

## A temporary halt in retail spending

26 September 2008

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### Our Vision:

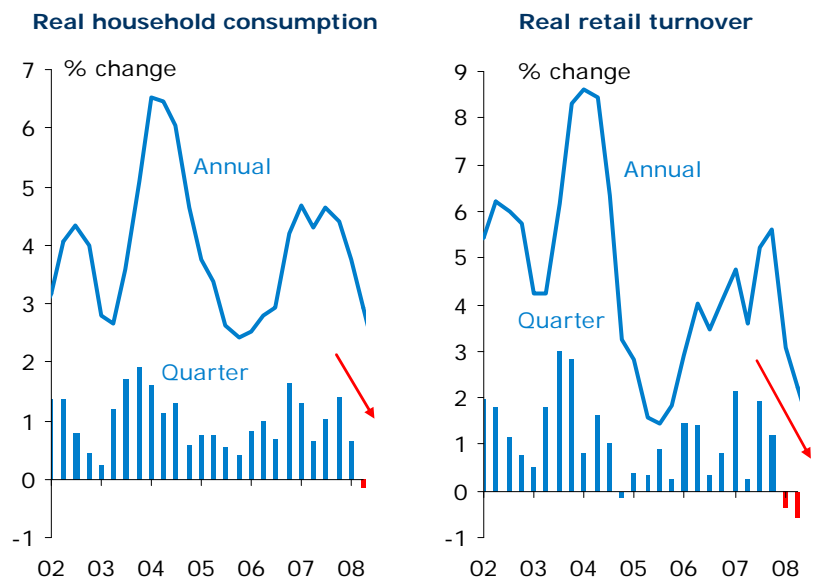
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## Key points

- Retail spending declined in the first half of 2008, with two consecutive quarters of negative real growth for the first time since 1996. Retail sales were weighed down by higher interest rates, higher fuel prices, falls in some asset prices and a more uncertain economic outlook.
- Some of these headwinds are now easing, with falls in interest rates and fuel prices and a further boost to household disposable incomes from another round of tax cuts. Growth in household disposable income is expected to remain relatively robust through 2009 and 2010.
- There is greater uncertainty than usual about households' preferences for spending versus savings going forward. The national savings ratio has been rising since 2002, and demand for housing and personal credit has declined dramatically in recent months, as households have sought to rebuild their finances. A continuation of these trends would produce a sombre outlook for retail spending over the next two years.
- Large retailers are expected to continue to perform more strongly than smaller operators, in terms of turnover and profitability.
- Once sales growth picks up again, the strongest growth is expected to be in the household goods and recreational goods sectors.

## A slow start to the year

Total Australian retail spending was weak in the first half of 2008, with the volume of sales falling in both the March and June quarters. Consecutive quarterly declines are quite rare; the last episode was in the second half of 1996 and before that in the first half of 1984. The weak spending reflected the erosion of household budgets through higher interest rates and higher fuel prices, and negative wealth effects from falling share prices and softness in house prices. Total national household consumption also fell in the June quarter (by 0.1%), for the first time since 1993.

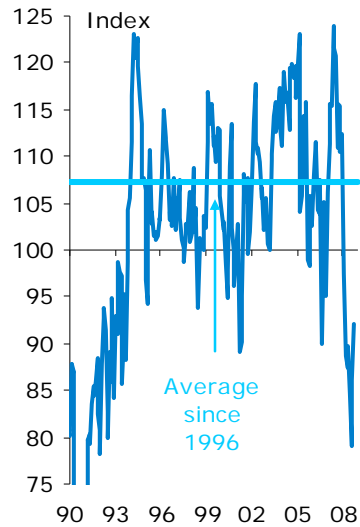


Sources: ABS 5206.0, National Accounts, ABS 8501.0, Retail Trade, June 2008.

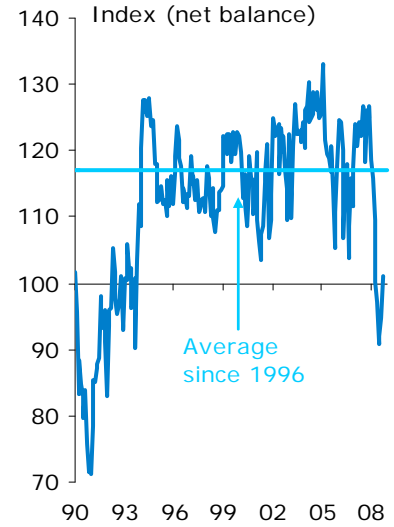
Consumer confidence in mid 2008 approached the lows of the 1990-91 recession.

Consumer confidence has also been weak. In mid 2008 consumer confidence fell close to the lows of the 1990-91 recession.

Westpac 'consumer confidence'



Roy Morgan 'consumer confidence'



Sources: Westpac and Roy Morgan. Data to September 2008.

The second half of 2008 is already looking brighter for Australian households.

The second half of 2008 has begun on a stronger note. The financial pressures on households have begun to ease, with a reduction in interest rates of 25bp in early September; an easing in petrol prices over the two months to September of 6.9% (with Australian average prices falling from \$1.59 litre to \$1.48 litre); and most significant of all, large cuts in personal income taxes totalling \$11bn from 1 July. As a consequence consumer confidence rose in both August and September, although both the Westpac and the Roy Morgan consumer confidence surveys remain well below their recent averages.

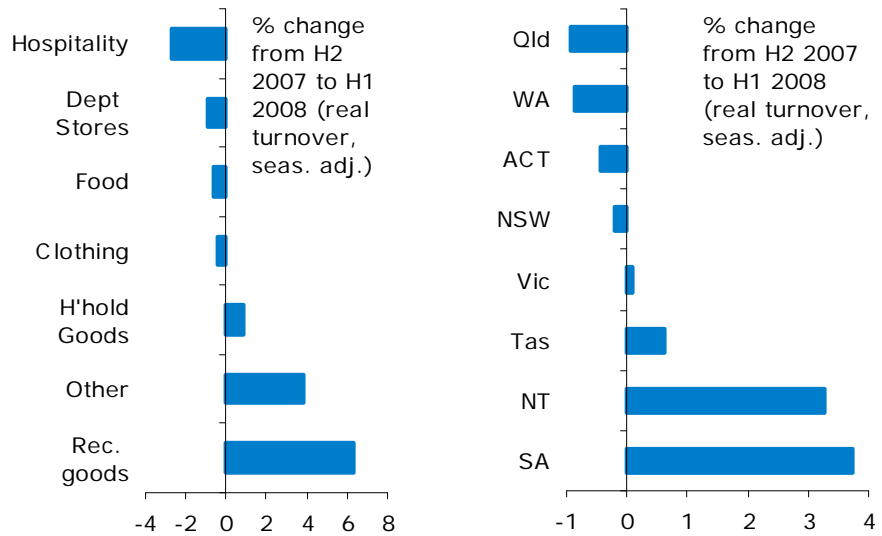
Households responded to the tax cuts, with the value of retail sales rising by 1.4% in July. There is no hard data to assess the impact of the easing of interest rate and fuel price pressures on spending in subsequent months, but the NAB business survey shows retail business confidence lifted in July and August, and was one of the few industry sectors showing an improvement. We expect the September quarter overall will show positive growth in both the volume and value of retail spending.

