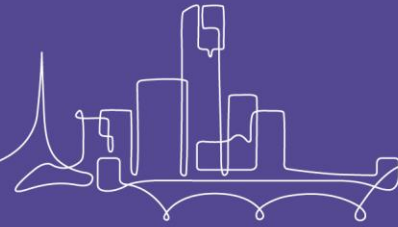




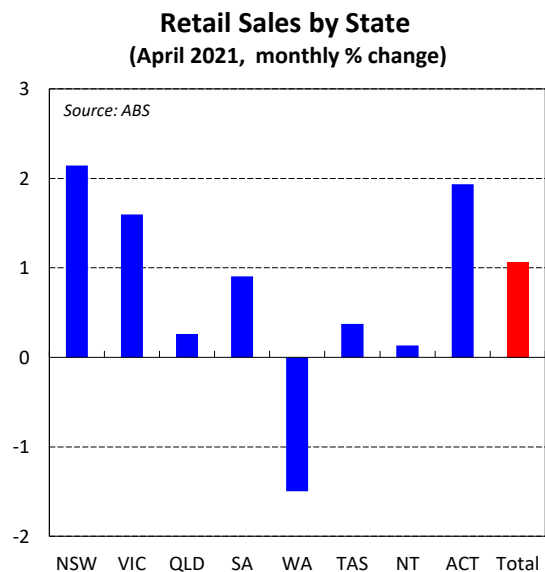
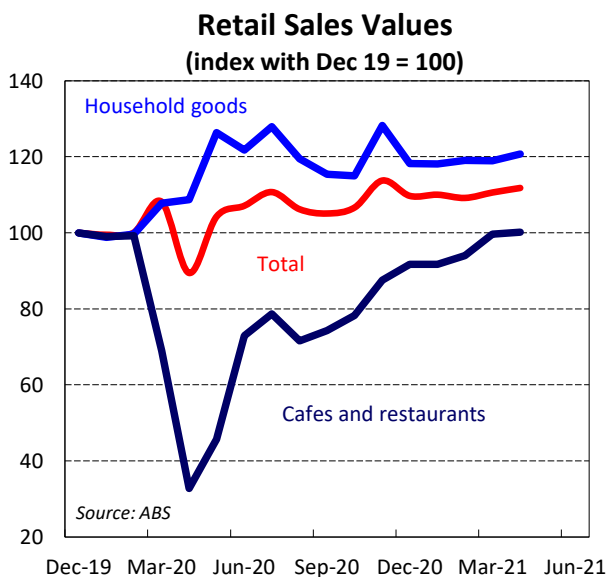
Thursday, 3 June 2021



Retail Sales

Spending Lifts, Shopping Patterns Shifting

- Australians have been splashing cash at the shops and online since the onset of the pandemic and this continued through April, with retail sales increasing 1.1% in the month. The growth was broad-based, notwithstanding a couple of weak pockets driven by idiosyncratic factors.
- While sales have been volatile in recent months, as retailers have battled snap lockdowns and interstate border closures, the underlying trend remains very strong. Retail sales are now up 11.8% relative to their pre-COVID level in December 2019.
- We are seeing a rebalancing back towards pre-pandemic shopping patterns. In April, spending at cafes and restaurants edged back to its pre-pandemic level. In contrast, spending on food (ie. grocery stores) has been declining in recent months, although increased a little in April. Online spending has also come off its peak as restrictions are relaxed.
- Spending at department stores was a weak spot in April, down 6.7%, off the back of a surge in spending in March alongside the closure of a number of Target stores.
- Retail sales expanded across most of the states. WA was the notable exception, where sales fell 1.5% alongside a three-day lockdown.
- The outlook for consumer spending is strong, supported by ongoing improvements in the labour market, low interest rates, further growth in dwelling prices and the vaccine rollout. However, the reopening of services will likely see a continuation of the reversal back to pre-COVID spending patterns, which could weigh on some retail segments. In addition, the 14-day lockdown in Victoria will dampen spending in the coming months.



