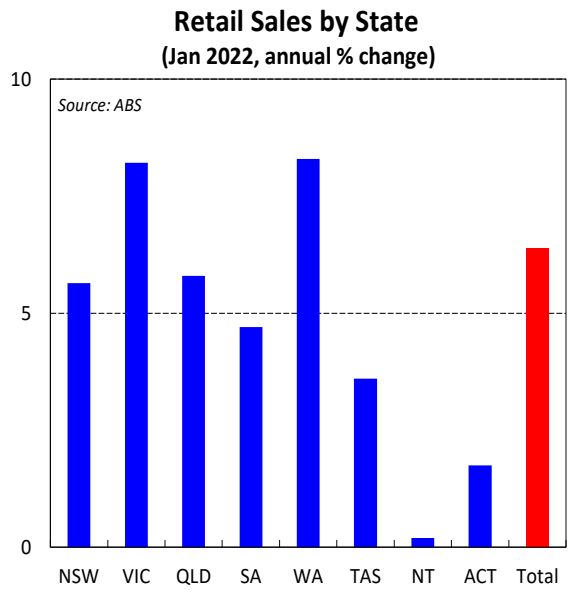
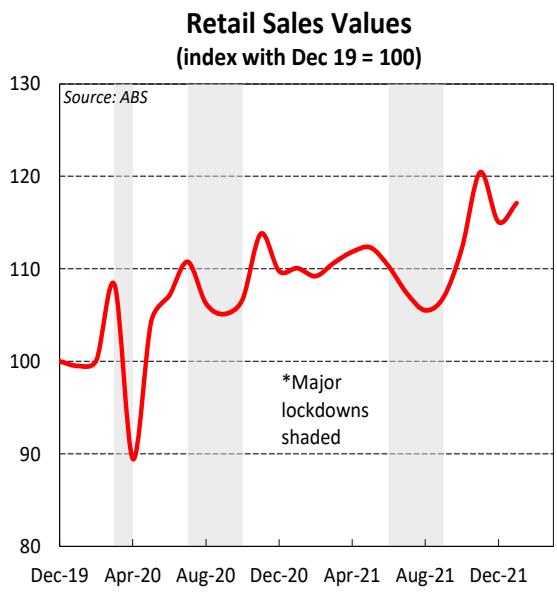


Monday, 28 February 2022

Retail Sales

Omicron Fails to Sideline Sales

- Remarkably, retail sales rose 1.8% in January, all but confirming that the Omicron outbreak has delayed, rather than derailed the recovery. The end of 2021 produced a lot of volatility in retailing, but still finished up a solid 2.5% in the two months to end December.
- Retail sales increased 6.4% over the year to January - the fastest annual pace since May 2021, just before the Delta lockdowns. Sales are now 17.1% above pre pandemic levels, despite the disruption caused from Omicron.
- A 'shadow lockdown' continued in January, as millions of Australians were forced to isolate due to a COVID-19 infection or as a close contact. However, this was not enough to deter consumers, ready to unleash their war chest of savings and pent-up demand.
- All states and territories recorded a lift in sales over January – the first simultaneous rise since May 2020, following the end of the national lockdown.
- Retailing was firmest at department stores in January, after this segment was hit very hard in December.
- Spending will gain additional momentum as case numbers and restrictions continue to ease. Households have built up strong balance sheets amid an improving jobs market, which will help drive robust growth in retail spending over the course of 2022. Rising inflationary pressures and elevated uncertainty due to the ongoing pandemic and fresh geopolitical risks could engender some caution among consumers.



Retail sales rose 1.8% in January, all but confirming that the Omicron outbreak has delayed, rather than derailed the recovery.

The end of 2021 produced a lot of volatility in retailing with November's jump a record high and December unwinding some of November's spike. But in the two months to end December, retailing still grew a solid 2.5%.

The monthly jump in January takes retail sales 6.4% higher over the year to January - the fastest annual pace since May 2021, just before the Delta lockdowns.

COVID-19 infections surged to record highs across the country in January, as the highly infectious Omicron variant ran rampant. A 'shadow lockdown' emerged as millions of Australians were forced to isolate due to infection or as a close contact. Streets and footpaths were emptied, as those who evaded isolation quickly adopted an elevated level of caution and reduced activity to prevent infection.

However, heightened infections were clearly not enough to deter consumers, ready to unleash their war chest of savings and pent-up demand. The shortening of the isolation period from 14 days to 7 days and revised definitions for 'close contacts' likely played a crucial role as well. The new rules meant less people in isolation for a shorter period and allowed those who had recovered to quickly return to the community.

It is also likely that spending gained momentum towards the end of the month, as case numbers started to fall from their peak and the number of people in isolation dropped. Even so, the resilience of spending over January was striking and a testament to the underlying strength of the economy. Indeed, retail sales are now 17.1% above pre pandemic levels, as of December 2019, despite the obstacles presented by the pandemic.

