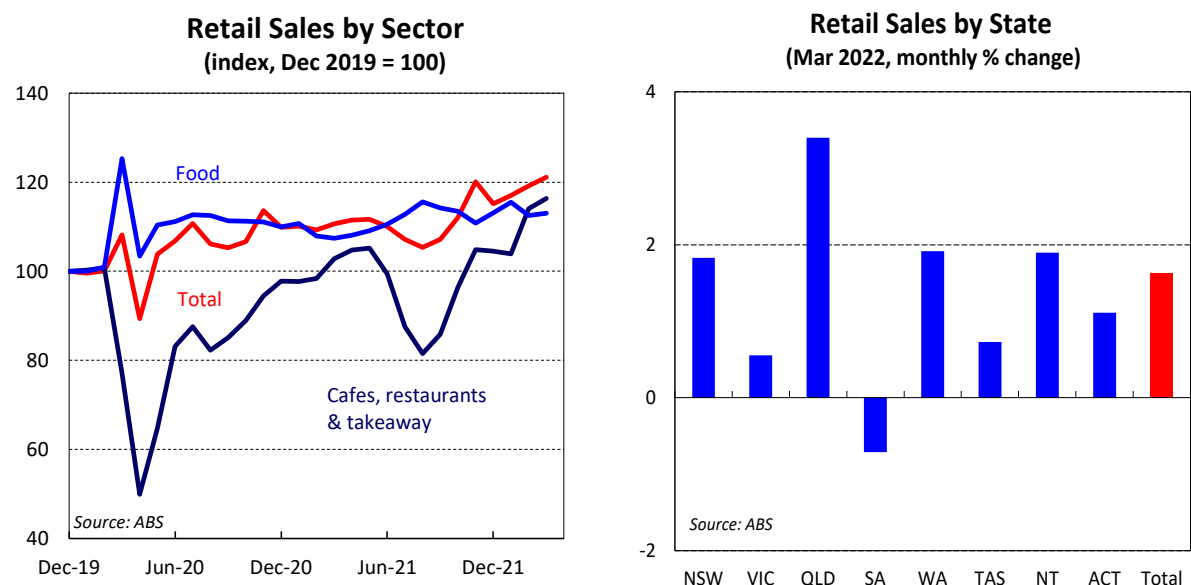
WA and the NT also experienced solid gains, as sales increased by 1.9% in both states. Sales were also higher across the ACT (1.1%), Tasmania (0.7%) and Victoria (0.6%). SA was the outlier, as spending declined by 0.7% in March.

Sales across all states and territories are well-above their pre-pandemic levels. Tasmania was the weakest performer, with sales 14.3% above their pre-pandemic levels. WA, which was largely isolated from COVID-19 disruptions as its borders remained closed until early March, recorded the highest result, at 25.0% above pre-pandemic levels.

In annual terms, sales were more than 10% higher in Queensland, NSW and Victoria. Annual sales were also higher across the other states and territories, except for the NT, where spending was broadly flat (-0.4%).

By category

Sales increased across all categories of spending. Sales in department stores and on household goods led the rises in March, jumping by 4.1% and 3.4%, respectively.



Spending on cafes, restaurants & takeaway food services, and on other retailing both rose by

2.0%. Spending on cafes, restaurants & takeaway food services was hard hit during COVID-19 lockdowns and disruptions. However, spending has been recovering and rose to a new record high in March. It was also more than 16% above pre-pandemic levels. This is good news for those businesses who have been facing tough times during the COVID-19 outbreak. However, spending in this category remains relatively more depressed than some other categories which were less impacted by COVID-19 disruptions.

Spending on clothing, footwear & personal accessories, and food was weakest, both rising by 0.5% in March.

In annual terms, spending was higher across all categories. Other retailing, clothing, footwear & personal accessories, cafes, restaurants & takeaway food services, and household goods all recorded double-digit annual spending growth.

Outlook

The outlook for consumer spending is solid. We expect the unemployment rate to fall below 3.5% in 2022 and remain under that level over 2023. The combination of a strong economy and low levels of unemployment is expected to lead to stronger wage growth over the next two years. Additionally, household balance sheets are strong as savings increased during the pandemic. These factors are expected to contribute to solid growth in household spending over coming months.

However, consumer sentiment has been dented by rising inflationary pressures and the prospect of higher interest rates. These headwinds may weigh on spending, as highly indebted households have less income to spend on other goods and services.

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