

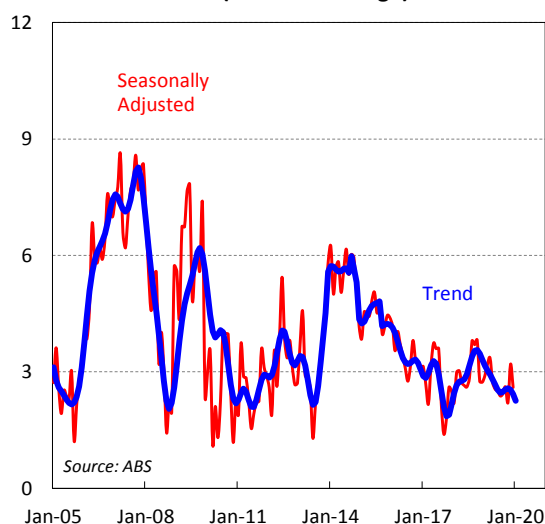
Friday, 6 March 2020

Retail Sales

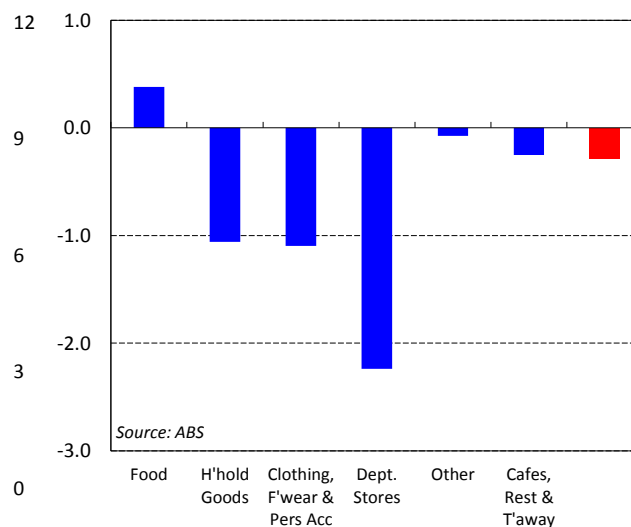
Bushfire Impact in Full View

- Retail sales fell 0.3% in January from a downwardly revised 0.7% fall in December.
- The bushfire emergency and an evident pull-forward of spending during “Black Friday” in November had a material impact. On an annual basis, growth slowed to 2.0% in January, the lowest since October 2017.
- The bushfires and resulting smoke haze in major metropolitan areas had a negative effect on a broad range of categories.
- By sector, the largest falls was recorded in department stores, which fell a further 2.2% in January.
- All States recorded a fall in retail turnover during January except for SA. The ACT suffered the greatest decline of 2.3%.
- There is likely to be an impact on household consumption due to the coronavirus in the coming months. January’s weak result highlights the weak footing of consumer spending before the outbreak.
- Increasing house prices and further rate cuts from the RBA are expected to provide support to spending. However, in the near-term the impact will likely be overshadowed by changing consumer behaviour in response to the escalating coronavirus spread.

Nominal Retail Sales
(annual % change)



Retail Sales by Sector
(Monthly % Change, January 2020)



Retail sales recorded their second consecutive monthly decline, weighed down by the bushfire emergency and an evident pull-forward of spending during “Black Friday” in November. The value of retail sales fell 0.3% in January, down further from a revised 0.7% plunge in December.

The bushfires and associated smoke haze had a significant effect on retail spending in December and January. Following its downward revision, the fall in December was the largest since May 2010.

The two weak outcomes have slowed the annual rate of retail sales growth considerably. Retail sales expanded 2.0% over the year in January, the slowest pace since October 2017.

There has also been a notable effect from an unusually popular Black Friday discounting promotional period in November. There has since been a substantial decline in department store and clothing retailing in December and January, indicating that consumers had chosen to bring forward some expenditure. Department store spending fell 2.2% in January while clothing, footwear & personal accessory retailing dropped 1.1%.

The effect of the bushfire emergency had a negative effect on a broad range of categories. Major metropolitan areas were covered in smoke for a large portion of the period. This discouraged shopping and holidaying. Cafes, restaurants & takeaway food services fell by a further 0.3% over the month and household goods retailing fell 1.1%. The fall in household goods turnover came despite a pickup in housing prices and volumes recently. Historically, this category tends to increase along with a pick up in the housing market as house purchasers make associated big-ticket purchases.

The only major category to increase in the month of January was food, which rose 0.4%.

The underlying momentum of retail turnover has been weak. Consumers have grappled with low wages growth and high household debt. The rapid recovery in house prices was expected to have a wealth effect and begin boosting consumption, however, the outbreak of the coronavirus threatens to severely impact the already vulnerable sector.

Most States recorded a fall in retail trade in January. The greatest fall was in the ACT which was down 2.3%, followed by a 1.1% drop in WA. There were more modest falls in NSW, VIC and QLD of 0.1%, 0.2% and 0.1%, respectively. SA was the only State to increase, registering a small 0.1% increase over the month.

Outlook

The two consecutive falls in retail sales over December and January show that consumer spending was already on shaky ground before the outbreak of the coronavirus intensified. Low wages growth, high household debt and a negative shock from the bushfires have been negatively impacting spending.

There is likely to be an impact on household consumption due to the coronavirus in the coming months. Much of this disruption will be in the form of services expenditure (such as airfares, accommodation and recreation), but will also likely show up in consumer behaviour. There are already anecdotes of stockpiling of sanitary and healthcare items. In the near term, these disruptions are likely to overshadow the wealth effect of higher house prices and rate cuts by the Reserve Bank (RBA).

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