

## Holding on

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### Key Points

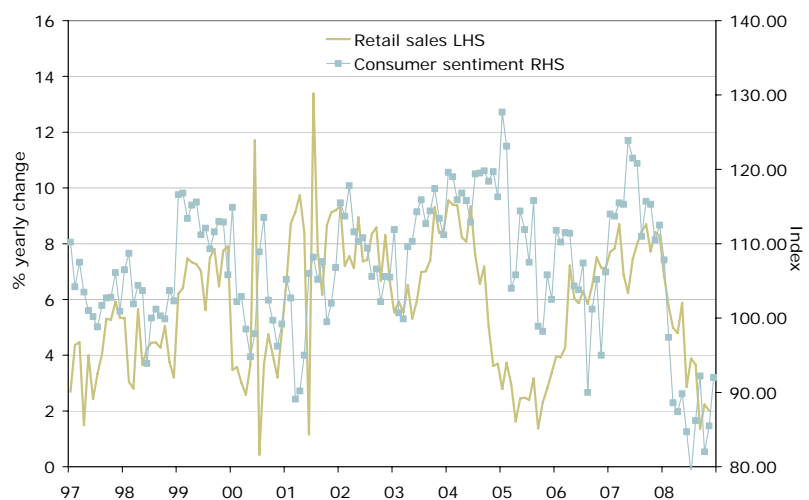
- Australian retail sales prove surprisingly resilient in Q4. Sales rose by 0.4% in November (seasonally adjusted) following a (upwardly revised) 1.0% rise in October.
- This of course is not to say that the retail sector has not slowed sharply – it has. YoY growth slumped to 2.0% from a peak of 8.7% in mid-2007. Ex-food, retail sales fell 1.1% YoY in November; much weaker than the last recession and is the worst outcome since the survey began in 1983.
- We expect sales to accelerate in December and possibly January, buoyed by the government's handouts. The big test for the retail sector is still ahead and we do expect sales will slow further over 2009.
- For the RBA, today's data suggests a more modest approach to policy easing from here. We do expect further rate cuts, but at a less frenetic pace than during the last few months. At this stage, we expect a 50bps cut in February.

Table 1: Key Figures

	Nov-08	Oct-08	Nov-08
% change	MoM	MoM	YoY
Retail sales - seas adj	0.4	1.0	2.0
Retail sales ex-food - seas adj	-0.5	1.1	-1.1
Retail sales - trend	0.1	0.2	1.9
Retail sales ex-food - trend	-0.3	-0.3	-0.9

Source: ABS

Figure 1: The retail sector stabilises, for now...



Source: ABS, WB/MI, ANZ

## Retail sales surprise

**Katie Dean**  
Senior Economist

The retail sector continues to confound. Sales bounced by 0.4% in November (in seasonally adjusted terms). This was well above market expectations for a 0.4% fall. Moreover, October retail sales were revised up, from +0.7% to +1.0%. On the face of it, this suggests that consumers have responded well to lower petrol prices and the RBA's aggressive interest rate cuts.

This of course is not to say that the retail sector has not slowed sharply – it has. YoY growth has slowed sharply to 2.0% from a peak of 8.7% in mid-2007. Ex-food, retail sales fell 1.1% YoY in November. If we exclude the impact of the GST in 2000, this much weaker than the last recession and is the worst outcome since the survey began in 1983.

We'd also caution that there could be some inflation buoying the last few monthly numbers as the sharp fall in the A\$ starts feeding through to import prices.

**Figure 2: Retail sales - by industry**

	Nov-08	Oct-08	Nov-08
% change (seas adj)	MoM	MoM	YoY
Food	1.8	0.8	6.6
Department stores	-1.8	-2.0	-2.3
Clothing & soft goods	0.8	-0.5	-1.8
Household goods	0.0	0.9	-3.7
Other retailing	-6.5	8.2	3.0
Cafes, res'tnts & takeaway food	7.6	-4.7	-1.3
<b>Total</b>	<b>0.4</b>	<b>1.0</b>	<b>2.0</b>
<b>Total ex food</b>	<b>-0.5</b>	<b>1.1</b>	<b>-1.1</b>

Source: ABS and ANZ

Retail sales were higher across all States except for Western Australia and South Australia. It is clear that weakening commodity demand and the gas crisis saw the Western Australian economy experience a significant shock over the second half of last year with retail sales in this State sharply falling in three of the four months to November. In YoY terms, sales in WA have collapsed to just 0.6% from 13% in early 2007.

**Figure 3: Retail sales - by State**

	Nov-08	Oct-08	Nov-08
% change (seas adj)	MoM	MoM	YoY
NSW	0.6	2.0	-1.2
Vic	0.7	1.5	3.7
Qld	1.0	2.1	2.8
SA	-0.6	0.3	7.5
WA	-1.8	-3.4	0.6
Tas	2.0	3.3	6.8
NT	1.9	-1.6	11.6
ACT	3.2	-6.4	2.1
<b>Total</b>	<b>0.4</b>	<b>1.0</b>	<b>2.0</b>

Source: ABS and ANZ

## The outlook

We expect December sales will bounce. Anecdotal reports suggest the Government's \$8.7bn one-off payment to families and pensioners – which started hitting wallets in the second week of December – underpinned a bumper Christmas sales period. Weekly sales reports from Harvey Norman show a big bounce in the weeks before Christmas and weekly consumer sentiment reads from Roy Morgan also jumped sharply. Department store sales, which have fallen for the last couple of months, should be the major beneficiary. It's also important to note that motor vehicle sales ticked up in December (on our seasonally adjusted estimates).

Putting all this together and we think that the household sector will make a solid, not spectacular, contribution to growth. This stands Australia apart from other developed economies at the moment, namely the US and the UK, where weak consumer spending is becoming a significant drag on the economy. In Australia, the household sector now seems likely to help offset the drag to growth from other sectors of the economy, namely housing and some parts of business investment, and should go some way to helping GDP growth remain (very slightly) positive in the December quarter.

But this is not to say that we are through the worst. We unfortunately expect the worst is to come for the retail sector. A post handout hangover and a weakening labour market is expect to prompt higher rates of savings and weigh on retail sales over 2009.

## Policy implications

Today's data will be of considerable relief to the RBA. We expect a continued deterioration in export demand and a rising local unemployment rate will prompt further policy easing, but at a less frenetic pace. At this stage, we expect a 50bps cut at the February board meeting.



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