

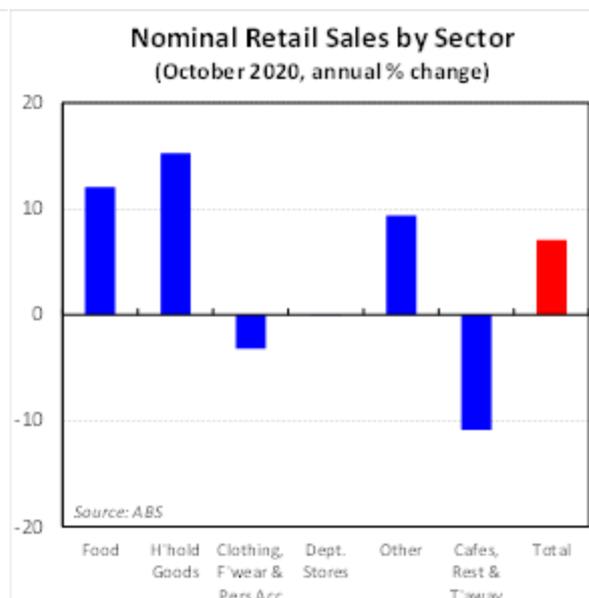
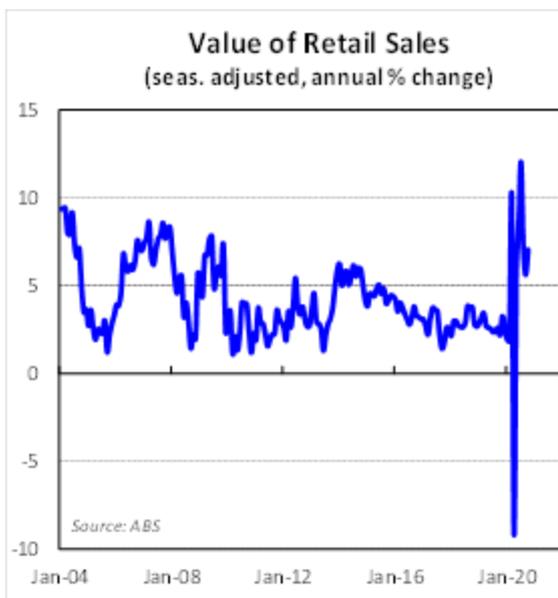
Friday, 4 December 2020



Retail Sales

Victorians Step Out In Style

- Retail spending has been erratic since COVID-19 hit our shores. If we weren't fighting over toilet paper, we were stocking up on beer and wine. We then sat back and ordered online. As restrictions were eased, slightly more normal patterns of shopping emerged, except in Victoria where lockdowns persisted. Then Victoria reopened. And they shopped.
- Retail sales rose 1.4% in October to be up 7.1% on a year earlier. The solid rise in October was aided and abetted by shoppers in Victoria where spending rose 5.1% as physical shops reopened.
- The patterns of spending reflect the gradual easing of restrictions across the country. Spending on food was solid from May to July as we spent time at home cooking. The joy of cooking appears to have faded from August onwards as spending on food declined. That said, spending on food is still up 12.0% on a year earlier. Maybe now is the time to purchase a new set of joggers! Spending on food fell 0.1% in October following a 1.5% decline in September.
- All States, bar Victoria, have seen retail spending rise over the twelve months to October.
- We remain cautiously optimistic about the outlook for retail sales. The September quarter national accounts put the household savings ratio at 18.9%, well up on the 5.3% reported in the December quarter 2019. But how will these funds be spent?



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With Melbourne coming out of lockdown in late October, the outlook for November's numbers is promising and seems likely to add to the national picture of growth in spending.

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After the binge of spending on household goods in May, June and July the heat has come out of that sector. Spending fell 1.0% in October having also fallen in August and September. Over the 12 months to October, retail spending in household goods is up 15.2%.

