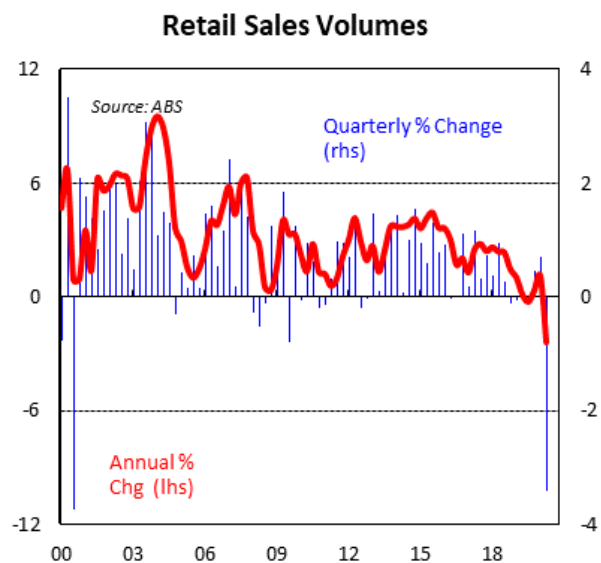
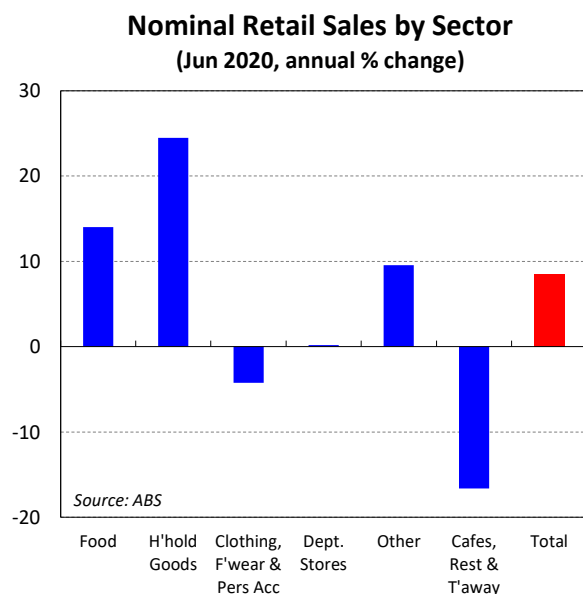


Tuesday, 4 August 2020

Retail Sales Recovery Faces More Headwinds

- Retail spending gained another 2.7% in June following a 16.9% increase in May. A recovery in household spending took hold in the latter part of the June quarter, as restrictions eased across most of the country. On an annual basis retailing was up 8.5%, the strongest in three months.
- However, the jump in spending over May and June followed the record decline of 17.7% in April, when the bulk of restrictions were in place. Spending in June was still 1.2% lower than its level in March and was weaker over the June quarter.
- Indeed, retail volumes in the June quarter contracted 3.4%. It was the largest contraction in retail volumes in nearly 20 years.
- A sizeable fall in household spending is likely over the June quarter. Spending on services, such as tourism and recreational services, are likely to take a much larger hit in the quarter and are not covered in today's retail sales data.
- There are pockets of stronger demand in some areas of retailing, including food, certain household goods, furniture and recreational equipment, as spending has been diverted away from other household services. However, the rise in unemployment and falling household incomes will likely weigh on household spending. The even stricter lockdown measures imposed on Melbourne and Victoria from this week is another major headwind for retailing, and one which will limit spending further.



Retail Values

Retail spending gained another 2.7% in June and followed a 16.9% increase in May. A recovery in household spending took hold in the later part of the June quarter, as restrictions eased across most of the country. On an annual basis retailing was up 8.5%, the strongest in three months.

However, the jump in spending over May and June followed a record decline of 17.7% in April, when the bulk of restrictions were in place. Spending in June was 1.2% lower than its level in March and was weaker over the June quarter.

Indeed, retail volumes dropped 3.4% in the June quarter.

In June, there were further gains in sectors which were hardest hit by lockdown measures. Clothing, footwear & personal accessories jumped 20.5% in June following a 129.2% increase in May. Spending also increased within cafes, restaurants & takeaway food services, lifting 27.9% in June after a 30.4% increase in May. However, on an annual basis these areas of spending were down 4.2% and 16.6%, respectively.

Other areas of spending continued to be resilient, likely seeing increased demand due to restrictions on some services and preferences to stay at home. Food retailing rose 0.9% in June, for an annual gain of 14.0%. 'Other' retailing rose 0.3% for an annual gain of 9.6% in June. This category of spending includes other recreational goods retailing, which was up 35.7% in the year to June.

Spending on household goods contracted 3.2% in June, but this followed a 16.6% gain in May. On an annual basis, household good spending rose 28.8%. This category includes spending on furniture, electrical goods, hardware, building and garden supplies, reflecting increased demand for home office equipment, TVs and home improvements.

Department store retailing contracted 12.1% in June but followed a 44.4% increase in May.

All States and territories saw retailing gain further in June, with the exception of the Northern Territory (contracting 4.9%). Retailing in Victoria rebounded 4.1% in June following a 17.2% gain in May. Renewed stockpiling could see a further boost in Victorian retailing in the short-term, but the stricter lockdown measures and associated higher unemployment will weigh on household spending over the medium to longer-term. There were further strong gains in Tasmania (4.0%), the ACT (3.8%), NSW (3.7%), Western Australia (2.5%) and South Australia (1.3%). Retailing in Queensland gained a modest 0.4% in June following a 16.5% increase in May.

Retail Volumes

Despite the recovery in retail values over May and June, retail volumes in the June quarter contracted 3.4%. It was the largest contraction in retail volumes in nearly 20 years.

It confirms that a sizeable fall in household spending is likely over the June quarter. Spending on services, such as tourism and recreational services, are likely to take a much larger hit in the quarter and are not covered in today's retail sales data. Retail spending accounts for less than 30% of all household spending.

Weakness in retail volumes over the quarter was led by cafes, restaurants & takeaway food services (-29.1%) and clothing, footwear & personal accessory retailing (-22.0%), reflecting the restrictions in the June quarter. The strongest gain was in household goods (14.6%).

Retail volumes across States was impacted by the varying restrictions across States. Retail volumes in Victoria contracted 7.0%, the weakest of all States and territories. NSW also had a sizeable contraction, falling 3.6%, followed by Tasmania (-2.5%), Queensland (-1.8%), the ACT (-1.7%) and

South Australia. The Northern Territory (1.3%) was the only State or territory where retail volumes rose.

Outlook

Retail spending has been volatile given the lockdown measures imposed in late March and subsequent easing of restrictions. There are pockets of stronger demand in some areas of retailing, including food, certain household goods, furniture and recreational equipment, as spending has been diverted away from other household services.

However, the rise in unemployment and falling household incomes will likely weigh on the outlook for household spending. The even stricter lockdown measures imposed on Melbourne and Victoria from this week is another major headwind for retailing, and one which will limit spending further.

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The Detail

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