Retail turnover growth varies greatly across sectors and across states and territories.

The performance of the retail industry has differed markedly between sectors. The weakest sector in the first half of 2008 was hospitality and services, with a cumulative decline in the volume of sales of 2.7% (seasonally adjusted). Department stores, food retailers and clothing and soft goods also recorded solid falls in H1 2008. It is tempting to argue that these categories are discretionary spending and so households in tough times were cutting down on the non essentials. But the problem with this theory is that sales of food also declined in the quarter (hardly discretionary) while sales of household goods rose moderately and sales of recreational goods were very strong (hardly essential). So there was no strong guiding principle to the purchasing decisions made by consumers. These differences do not appear to have been strongly linked to movements in prices. The fall in sales of food may have been linked to the solid increases in prices over the year to June; but price increases for clothing were muted while sales fell; and price increases for recreational goods were middling while sales rose strongly.

There were also big variations between the states and territories in the performance of the retail sector. There were significant declines in the volume of sales in H1 2008 in Queensland, the ACT, Western Australia and New South Wales, compared with H2 2007 (seasonally adjusted). In contrast, the volume of sales rose in Tasmania and particularly strongly in the Northern Territory and South Australia. Again, there is no obvious theme connecting these trends.

**Households are still spending big in some retail sectors and in some states**

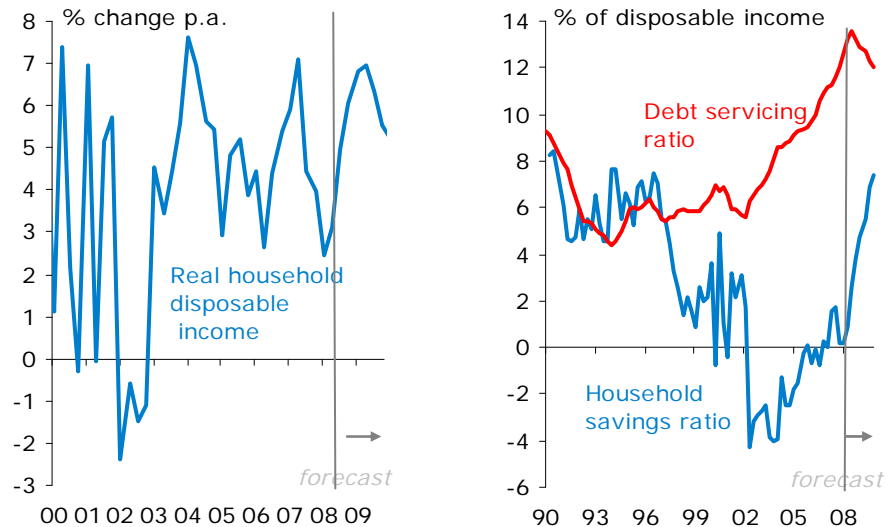


Source: ABS 8501.0, *Retail Trade*, June 2008.

**A brighter outlook for retail spending**

The prognosis for the retail industry will continue to be shaped by growth in household disposable income, asset prices and saving / spending decisions.

**Incomes will keep growing, debt servicing will ease and savings will rise**



Sources: ABS 5206.0, *National Accounts*, ABS 8501.0, *Retail Trade*, June 2008, ANZ Economics and Markets Research.

**Growth in household disposable income will remain robust.**

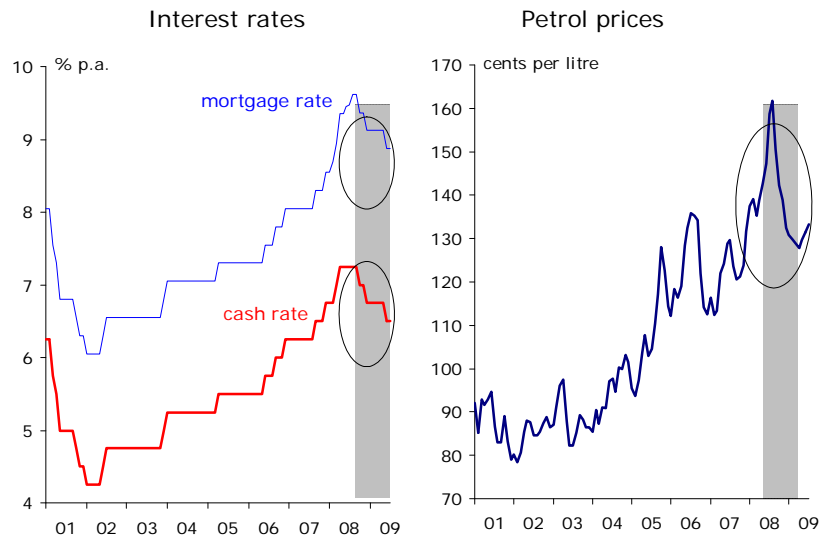
Growth in household disposable income is expected to cool through 2009 and 2010 although it will remain relatively robust. A key driver will be an easing in the labour market, as economic growth is held below trend to allow some spare capacity to develop in order to cool inflationary pressures. Employment growth will slow from the current 2.2% to around 1% in 2009 and 2010, while the unemployment rate will edge up from 4.1% to 5.1% in 2009 and 5.3% in 2010. Nominal wages growth is expected to cool, slowing from 6.6% in 2008 to 5.2% in 2009 and 4.6% in 2010.

A further factor acting to slow the growth of disposable after-tax income is the waning of the generous personal income tax cuts enjoyed over the past five years, as the stream of Federal Government revenue from the commodity boom runs out of puff.