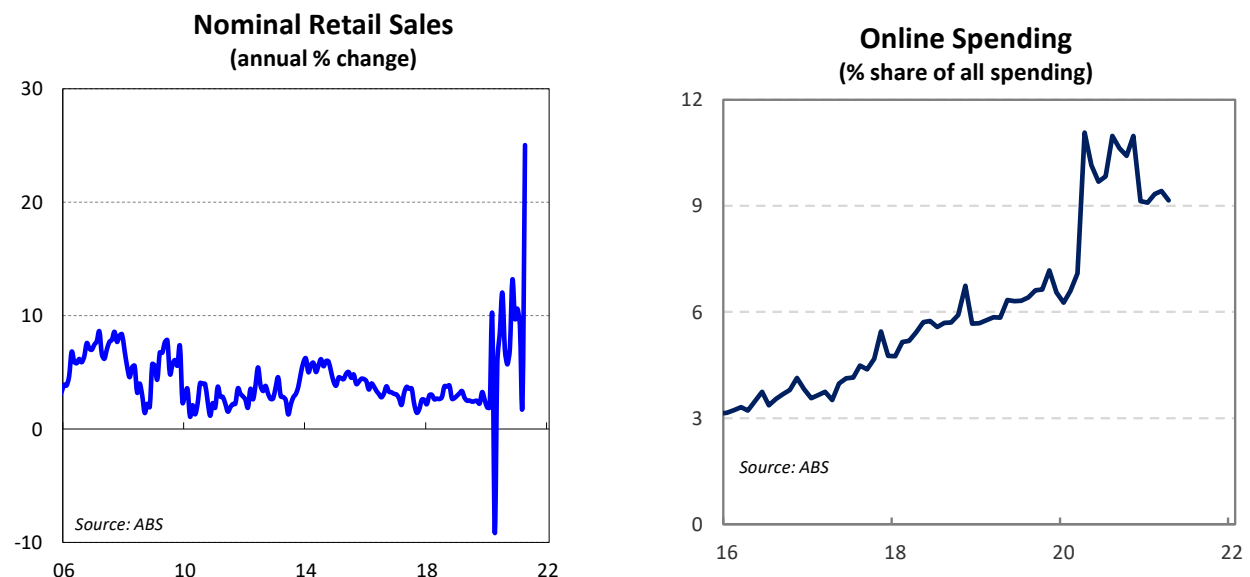
Australians have been splashing cash at the shops and online since the onset of the pandemic and this continued through April, with retail sales increasing 1.1% in the month. This was consistent with preliminary estimates. The growth was broad-based, notwithstanding a couple of weak pockets driven by idiosyncratic factors.

While sales have been volatile in recent months, as retailers have battled snap lockdowns and interstate border closures, the underlying trend remains very strong. Retail sales are now up 11.8% relative to their pre-COVID level in December 2019. In annual growth terms, retail sales are up 25.0% although this figure is distorted by base effects – sales fell off a cliff in April 2020 in the height of the first lockdown.

The resilience in retailing has been supported by the snapback in the labour market, wealth effects associated with higher house prices and the reduced ability to spend on services like overseas holidays, concerts and sporting events. The rollout of vaccines and the associated reduction in uncertainty has also likely bolstered households' willingness to spend.

The pandemic underpinned massive shifts in our spending. But as life starts to return to normal, we are seeing a rebalancing back towards pre-pandemic shopping patterns. Unsurprisingly, spending at cafes and restaurants fell sharply last year alongside pandemic-related restrictions. It has gradually recovered as venues have reopened and capacity limitations have eased, providing welcome relief to the hospitality industry. In fact, in April spending at cafes and restaurants increased to its pre-pandemic level, as at December 2019. On the flip side, spending on food (ie. spending at grocery stores) has been trending down as we eat out more, although it is still 8.1% above its December 2019 level, and edged up 1.4% in April.

A clear winner from the pandemic has been the household goods sector. Since we have been stuck at home, many Australians have decked out their home offices and splurged on new TVs. Interestingly, spending in this category has come off its peak but it is still holding well above pre-pandemic levels, up 20.7% relative to December 2019 and increasing 1.5% in April.



We are also doing more of our shopping online. Before the pandemic, online sales accounted for around 6% of retail sales and had been trending up for several years. The pandemic accelerated this shift and online spending shot up to 11.1% of spending in April 2020. The share of spending online has come off a bit since then, consistent with the relaxation of restrictions. It edged down from 9.4 to 9.2% in April, although remains well above its pre-COVID level. Presumably shoppers

prefer to buy some items in-store – anyone who has tried to buy jeans online can attest to that!

The growth in retail sales in April was generally broad-based although one weak spot was spending at department stores, which fell 6.7%. However, this comes off the back of an 8.5% surge in March, when a number of Target stores around the country were holding closing down sales.

Retail sales also expanded across most of the states. WA was the notable exception, where sales fell 1.5% alongside a three-day lockdown. Queensland was also weaker than the other states, edging up 0.3%, which may reflect an overhang of precautionary behaviour from the lockdown in March. Growth was strongest in NSW, up 2.1%, and the ACT, up 1.9%.

Outlook

The outlook for consumer spending is strong, supported by ongoing improvements in the labour market, low interest rates, further growth in dwelling prices and the vaccine rollout. If households draw down on the large saving buffers accumulated since the pandemic hit, this will provide a further boost to spending. However, the reopening of services around the country is likely to see a continuation of the reversal back to pre-COVID spending patterns, which could weigh on some retail segments. In addition, the 14-day lockdown in Victoria will dampen spending in the coming months.

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