

Victorian retail sales growth hits 4-year high Record tourism earnings

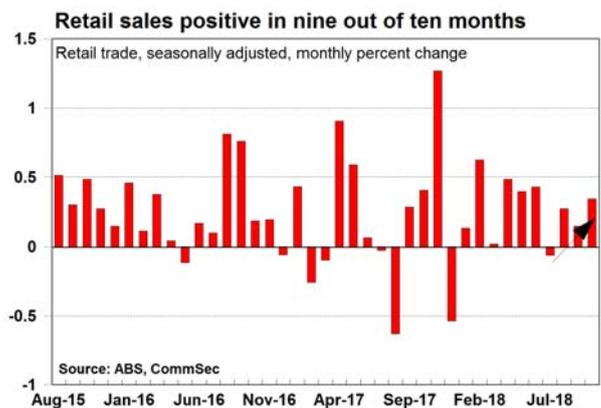
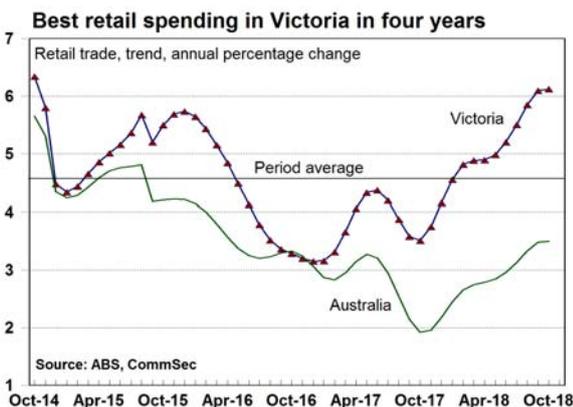
Retail trade; International trade

- **Retail trade lifts:** Retail trade rose by 0.3 per cent in October after a downwardly-revised 0.1 per cent lift in September (previously 0.2 per cent). Annual spending growth was steady at 3.6 per cent in October.
- **Victoria and Tasmania lead:** Over the year to October, trend growth of spending in Victoria lifted to four-year highs of 6.1 per cent. And Tasmanian retail sales rose by 5.8 per cent over the year to October, up from 5.6 per cent in September.
- **Trade surplus:** The trade surplus fell by \$624 million to \$2,316 million in October. The rolling annual surplus rose from \$13.69 billion to \$15.29 billion – the highest level in 11 months.
- **Services:** The net services surplus hit a 15-year high of \$145 million in October. Net tourism-related receipts hit record highs in the month.
- **Trade with China:** Both Australia's exports to China and Australia's imports from China were at record highs in the year to October.

Retail trade data is important for consumer-focussed companies. The trade data has the potential to affect the Aussie dollar so it may be important for exporters and importers.

What does it all mean?

- Despite all the doom and gloom about falling home prices in Sydney, Melbourne and Perth, retail spending has been positive in nine out of ten months in 2018. In fact, national spending has lifted by the most in seasonally adjusted terms since June. And falling home prices in the two largest cities may not necessarily translate into falling household spending across the country. Strong performing state economies – Victoria and Tasmania – have very different performing housing markets, but spending is the highest in four years for both states.
- Victorian annual retail spending growth, in trend terms, is the highest in four years at 6.1 per cent. Aren't falling



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home prices in Melbourne meant to be curtailing consumption? But of course Victoria is more than just its capital city. Ask the people of Geelong, Ballarat and LaTrobe-Gippsland where annual home prices are growing by between 9.0-9.6 per cent over the year to November.

- And Hobart home prices are growing the fastest of all capital cities over the year to November, up by 9.3 per cent. In trend terms, annual retail spending is up by 5.8 per cent, the best in four years.
- Attention will be given to 0.4 per cent decline in NSW spending during October. But the Australian Bureau of Statistics said that the weakness [in NSW] was due to “*poor weather impacting turnover for some industries.*”
- The major drivers of spending are job creation and job security. And both are strong across the nation. Other factors driving spending are relative prices, wages, population growth and confidence. And all these factors are supportive of consumer spending.
- The export sector is one of the brightest stars in Australia’s skies. Trade with China – our largest trading partner – is growing at a double-digit annual growth. Both exports to China and imports from China are at record highs. And tourism-related receipts are at record highs in net terms. That is, the receipts from tourism are outweighing what we spend abroad. And that’s clearly great news for retailers.