Employment and wages growth will be slower, but cuts in tax, interest and fuel costs will boost household disposable incomes.

There are, however, several positives that will offset these drags on national income growth: interest rates are expected to continue to fall, with the RBA to deliver another 25bp cut before end of 2008, and with a further reduction of 50bp likely in 2009. This will help ease the household debt servicing burden. Recent declines in global oil prices should deliver additional relief on domestic fuel prices, leaving more money to spend on other things, although that depends in part on the course of the A\$. Growth in gross nominal household disposable income is forecast to be a very strong 8.8% in 2009 (driven mainly by cuts in tax and interest rates), with an easing to a still robust 7.1% in 2010.

**Relief is coming on interest rates and petrol prices for households**

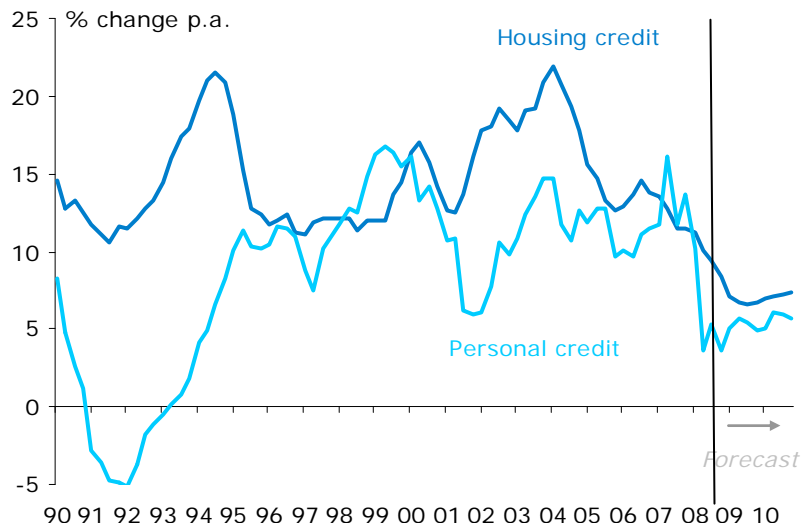


Source: RBA, ABS, ANZ

Household demand for credit is finally cooling off.

Spending decisions will also be impacted by changes in household wealth and confidence. Movements in share prices and house prices will be the key. In the current climate we hesitate to make a call on the direction of share prices although we believe with greater confidence that the downside for house prices is limited. Overall the best that can be said is that continued uncertainty stemming from the most serious global financial dislocation since the Great Depression is likely to engender caution with regard to household spending behaviour. The other factor likely to make households more cautious is the expected rise in the unemployment rate, particularly in New South Wales.

**Household demand for credit is slowing**



Sources: RBA and ANZ Economics and Markets Research.

Households are consolidating their finances and adding to their savings.

One sign of households' efforts to consolidate their finances is the sharp slowdown in demand for credit through 2007 and 2008 (see figure above). Growth in borrowings for housing has slowed to an annualised rate of around 6% p.a., and growth in personal borrowings for other purposes (credit cards, personal loans, margin loans) has been flat for the past six months. Housing and personal credit growth is expected to remain at these more subdued rates for some time.

Making a firm prediction on how households will respond to these uncertainties in their spending/saving decisions is difficult. In the current climate it is more useful to consider the future in terms of scenarios. The household savings rate (the proportion of disposable income not consumed) has been trending upward since 2002 when interest rates began to rise. The most optimistic scenario from a retail spending perspective would be for households to maintain their savings rate at the current level of just above neutral – that is, they would spend most of their concurrent earnings and would not seek to add to spending through borrowings. This would produce a strong outcome for retail spending, with growth rates in line with income growth or even a touch stronger (scenario 1 in table below).

Greater financial caution will lead to a weaker growth scenario for retail traders.

A second, more pessimistic — but in our view more realistic — scenario would see households further increase their savings rate as they pay down debt and put a bit aside for a rainy day (scenario 2 in the table below). This response would leave less for spending and would result in slower growth in retail sales.

#### Retail sales turnover forecast scenarios: (1) high growth and (2) low growth

% change p.a.	Nominal h'hold dis-posable income	Scenario 1: high retail sales growth*		Scenario 2: low retail sales growth**	
		Nominal retail sales	Real retail sales	Nominal retail sales	Real retail sales
<b>Actual</b>					
2005	6.3	3.1	1.9	3.1	1.9
2006	6.8	6.0	3.6	6.0	3.6
2007	8.5	7.3	4.8	7.3	4.8
Mar 2008	7.7	5.9	3.1	5.9	3.1
Jun 2008	5.9	4.7	2.2	4.7	2.2
<i>5 year average 2003-07</i>	<i>6.9</i>	<i>6.0</i>	<i>4.5</i>	<i>6.0</i>	<i>4.5</i>
<b>Forecast</b>					
<b>2008 (f)</b>	<b>7.2</b>	5.6	2.9	<b>4.6</b>	<b>1.9</b>
<b>2009 (f)</b>	<b>8.8</b>	6.6	4.3	<b>5.5</b>	<b>3.1</b>
<b>2010 (f)</b>	<b>7.1</b>	7.0	4.9	<b>5.6</b>	<b>3.5</b>

\* assumes the national household savings ratio rises to 2% by the end of 2008 and then stays fixed at 2% until the end of 2010.

\*\* assumes the national household savings ratio continues its current growth path and rises to 2.3% in 2008, 6.4% in 2009 and 8.4% in 2010.

Sources: ABS 5206.0, *National Accounts*, ABS 8501.0, *Retail Trade*, June 2008, ANZ Economics and Markets Research.

## Retail business trends

Despite slowing growth in retail sales, profit growth remained healthy overall in the retail sector in 2007-08. Corporate gross operating profits (GOP) for retail trade were up 12.5% in the June quarter 2008 from a year earlier and earnings before tax (EBT) were up 11% (trend data).

