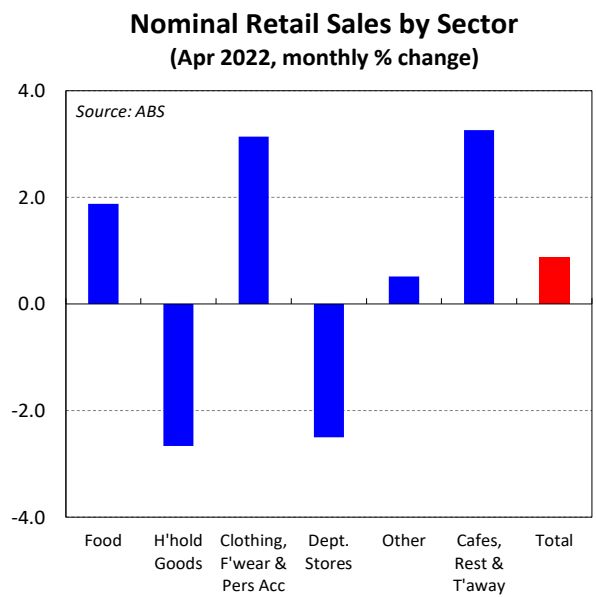
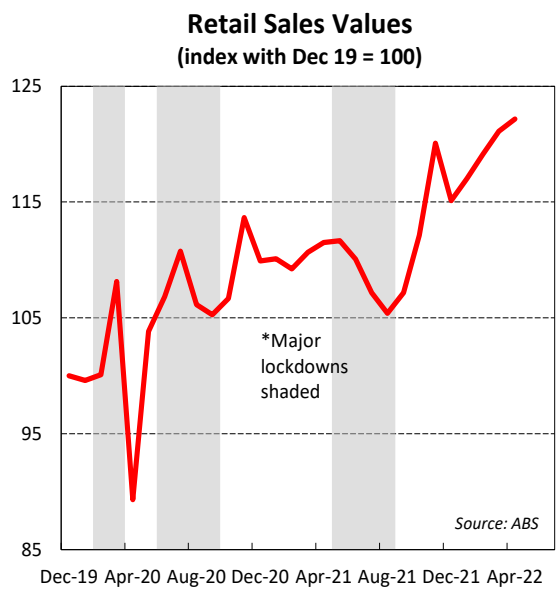


Friday, 27 May 2022

Retail Sales Services Revival Continues

- Retail sales rose by 0.9% in April, hitting a new record high. This is the fourth consecutive month of growth and follows strong gains of more than 1% over the first three months of 2022.
- Retailing is lifting as we learn to live with covid, but higher prices are also pushing up spending. The Easter period contributed to households spending more time eating out with family and friends and travelling.
- Spending was higher across every state and territory, except for NSW. WA and Tasmania led the growth. Spending in Queensland was supported by further easing of restrictions. Spending by holidaymakers likely also supported growth in the state.
- Spending was mixed across categories. Services were hit particularly hard during the pandemic, including hospitality, but spending patterns are rebalancing as restrictions ease. You can't keep Australians away from cafes for long. Indeed, the biggest increase in spending in the month was on dining out. In contrast, spending on household goods edged back in the month.
- Consumers face a mixed picture. On one hand, the unemployment rate has fallen to its lowest level in almost 50 years and wage pressures are elevated. Plus, some households accumulated savings buffers over the pandemic, which could support spending.
- However, headwinds continue to build. Rising inflationary pressures and the prospect of future interest rate increases are also impacting consumer sentiment, which in May fell to its lowest level since August 2020.



Retail sales rose by 0.9% in April. This is the fourth consecutive month of growth and follows strong gains of more than 1.5% in each of the first three months of 2022. Retail sales were 9.6% higher over the year to April.

The level of retail sales rose a new record high in April, as consumer spending lifts as we learn to live with covid and inflationary pressures continue to build. Retail sales are now 9.4% above the pre-Delta levels (as at May 2021) and 22.2% above their pre-pandemic level (as at December 2019).

The Easter holiday period fell within the month and contributed to households spending more time eating out with family and friends and travelling.