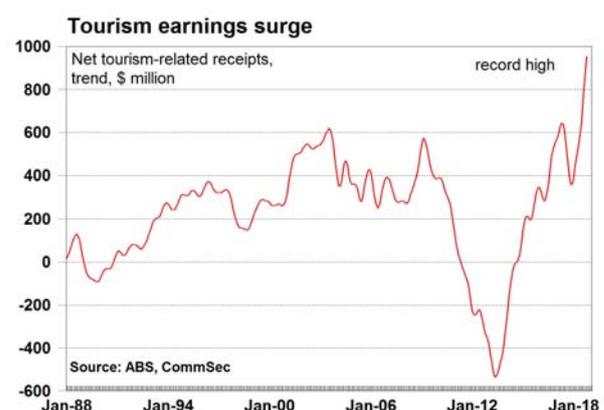
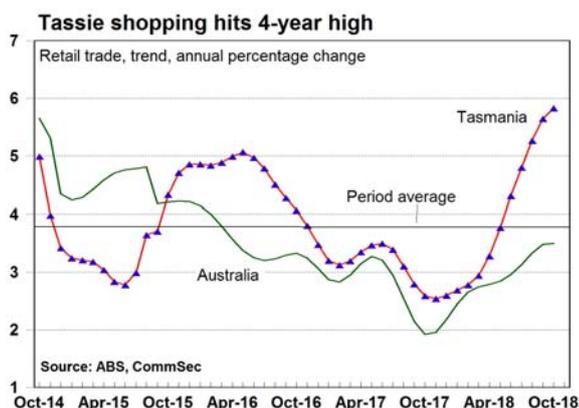
What do the figures show?

Retail trade

- **Retail trade** rose by 0.3 per cent in October after downwardly-revised 0.1 per cent lift in September. (previously 0.2 per cent). Annual spending growth was steady at 3.6 per cent in October.
- **Non-food retailing** rose by 0.5 per cent in October, but annual growth fell from 3.4 per cent to 3.3 per cent.
- **Spending rose most in October** in *Clothing, footwear and other personal accessory retailing* (up 2.6 per cent), *Household goods retailing* (up 0.6 per cent), “*Other*” *retailing* (up 0.5 per cent), *Department stores* (up 0.4 per cent) and *Food retailing* (up 0.2 per cent).
- **Spending fell the most** for *Cafés, restaurants and takeaway food services* (down 0.9 per cent) in October. At a more granular level, there were declines for *Newspaper and book retailing* (down 2.8 per cent), “*Other*” *specialised food retailing* (down 1.5 per cent) and “*Other*” *retailing n.e.c* (down 0.2 per cent).
- **Spending rose in seven Australian states and territories in October:** Queensland (up 1.1 per cent), Victoria (up 0.6 per cent), Western Australia (up 0.6 per cent), the ACT (up 1.1 per cent), South Australia (up 0.1 per cent), the Northern Territory (up 0.6 per cent) and Tasmania (up 0.1 per cent). But NSW fell by 0.4 per cent.
- **Sales by chain-store retailers and other large retailers rose by 0.6 per cent** in October to stand 4.4 per cent higher over the year.

International trade

- The **trade surplus** fell from a revised \$2,940 million in September (previously \$3,017 million) to \$2,316 million in October (consensus: +\$3,000m). The rolling annual surplus rose from \$13.69 billion to \$15.29 billion – the highest level in 11 months.
- **Exports of goods and services** rose by 1.3 per cent (goods rose by 1.4 per cent).
- **Imports of goods and services** rose by 3.2 per cent (goods rose by 4.3 per cent).
- **Exports** were up by 20 per cent on a year ago (strongest growth rate in 16 months), while **imports** were up 13 per cent.
- **Rural exports** fell by 6.7 per cent. Rural exports fell due to a \$59m fall in wool and sheepskins, \$85m decrease in cereal grains and preparations and \$96m fall in “other rural” exports.