**Corporate retailers' profits grew strongly in 2007-08.**

Market statements from the big listed retailers also indicate profit growth has been far stronger than sales growth in 2007-08, due to investment initiatives, cost controls and a relatively high Australian dollar that has kept import prices for many of Australia's favourite imported consumer durables relatively low. David Jones for example, expected its net profits after tax (NPAT) to grow 23-25% in financial year 2008, while Harvey Norman announced an underlying profit increase of 13.4%. Woolworths Limited also announced 'EBIT is expected to grow faster than sales', with NPAT expected to rise by 21-25% for financial year 2008. Audio specialist JB Hi-Fi apparently blitzed the market, with sales up a reported 43% and NPAT up a stunning 61% for financial year 2008.<sup>1</sup>

**Corporate retail profit growth will be much slower in 2009.**

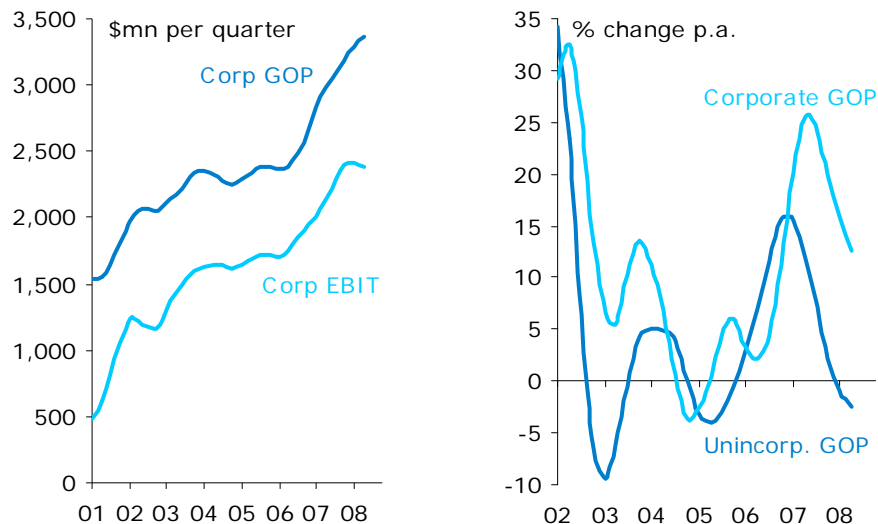
Looking forward, this strong profit growth for the corporates is unlikely to continue into 2009, as the Australian economy and retail sales growth slow down and a lower Australian dollar pushes import prices higher. Despite its stellar performance in 2007-08 for example, David Jones has stated it now expects 'flat to negative same-store sales growth over the next three quarters'. Certainly in aggregate, the trend growth rate for corporate retail profitability is already decelerating into single digits and looks set to go lower in 2009.

**Smaller, unincorporated retailers saw profits shrink in the first half of 2008.**

For small retailers, the profit story has been quite different, with aggregate GOP growth for unincorporated retailers decelerating sharply since 2006 and showing negative growth in each of the March and June quarters of 2008 (trend data). Part of this outcome is due to more businesses moving from unincorporated to incorporated status for tax and legal reasons, but part of it reflects consistently weaker sales growth by small retailers (see p.8 below). With a lower A\$ and a weaker sales outlook for everyone, profit generation for small retailers is likely to get even tougher through the rest of 2008 and into 2009.

**Their outlook for profit generation will get tougher.**

### Nominal profits up strongly for corporate retailers, down for the small players



Source: ABS 5676.0, *Business Indicators*, June 2008 (trend data).

**Retail employment follows turnover trends, rather than leading them.**

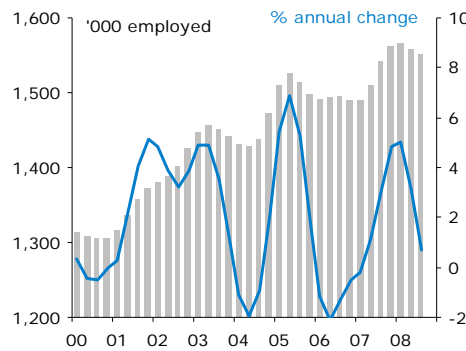
When retail sales start to slow, retail employment eventually follows the same path. Latest available labour market data for the retail sector all indicate retail jobs growth has already passed its peak (see graphs on page 7). National retail employment peaked in November 2007 (seasonally adjusted) and has since fallen by 1.2%. More detailed data show all of the decline in jobs has been in 'personal and household goods' retailing rather than in food or other retail

<sup>1</sup> JB Hi-Fi, Woolworths Limited, Harvey Norman, David Jones, *ASX and media statements*.

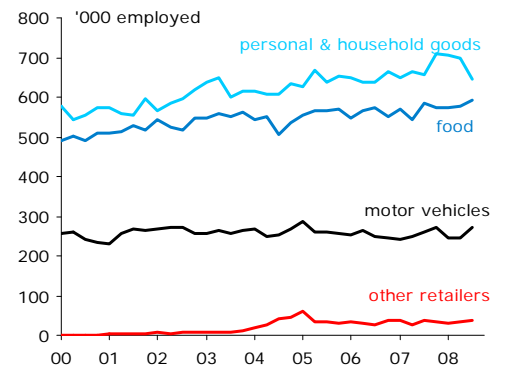
sectors, which have continued to expand. Retail wages growth also appears to be moderating, which is good news for employers and for the national inflation outlook, if not for the nation's 1.5 million retail employees.

**Key retail labour force data – jobs, wages and vacancies – all indicate the retail labour market has passed its peak.**

**All retail employment\* (trend)**



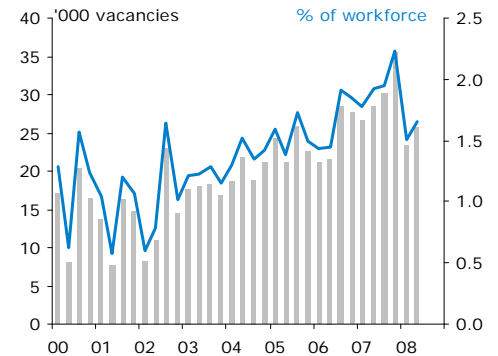
**Retail employment by sector\***



**Retail wages growth**



**Retail vacancies**



\* Retail employment does not map exactly to retail trade turnover data. It includes jobs in food, personal and household goods, motor vehicle and 'other' retailing. It excludes jobs in restaurants and cafes, which are counted as hospitality jobs in the Labour Force survey. Sources: ABS 6291.0, *Labour Force Australia* (Quarterly) and 6345.0 *Labour Price Index*.

## Outlook for individual retail sectors

**Food retailers dominate Australia's retail landscape.**

Australia's retail trade sector is dominated by food retailers, with a market share of 41% in June 2008, up from 36% two decades earlier. The second single largest category is household goods retailers, which has also increased its share of retail revenue over the past two decades. Their share has grown at the expense of department stores, clothing and recreational goods retailers.