One area of growth in October was spending on shoes and clothing. Victorians came out of lockdown in style, with eye-watering increases in sales of clothing, footwear and personal accessories. Nationally spending in that sector rose 6.8% in October but is down 3.2% on October 2019. In comparison, Victorians stepped up their spending by 41.7% in the month.

Department stores did better trade in October with sales up 4.5%, to be just 0.1% below their sales of a year earlier.

Spending in cafes, restaurants and takeaway services is picking up. It rose 3.5% in September and rose a further 5.4% in October. However, over the 12 months to October, spending in this sector is down 10.9%. At the height of the lockdowns, spending in the sector was down 49.6%. Spending is picking up but has a long way to go, especially in the capital city central business districts.

Online spending has become a more prominent feature of retail sales in Australia. Online sales, which exclude goods purchased from offshore sites, now account for 10.7% of in-store sales and continues to grow at a rapid pace. Total online retail sales grew by 69.1% over the twelve months to October. While growth may not continue at this breakneck pace in the months ahead, online shopping is here to stay.

States and Territories

Among States and territories, Victoria recorded the strongest performance in October. Following the partial easing of lockdown restrictions in mid-October, retail trade in Victoria climbed 5.1% as consumers could go out and spend. The State made an important contribution to the headline increase in retail sales. If we exclude Victoria from the results, retail trade would have increased by a milder 0.3%. The strong result in Victoria comes after three consecutive months of contractions, as new restrictions were announced in July to combat the second wave of the virus.

Contributing to the encouraging numbers for Victoria was the 41.7% climb in spending on clothing, footwear and personal accessories. This sector has emerged from three consecutive months of contractions.

In annual terms, retail sales in Victoria were down 5.8% in October, being the only state to record a contraction. Retail sales in Victoria are still 7.1% below pre-pandemic (February) levels. The outlook for Victoria is encouraging as pent-up demand should continue to kick in over the

following months with the further easing of restrictions.

The remaining States and territories recorded mixed results. Encouragingly, all States and territories, except for Victoria have recovered beyond their pre-pandemic levels.

After two months of relative weakness in retail trade, NSW recorded a 0.7% rise in October. The positive result came as consumers increased their spending by 9.0% in clothing and 6.2% in cafes, restaurants and catering. Compared to October last year, retail sales rose a very solid 10.5%.

Retail sales declined 0.5% in Queensland as consumers decreased their spending by 6.0% in electrical and electronic goods and 3.6% in household goods. As in the rest of the country, Queenslanders rushed to purchase goods and services prior the national lockdowns announced in March. When restrictions were imposed in April, retail sales fell 17.7% across Australia and 15.7% in Queensland, the largest contractions recorded in the history of the series (dating back to 1982). The rebound came in May, with a record 17.2% increase in sales in Queensland. After two positive months in retail sales, Queensland recorded declines in August and September, possibly reflecting some stabilisation after consumers stocked up in the months prior.

South Australia and Western Australia also recorded higher sales in October, at 0.6% and 1.0%, respectively. In annual terms, Western Australia recorded the highest pace in Australia at 15.7% while South Australia recorded the weakest (9.8%), bar Victoria. For South Australia, we expect a subpar result in November as the State remained in lockdown for a few days after new local viral transmissions were recorded.

The remaining States and territories recorded falls in retail trade in the month of October, notably Tasmania with a 1.4% contraction.

Outlook

We remain cautiously optimistic about the outlook for retail sales.

Restrictions on gatherings continue to be eased. Social-distancing rules are becoming more 'business friendly', borders are opening, jobs are being recreated and the outlook for a vaccine is promising.

Adding firepower to future spending is the high level of savings accumulated during the lockdowns. The September quarter national accounts put the household savings ratio at 18.9%, well up on the 5.3% reported in the December quarter 2019. How will these funds be spent? On shopping? On paying down debt? On travel? Retailers will be hoping that some is spent shopping.

Keeping wallets shut might be job uncertainty, limited wage growth and an awareness that precautionary savings are required from time to time.

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