

Industry Brief

Retail Trade Outlook

Retailers are expected to continue to benefit from relatively healthy domestic demand in 2003 but the strong retail spending pattern over the past two years, with turnover rising by 8.2% and 7.4% in 2001 and 2002 respectively, is not likely to be repeated this year. Households are likely to review their spending/savings patterns against a steady accumulation of debt, some softening in employment growth and a more subdued outlook on perceived wealth gains. The threat of war with Iraq and the potential impact on oil prices, will also test consumer confidence and prompt an assessment of spending priorities.

Retail trade stays robust

Consumers continued their spending spree with some \$170.3 bn worth of sales generated by retailers in 2002. This was 7.4% higher than the previous year, a strong performance coming off growth of 8.2% in 2001.

Of the seven industry groups, food, hospitality & services and other retailing grew at a slower pace in 2002 than in 2001, albeit off a high base. Food retailing, which constitutes around 40% of retail turnover, grew by 7.4% in 2002. This was in line with overall growth in retail trade. Hospitality & services, which includes hotels, licensed clubs, cafes and restaurants, and selected services such as hairdressing salons and video hire outlets, recorded a growth in sales of 7% from 9.6% in 2001. Turnover in "other" retailing, which includes pharmaceutical, cosmetic and toiletry retailing, and other goods such as antique and used good retailing, sales of garden supplies, watches and jewellery, eased significantly, expanding only by 2% in 2002 compared with 13.6% in 2001.

Retail sales performance in 2002, by industry sub-group

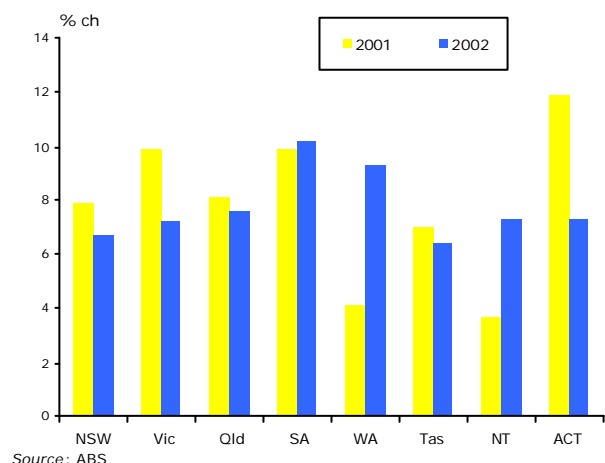


The strongest growth sector was household good retailing, which posted growth of 12.8%. This includes the subgroups: domestic appliance & recorded music, domestic hardware and houseware and furniture & floor covering retailing. The strong growth was no surprise given the buoyant housing

market in 2002. Clothing & soft good (footwear, fabric etc) retailing performed well, reflecting positive consumer sentiment and demand driven by changes in tastes and fashion. Department store sales also picked up, growing by 5.5% in 2002. Recreational good retailing, which includes newspapers, books & stationery, and other recreational gds such as toys & games, photographic equipment and sporting & camping equipment, recovered in 2002, to expand by 7.3% compared with 2% in 2001.

There were state variations with South Australia, Western Australia and the Northern Territory posting stronger retail sales growth in 2002 compared to 2001. Strong employment gains and growth in household income helped to lift retail sales in South Australia by 10.2%, with significant growth in turnover in the clothing, recreational goods and household good sectors. Retail sales in Western Australia rose by 9.3% in 2002 with particularly strong growth in clothing and hospitality & services. Turnover in the Northern Territory grew by 7.3%, reflecting in part, healthy growth in food and recreational good retailing.

State variations



Prospects for 2003

The Australian economy is expected to grow at a more moderate pace in 2003 due in part to the impact of the drought, a higher oil price environment and a downturn in dwelling investment.