**Retail sectors' share of total retail sales**

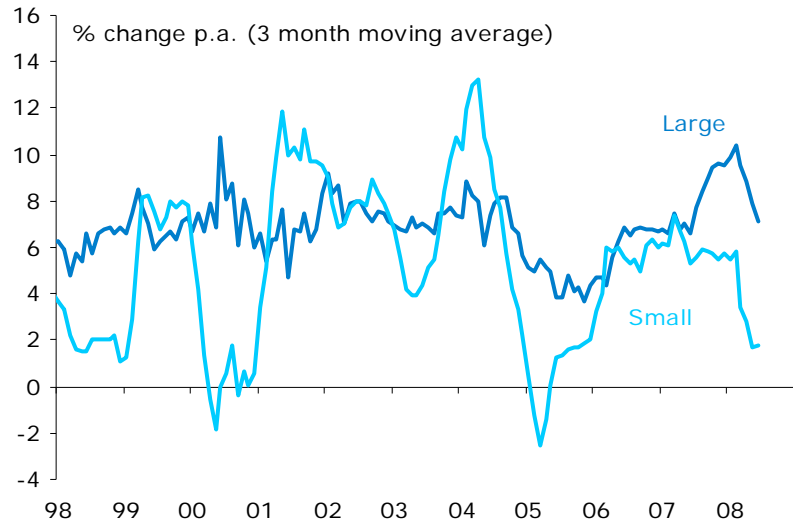
Retail Sector*	Share of total nominal retail sales (%)		
	June 1988	June 1998	June 2008
Food	36.1	41.5	41.2
Department stores	11.4	9.0	7.4
Clothing & soft goods	8.6	6.8	6.3
Household goods	13.8	13.0	15.4
Recreational goods	5.1	4.6	3.8
Hospitality & services	7.8	10.1	10.1
Other retailing	17.1	15.0	15.8
Corporate entities and chain operators	na	54.2	74.0

Definitions for each sector are summarised on page 14. Source: ABS, 8501.0, *Retail Trade*, June 2008.

**Corporate and chain retailers have stronger turnover growth and are winning greater market share.**

The other significant long-term trend in Australian (and global) retail sales is stronger growth among large retailers than among smaller ones, with a consequent increase in the share of sales going to corporate entities and chain store operators (franchise or direct ownership). In June 2008, they took 74% of total retail sales revenue, compared with 54% a decade earlier. This trend is evident across all retail sectors, but is most apparent in food retailing, where large retailers now take 82% of turnover compared to 69% a decade ago. In the dynamic household goods retailing sector, large retailers now take 75% of the sector's turnover, compared to 43% a decade ago. There are no factors on the horizon that are likely to change the direction of this trend.

#### Stronger sales growth for large than for small retailers set to continue



Source: ABS, 8501.0, *Retail Trade*, June 2008 (original data).

**All retail sectors are entering a weaker growth phase, but some sectors will slow more than others.**

Our expectations for sales growth across Australia's retail sectors are summarised in the table below. These estimates are based on the 'low growth' scenario discussed above (scenario 2). As such, they lean towards the more pessimistic end of likely outcomes for retail trade.

#### ANZ retail sales forecasts

% change p.a.	Nominal			Real			
	Sector*	2008f	2009f	2010f	2008f	2009f	2010f
	Food	5.4	5.7	5.6	1.0	2.6	2.8
	Dept. stores	2.5	4.2	4.3	0.8	2.5	3.0
	Clothing etc	2.2	4.3	4.6	1.8	2.8	3.4
	H'hold goods	2.7	5.4	5.7	3.9	6.0	6.5
	Hospitality	2.0	4.8	5.1	-2.6	0.7	1.2
	Rec. goods & other retailers	9.8	7.1	7.3	7.9	4.3	4.6
	<b>TOTAL</b>	<b>4.6</b>	<b>5.5</b>	<b>5.6</b>	<b>1.9</b>	<b>3.1</b>	<b>3.5</b>

Definitions for each sector are summarised on page 14.  
Source: ANZ Economics and Markets Research.

Food retailing has a high degree of market concentration.

The ACCC found there is limited price competition in the retail grocery sector.

Real growth in food retailing turnover is weak in 2008.

2009 should be better.

Food prices will continue to be volatile.

## Food retailers

Just as food retailing dominates Australian retailing, supermarkets dominate the food retailers. Woolworths Limited has an estimated 30% of the national food and grocery market and Coles (now owned by Wesfarmers) takes around a quarter. In its recent inquiry into grocery pricing (see below), the ACCC estimated that Woolworths and Coles together account for 70% of all packaged grocery sales and 50% of fresh food sales in Australia. Other large players include the IGA group of franchisees and the rapidly-growing Aldi chain. In total, corporate and chain retailers now take 82% of all food retailing turnover.

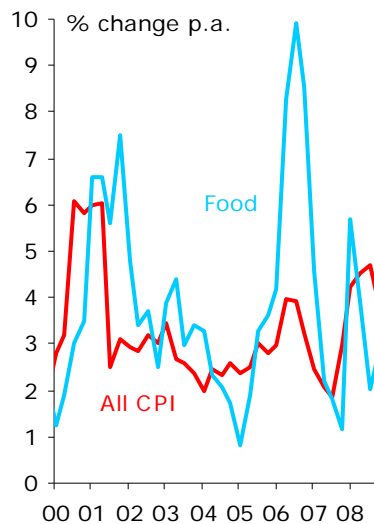
This dominance prompted a national inquiry into the competitiveness of Australia's grocery market and whether anti-competitiveness has contributed to price increases. The inquiry was conducted by the ACCC, which released its findings and recommendations in August. The ACCC concluded the grocery retailing market is "workably competitive" but found that effective price competition is being limited by factors including: high barriers to entry and expansion; limited incentives for the major chains to compete on price; and limited price competition from independent supermarkets and at the wholesale level.

As part of the Government's response to the ACCC inquiry, nationally consistent, mandatory unit pricing for all grocery items is now being developed. The ACCC has also launched the 'GroceryChoice' website, which is intended to help consumers find the lowest priced groceries in their area. The ACCC also made recommendations relating to planning and zoning laws for supermarket sites and changes to the Horticulture Code of Conduct.