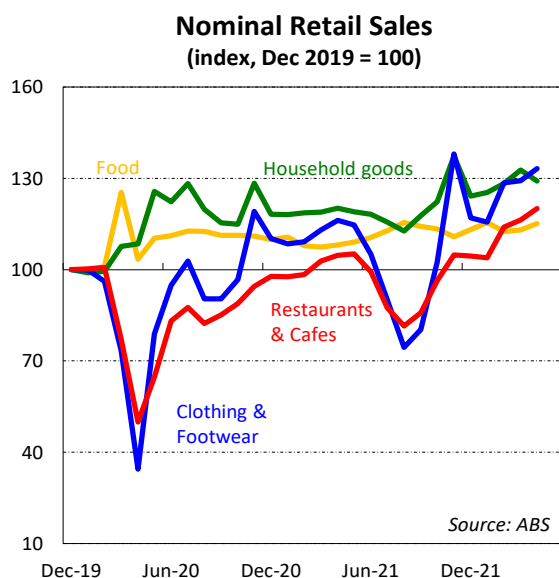
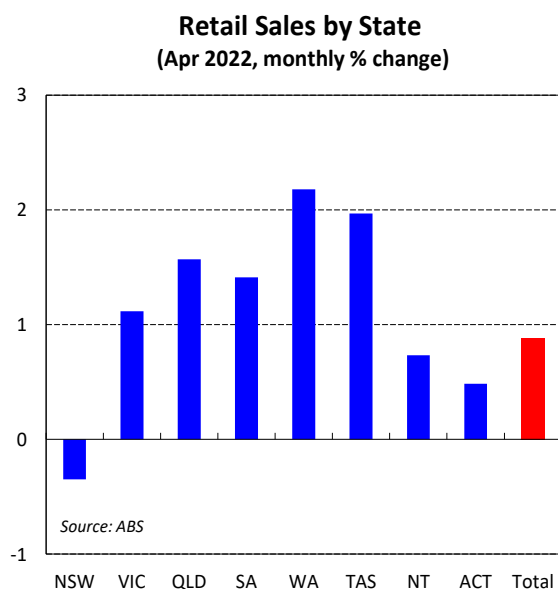
Note, monthly retail spending is reported on a nominal basis, meaning that part of the growth in April reflects higher prices of goods and services, rather than increases in the volume of spending by households.

By states and territories

Spending was higher across every state and territory, except for NSW. WA and Tasmania led the growth, as spending rose by 2.2% and 2.0%, respectively, in the month. Spending in Queensland rose by 1.6%, supported by further easing of restrictions. Spending by holidaymakers during the Easter period and school holidays likely also supported growth in the state. SA and Victoria also reported growth of over 1% for the month, while growth was more muted across the territories.

NSW was the only state to record a contraction, as sales declined by 0.3% in the month, marking the first contraction in spending in the state in four months.

In annual terms, all states and territories reported growth. Queensland and WA experienced double-digit growth of 11.8% and 10.2%, respectively. Growth was also strong across the other states and territories. The NT was the weakest performer, as sales rose by 0.3% over the year.



By category

Spending was mixed across the categories, likely reflecting a combination of a rebalancing in consumption patterns, Easter holidays and inflationary pressures.

As COVID-19 transitions from 'pandemic' to 'endemic', there is evidence of a rotation in spending back towards services and away from goods. Many people splashed on household goods during lockdowns, such as TVs, fridges and home office equipment, instead of spending on dining out,

events and travel. But now, we are eager to get out of the house!

You can't keep Australians away from cafes for long. Indeed, the biggest increase in the month was in spending at cafés, restaurants and takeaway services, up 3.3%. While more people were likely dining out during the Easter break, the result is also further evidence of an ongoing pick up in spending on services. Since the trough during the Delta lockdown in August 2021, spending in this category has surged by almost 50% and now sits 20.1% higher than its pre-pandemic level, as at December 2019.

In contrast, spending on household goods edged back 2.7% in the month. Spending in the category is down 5.9% from its peak in November although remains well up on its pre-pandemic level. The level of spending in this category is likely being boosted by higher prices alongside supply disruptions. Volumes data indicated spending on household goods declined in the first quarter.

During the pandemic, spending on food (ie. grocery stores) and dining out typically moved in opposite directions. But in April spending on food rose 1.9% in the month, despite the pick up in dining out. The result may reflect more people entertaining guests over the holiday period, although inflationary pressures also likely contributed to the uptick.

Spending on clothing, footwear & personal accessories was up 3.1% in the month. Spending in this category is up a whopping 79.0% since its trough during the Delta lockdown in August 2021. The strong jobs market is supporting discretionary spending, and it seems Australians are splashing out on new outfits!

Elsewhere, spending at department stores declined by 2.5% in the month and other retailing (which captures a broad range of spending including pharmacies, newsagencies and florists) edged 0.5% higher.

Outlook

Consumers face a mixed picture.

On one hand, the unemployment rate has fallen to its lowest level in almost 50 years. Wage pressures are elevated, and are expected to flow through into stronger wages growth over 2022 and beyond. Some households have also accumulated savings buffers over the pandemic, which could help support spending.

However, headwinds continue to build. Rising inflationary pressures and the prospect of future interest rate increases are weighing on sentiment. Consumer sentiment in May declined to its lowest level since August 2020, when Melbourne was in its second lockdown. Households with elevated debt levels and lower income are likely to have smaller buffers than other households, making them more vulnerable to rising inflationary pressures and increases in interest rates.

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