By states and territories

All states and territories recorded a lift in sales over January – the first simultaneous rise across the board since May 2020, following the end of the national lockdown. This is despite COVID-19 disruptions across the entire country, compared to more localised outbreaks in the past.

WA recorded the largest monthly increase in retail spending at 4.7%, reflecting the relatively insulated disruption from Omicron. SA and Victoria also recorded solid rises in spending, jumping 3.1% and 2.5%, respectively. Elsewhere, NSW (1.0%), QLD (0.4%), TAS (0.7%), NT (1.3%) and the ACT (0.4%) also reported solid sales growth.

WA (8.3%) and Victoria (8.2%) also led the way in annual terms, followed by QLD (5.8%), NSW (5.6%) and SA (4.7%). Encouragingly, retail spending is above or around both pre-pandemic and pre-delta (as of May 2021) levels in all states and territories.

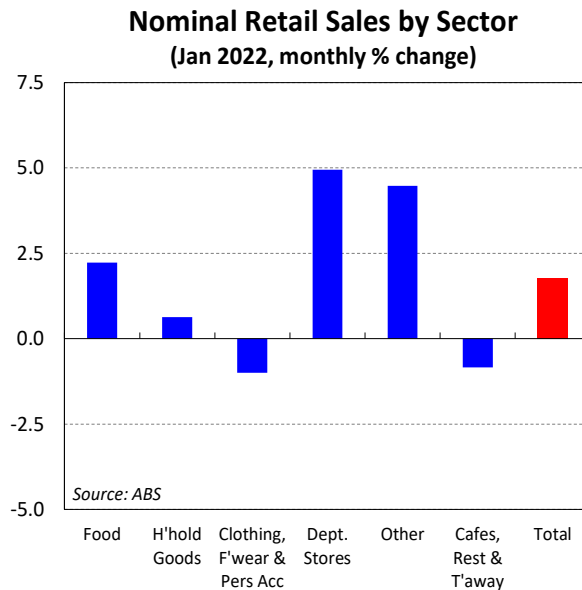
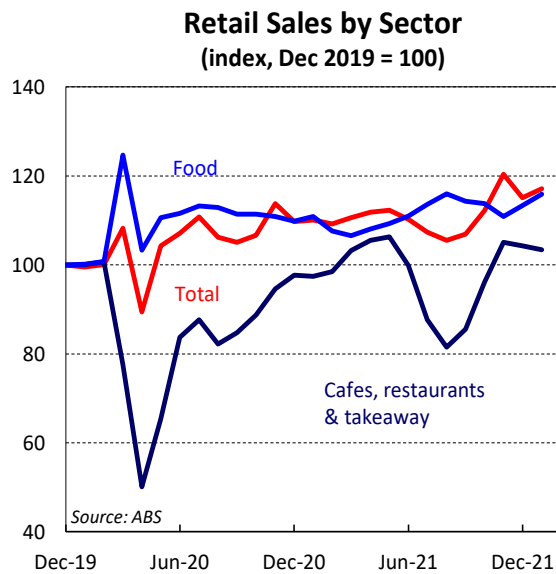
By category

Although the level of spending defied the impacts of the 'shadow lockdown', several spending patterns typically observed during lockdowns were evident in January.

Spending on clothing, footwear & personal accessories, and cafes (-1.0%), restaurants & takeaway foods (-0.8%) both declined, alongside dwindling activity. Meanwhile, spending on household goods picked up 0.6% and food spending lifted by 2.2%, as consumers spent more time at home, rather than out and about.

However, the big movers in January were department stores, where spending surged 4.9% following a steep 21.3% drop in December. And spending on 'other' items which jumped 4.5% in the month.

Despite the composition of spending over January, sales are above pre-pandemic levels in all categories. However, spending categories which generally see a boost from lockdowns and disruptions to trade continue to outperform those more sensitive to changes in activity.



Outlook

To some surprise, retail sales shrugged off the disruption from Omicron and continued its upward trajectory. We would expect that spending will gain additional momentum as case numbers and restrictions continue to ease and we begin to welcome international arrivals. The redirection of spending towards goods and food items is also likely to wane, as activity picks up and consumers spend more time outside of the house.

The impacts of Omicron appear to have peaked and it is clear that the outbreak has only delayed, rather than derailed the recovery. Households have built up strong balance sheets and there remains considerable demand. Interest rates are low, the labour market is tight, and we are starting to see wage pressures build. The combination of these factors will drive robust growth in retail spending over the course of 2022. However, rising inflationary pressures and elevated uncertainty due to the ongoing pandemic and fresh geopolitical risks could engender some caution among consumers.

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