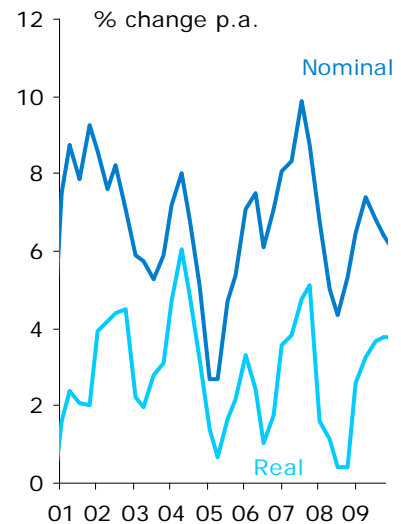
Looking at recent growth trends, food retailing managed to achieve real turnover growth of only 1.6% and 1.2% p.a. in the March and June quarters of 2008. This was partly due to extreme volatility in food prices over the past year. We expect real growth to be lower again in the second half of 2008, bringing in only 1% growth for 2008 as a whole. Most retailers expect 2008 to be the 'trough' year in this growth cycle, with real growth picking up again through 2009 and 2010. Price volatility will cause nominal food turnover to move more erratically.

Despite acknowledging a slower, more uncertain economic outlook for retailers, Woolworths Limited, has said it still expects 'high single digit' sales growth in 2008-09. Woolworths indicated that as of August 2008, its customers were tightening their belts by switching to cheaper 'house' brands in search of better value, but were not (yet) reducing their total supermarket spend.<sup>2</sup>

**Volatile: Food price growth...**



**... and food retailers' turnover growth**



<sup>2</sup> Woolworths cited in *Australian Financial Review*, 24 Sept. 2008, p. 63.

Sources: ABS 8501.0, *Retail Trade*, June 2008; ABS 6401.0, *Consumer Price Index*, June 2008; ANZ Economics and Markets Research.

**Department stores and clothing retailers now face an extended period of flat sales growth.**

## Department stores, clothing and soft goods retailers

As a sector, department stores have been losing market share to household goods retailers and to a lesser extent, supermarkets, over the past two decades, moving from around 12% of total retail turnover in the 1980s to 7.5% today.

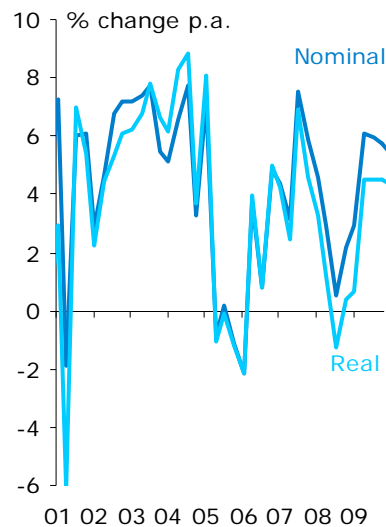
Real growth in department store turnover has decelerated sharply since mid-2007, from a recent peak of 6.9% p.a. in September 2007 to just 1.2% by June 2008. Retail giant, David Jones, reported 'like for like' sales growth of only 1.5% for the first half of 2008 (but still managed profit growth of up to 25% for the same period, by making significant cost savings).

Early anecdotal evidence indicates department store sales slowing to a virtual halt, or even declining, in the September quarter 2008. For department stores as a group, we expect close to zero growth until mid to late 2009. This view is also prevalent among the big retailers themselves. David Jones is anticipating 'flat to negative same-store sales growth over the next three quarters', with the next upturn commencing from July 2009. David Jones says it is preparing early for this flat phase and expects to achieve profit growth of 5-10% regardless.<sup>3</sup>

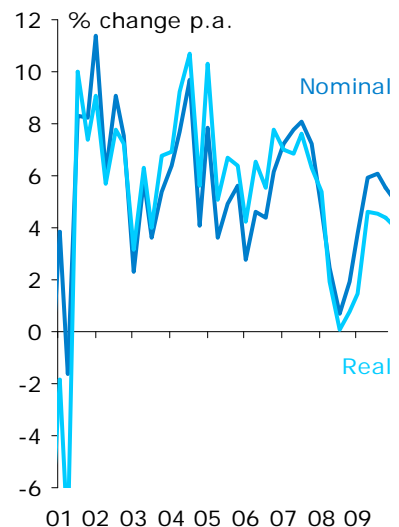
Clothing, footwear and soft goods retailers face a similar market to department stores. Historically, their growth rates have tracked one another closely. More recently, clothing retailers have out-performed the department stores in terms of real turnover growth in most quarters, although they have also faced a rapid deceleration in turnover growth through 2007 and 2008. They too face a flat growth phase until the middle of 2009, as households consolidate their finances. Late 2009 and 2010 should see a return to some positive real growth.

Nominal sales growth for clothing and footwear retailers have almost exactly matched real sales growth over the past few years because clothing prices have barely moved. This has been due to ready access to cheap imports and a strong A\$. By the end of 2008 however, we expect clothing prices to begin to tick up a fraction in response to strengthening Asian inflation and a weaker A\$. Clothing retailers' prices are likely to rise by around 1.7% in 2009, compared to only 0.2% in 2008, 0.6% in 2007 and negative price changes from 2003 to 2006. This price increase will still be far less than expected CPI growth of 3% in 2009.

**Department store turnover growth**



**Clothing retailers' turnover growth**



Sources: ABS 8501.0, *Retail Trade*, June 2008; ABS 6401.0, *Consumer Price Index*, June 2008; ANZ Economics and Markets Research.

<sup>3</sup> David Jones, *ASX and Media Release*, 14 Aug 2008; *Australian Financial Review*, 25 Sept 2008.