Real GDP is projected to rise by 3% in 2003 compared to an estimated 3¾% in 2002, with growth in business investment partially offsetting the anticipated decline in housing investment and moderating private consumption growth. Household spending is forecast to grow at an easier pace of 3¼% in 2003 from 4% in 2002.

Retailers are expected to continue to benefit from relatively healthy domestic demand but the strong retail spending pattern over the past two years is not likely to be repeated in 2003. For one, competition for the consumer dollar will remain keen with domestic travel and car purchases among the many options at hand. Separately, households are likely to review their spending/savings patterns against a steady accumulation of debt, some softening in employment growth and a more subdued outlook on perceived wealth against a volatile global stockmarket environment and moderating house price gains. Increasingly significant is the threat of war with Iraq and the potential impact on oil prices, which will test consumer confidence and prompt consumers to assess their spending priorities. Economics@ANZ has forecast nominal retail sales to grow by around 6% in 2003.

Most industry groups are likely to record a moderation in growth in turnover this year. A brief sectoral analysis follows:

Food. Supermarket and grocery store sales form the bulk of this group and growth is likely to track overall retail trade expansion. The rapid growth in "other food" retailing which includes bakeries, fresh meat, fish and poultry and liquor retailing which rose by 13.4% in 2002 reflects in part improved consumer sentiment and disposable income but its pace is likely to ease somewhat due to a high base achieved last year and more restrained spending.

Department stores. While frequent price discounting persists, better stock management and merchandising, accompanied by positive consumer sentiment, have improved sales in this group. Marketing strategies and efforts to improve store concepts will help to sustain customer traffic. However, intense competition from specialty outlets and an easing in private demand are likely to moderate sales growth in 2003.

Clothing & soft good retailing. Clothing retailers have been successful in maintaining customer appeal despite strong competition from within the fashion industry and from department stores. Effective visual merchandising and being more attune to customers' changing fashion preferences will continue to support growth in the industry. However, sales are not expected to expand as quickly due in part to the high base achieved in 2002 and, more cautious consumer sentiment.

Household good retailing. Brisk housing construction over recent years has fuelled demand for domestic hardware, furniture and floor covering and domestic appliances. A downturn in housing investment expected this year is, consequently expected to translate into lower demand. Nevertheless, the lag impact on demand for these goods is likely to result in a more significant slow down in demand only towards the end of the year and into 2004.

Recreational good retailing. The proliferation of convenience stores in CBD areas is expected to continue to support growth in newspaper and magazine sales. Price discounts, which have lifted demand for books, are also expected to persist. However, this highlights the keen competition within the book-selling industry. Nevertheless, a moderation in household spending is likely to soften sales growth. This is also likely to limit growth in other recreational goods sales, which has been relatively weak over 2001 and 2002.

Other retailing. Although overall growth for 2002 was positive, data for the second half of the year showed a decline in sales in the sub-groups: pharmaceutical, cosmetic & toiletry retailing and other retailing. While this is due in part to the high base effects following robust growth in 2001, general activity has not appeared to have changed appreciably, making it difficult to fully explain the slide. However, there could be some distortions to the data as a result of a new basis used by the ABS to compile the data. Overall, the outlook is for faster growth in 2003. In particular, the pharmaceutical, cosmetic & toiletry industry is likely to benefit from increasing popularity of alternative therapies and herbal medications and, growing health-consciousness. The expansion of services offered within the premises such as naturopathy and chiropractic assessments, should also help to lift turnover.

Hospitality & services. Overseas tourist arrivals, while projected to improve, are not expected to rebound sharply this year. The Tourism Forecasting Council has forecast growth in international visitor arrivals of 3.5% in 2003 from a decline of 0.7% in 2002. Security-related travel concerns and increasing likelihood of a military conflict against Iraq, are expected to weigh heavily on inbound travel decisions and be felt by the industry. In addition, being a more discretionary item, local consumers are likely to limit their entertainment/dining-out budgets. Nevertheless, corporate-based dining is likely to hold up well.

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