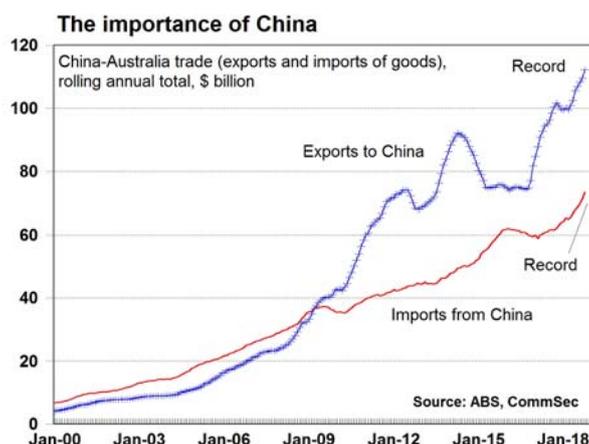
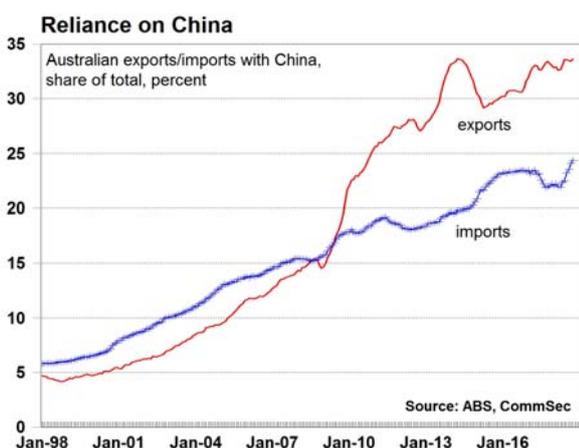
- **Non-rural goods** rose by 4.3 per cent. **Gold exports** fell by \$355m or 24 per cent. **Non-rural exports** were driven higher by coal, coke and briquettes, up \$677m (12 per cent), other mineral fuels, up \$207m (4 per cent) and other manufactures, up \$151m (8 per cent).
- Within imports, **consumer imports** rose by 1.2 per cent; **capital goods** imports rose by 7.8 per cent and **intermediate goods** imports rose by 5.2 per cent.
- **Consumption goods** imports were up by 5.3 per cent on a year ago, while **capital goods** imports were up by 14.7 per cent and **intermediate goods** imports were up by 24.8 per cent.
- The **net services surplus** rose from \$27 million in September to a near 15-year high of \$145 million in October.
- **Australia's annual exports to China** rose from US\$109.53 billion in September to US\$112.17 billion in October – a new record high. Exports to China are up 10.3 per cent on a year ago. Exports to China account for 33.65 per cent of Australia's total exports, just off record highs.
- **Australia's annual imports from China** rose from US\$71.21 billion to US\$73.13 billion – a record high. Annual imports were up by 18.1 per cent on a year ago. Imports from China accounted for 24.37 per cent of Australia's total imports – a record high.
- **Australia's rolling annual trade surplus** with China rose from \$38.32 billion to \$38.83 billion.
- **Australia's rolling annual trade deficit** with the US rose from \$18.18 billion to \$18.24 billion. Imports from the US accounted for 10.23 per cent of total imports in October, above the record low of 9.88 per cent in June.

What is the importance of the economic data?

- The Bureau of Statistics' **Retail trade** publication contains the most current readings on the performance of consumer spending. The ABS surveys 500 'larger businesses' and 2,750 'smaller businesses'. Retail trade covers spending at a broad range of retail outlets but excludes both petrol and motor vehicle sales. A weak retail trade result may point to a slowing economy as well weighing on the share prices of listed retail stocks. But retail trade estimates can't be assessed in isolation – it is important to look at the influences determining future trends in consumer spending, such as income, employment and confidence levels.
- The monthly **International Trade in Goods and Services** release from the Bureau of Statistics provides estimates on exports and imports of physical goods (such as coal, beef and computers) and services (such as travel receipts). The balance of goods and services (BOGS) is a narrower description of Australia's external position than the current account estimates. The import data is a useful gauge of consumer and business spending while exports reflect global demand as well as domestic influences such as drought.

What are the implications for interest rates and investors?

- Home prices are falling in Melbourne, but rising in Hobart in annual terms. But retail spending growth is at four-year highs in both Victoria and Tasmania. And in Perth, where the fall in home prices has been accelerating in recent months, spending lifted by 0.6 per cent in October – the strongest monthly growth in almost 12 months. Spending only fell in NSW, with some of the decline being attributed to inclement weather conditions.
- Broader household consumption still remains solid in the face of several headwinds, most notably, modest nominal wages growth and the drought in rural areas. But still-low mortgage rates and firm jobs growth is supporting broader household sentiment. Falling unleaded petrol prices is an added bonus for motorists with the summer school holiday period upon us.
- Retail prices, while positive overall, remain under pressure from global competition. Spending on clothing and



footwear remains elevated with consumers upgrading their wardrobes in response to falling prices and ongoing online sales events. But prices for food, such as bread, may continue to lift due to drought conditions, particularly with the wheat harvest particularly weak in NSW.

- CommSec expects interest rates to be unchanged until later in 2019.

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