**Household goods retailers' sales growth is slowing, but it will remain stronger than most other retail sectors.**

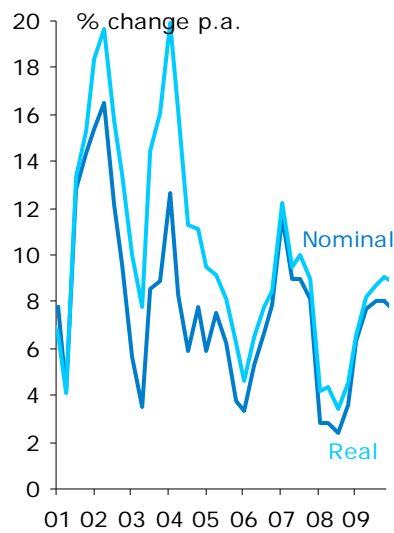
**Average prices for many popular household goods will continue to fall.**

## Household goods retailers

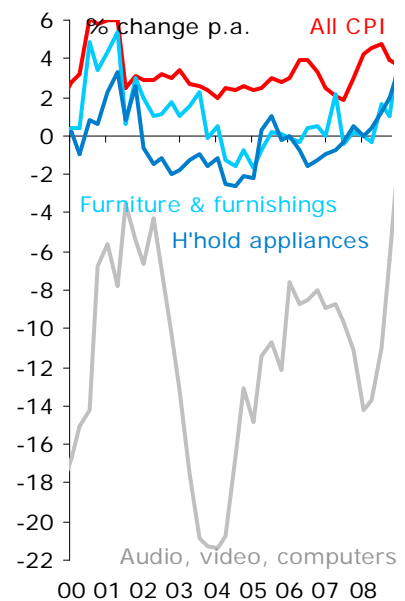
Household goods retailing has been the star of the past decade, with double-digit real sales growth in 5 of the last 8 years. Growth has been driven by product innovation, large chain expansion and fierce price competition, as well as by strong demand from tech-savvy, cashed-up consumers. The first half of 2008 saw the first serious slowing in sales growth in many years — down to 4.4% p.a. in both the March and June quarters. Sales growth will dip lower again in late 2008 (below 4% p.a.), before accelerating again from mid-2009.

With regard to prices, many items sold by this sector have been getting cheaper for some time. Average prices in the hugely popular audio, video and computing segment have dropped in almost every quarter since the current CPI series commenced in 1990. The price index for this category was down to 20.7 by June 2008 — or 80% below 1990 price levels. Price changes for household goods retailing have been negative since the 1990s and are expected to remain so.

**Household goods retailers' turnover growth**

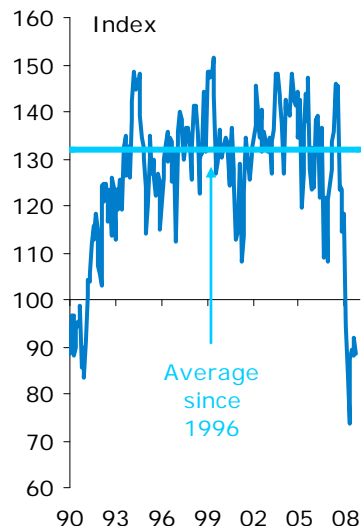


**Price growth**

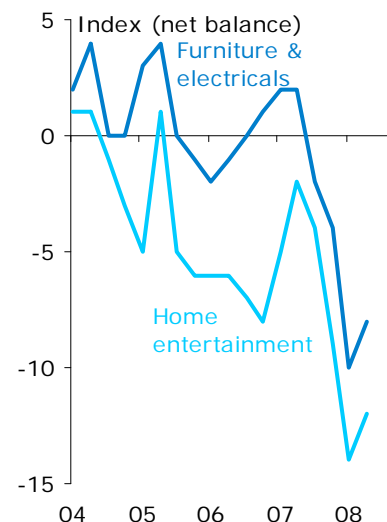


Sources: ABS 8501.0, *Retail Trade*, June 2008; ABS 6401.0, *Consumer Price Index*, June 2008; ANZ Economics and Markets Research.

**Westpac: 'now is a good time to buy a household item?'**



**Sensis: 'do you expect to spend more or less on household items this year?'**



Sources: Westpac and Sensis (Sensis survey from 2004 only). Data to September 2008.

**Hospitality and services retailers are the most discretionary retail category.**

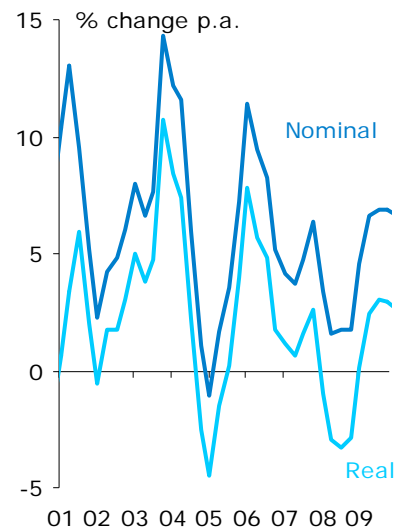
**They have been hit first and hardest with the current downturn and may take the longest to recover.**

## Hospitality and services retailers

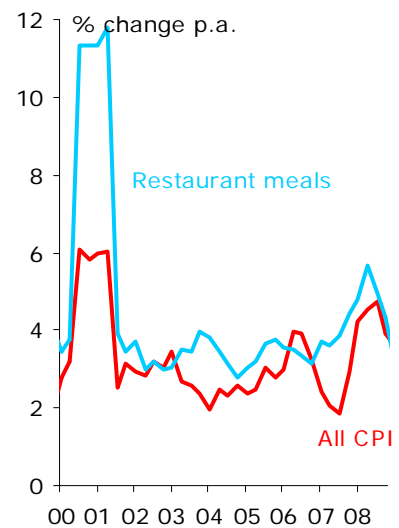
This segment of retailing sells services rather than goods. It includes pubs, clubs, bars, hotels, cafes and restaurants that sell meals, drinks and entertainment, as well as hairdressers, video hire outlets and beauty salons. In direct contrast to household goods retailers, this segment has experienced weak growth in recent years and faced rising prices and input costs — all up, a difficult trading environment despite the generally excellent health of the Australian economy and households. Even inbound tourism has not provided much of a buffer for hospitality traders, with that market also showing weak growth trends.

As the frontline of discretionary spending, this sector tends to get hit first with any downturns in consumer sentiment or spending (e.g. due to interest rate rises, petrol price increases or financial market losses). After a year of very weak real growth in 2007 (just 1.5%), hospitality and services retailers saw their real sales decline by 1% in the March quarter and 3.3% in the June quarter of 2008 (annual growth). We expect a fall in real sales of 2.6% for the 2008 calendar year, followed by very weak real growth continuing well into 2009.

**Hospitality retailers' turnover growth**



**Price growth**



Sources: ABS 8501.0, *Retail Trade*, June 2008; ABS 6401.0, *Consumer Price Index*, June 2008; ANZ Economics and Markets Research.

## Recreational goods and other specialty retailers

**This sector includes a very diverse range of essential and discretionary retailing.**

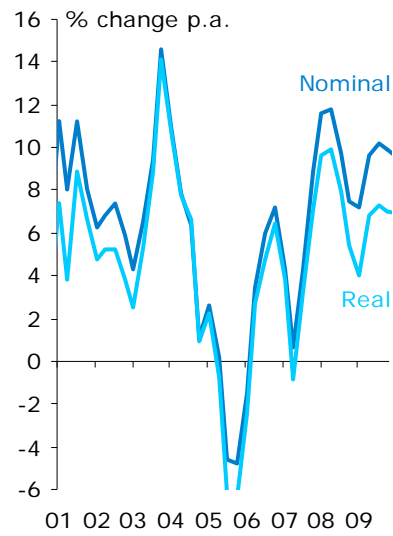
**This group of retailers have bucked the trend by increasing real turnover in H1 2008.**

Recreational goods and other specialty retailers is a diverse group of retailers selling a wide range of products to a wide range of markets. Some of the more numerous retail types include recreational and outdoor equipment, booksellers, newsagents, pharmacies, toyshops, second hand dealers, florists and nurseries.

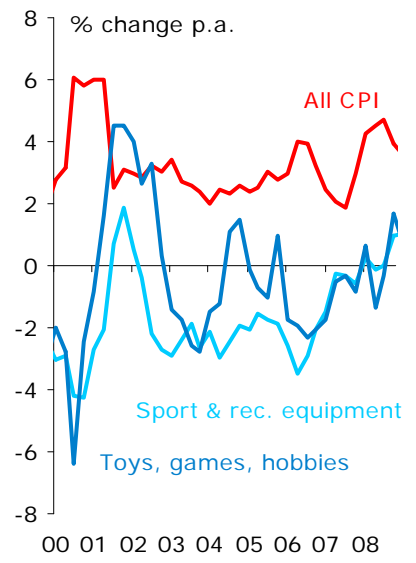
This sector is characterised by a larger than average (but falling) proportion of small, non-corporate retailers. Among recreational goods retailers, small retailers hold about 55% of market turnover (down from 76% a decade ago) while among 'other' retailers, small retailers hold 43% of market turnover (down from 74% a decade ago). In some markets such as pharmacies and newsagents, this is for regulatory reasons. This (reducing) preponderance of small retailers leaves this sector more vulnerable to downturns than some other types of retailing, since small retailers typically have lower, more volatile growth paths.

This volatility is evident in the fact that unlike most other retail segments, recreational goods and other retailers saw an *increase* in their real sales growth rates in the first half of 2008, to 9.6% and 9.9% in the first two quarters of the year respectively. This strength will push the sector's real annual growth for 2008 to 7.9% — more than double 2007's real sales growth of 3.3%. After this growth spurt, we expect real growth to weaken again in 2009 (to 4.3%).

**Recreational goods and other specialty retailers' turnover growth**



**Price growth**



Sources: ABS 8501.0, *Retail Trade*, June 2008; ABS 6401.0, *Consumer Price Index*, June 2008; ANZ Economics and Markets Research.

## Appendix: ABS retail sales data

The turnover data above is all based on the ABS Retail Trade survey to June 2008.

From July 2008, the scope and definitions of this survey are changing significantly.

The old and new data series will not be compatible.

All retail trade turnover data in this publication is sourced from the monthly ABS Retail Trade publication (cat no 8501.0) as published to June 2008. The data and category definitions are the same as those found in that publication.

From July 2008, the size and scope of the monthly ABS Retail Trade publication has been significantly reduced. The definitions of the retail trade sub-categories have also changed, as summarised in the table below. Of particular note, hotels, licensed clubs and selected service industries are no longer included in the retail trade survey at all, and take-away food retailing is now included in the 'hospitality' category instead of the 'food retailers' category. These changes have reduced the total value of retail trade turnover captured in the survey by about \$200mn — or 10% — per month. The sample size is also smaller. This has the effect of reducing the amount of detail that can be published and increasing the relative standard errors of the data — from 0.8% to 1.1% for the survey as a whole, and from 1.5-3.5% up to 2.1-5.0% for the retail trade sub-categories.

This reduced monthly publication will be supplemented by a larger, more detailed quarterly retail trade publication (8502.0), with the first edition due to be published on 17 November 2008. This quarterly publication is expected to continue to provide the original, seasonally adjusted, nominal and real retail trade turnover data that are no longer available in the monthly series. The next edition of our ANZ *Retail Trade Report* will be based on these new data series.

### ABS Retail Trade survey, changes to size and scope, July 2008

Retail trade sub-category (% of total, June 2008)	Retailers included in ABS survey to June 2008	Retailers included in ABS survey from July 2008
Food (41.2%)	Supermarkets, grocers, butchers, bakeries, fruit & veg shops, non-petrol sales by convenience retailers, liquor retailers, take-away food retailers, other specialist food retailers	Supermarkets, grocers, butchers, bakeries, fruit & veg shops, non-petrol sales by convenience retailers, liquor retailers, other specialist food retailers
Department stores (7.4%)	Department stores	Department stores
Clothing and soft goods (6.3%)	Clothing, footwear, textiles, fabrics, soft goods retailers	Clothing, footwear, textiles, fabrics, soft goods retailers
Household goods (15.4%)	Furniture, floor coverings, hardware, houseware, appliances, recorded media	Furniture, floor coverings, hardware, houseware, appliances, recorded media
Recreational goods (3.8%)	Newspapers, books, stationery, sports, camping, toys, games, hobbies, photographic retailers	All combined with 'other'
Hospitality & services (10.1%)	Pubs, taverns, bars, licenced clubs, cafes, restaurants, video hire, hairdressing, beauty salons	Cafes, restaurants, take-away food retailers
Other retailers (15.8%)	Pharmacies, cosmetics, toiletries, antiques, used goods, garden supplies, florists, jewellers, other specialty retailers	Pharmacies, cosmetics, toiletries, antiques, used goods, garden supplies, florists, jewellers, other specialty retailers, newspapers, books, stationery, sports, camping, toys, games, hobbies, photographic retailers
<b>Total retail trade survey</b>	<b>3,944 businesses surveyed each month</b>	<b>1,401 businesses surveyed each month</b>

Source: ABS, *Retail Trade Trends*, cat. no. 8501.0, July 2008.

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