



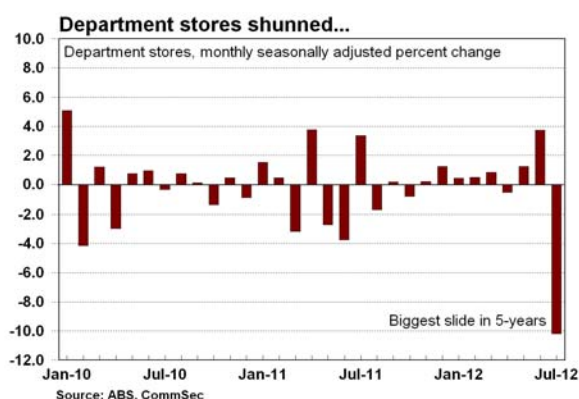
## Barrage of data

### Latest economic indicators; Petrol prices

- **Retail trade:** Retail spending fell by a surprising 0.8 per cent in July after lifting by 1.2 per cent in June. Annual spending growth fell from 5.3 per cent to 3.5 per cent. Sales fell across all eight states and territories. The biggest drop in spending occurred at “Department stores” down 10.2 per cent in July – marking the biggest monthly slide in over seven years.
- **Inflation:** The TD Securities-Melbourne Institute monthly inflation gauge rose by 0.6 per cent in August after no change in prices over the following three months. Excluding volatile items, the inflation gauge rose 0.2 per cent in August.
- **Bad news for job seekers:** The number of job advertisements fell for the fifth straight month, dropping by 2.3 per cent in August to stand 9.6 per cent lower for the year.
- **Profits slump:** Company profits for the third straight quarter, dropping by 0.7 per cent in the June quarter to stand 6.5 per cent lower than a year ago.
- **Manufacturing up:** The Performance of Manufacturing index rose by 5.0 points to 45.3 in August. Still, it was the sixth month below a reading of 50 points, suggesting contraction in the sector.
- **Home prices track sideways:** The RP Data – Rismark Home Value Index reported that capital city home prices were flat in August after rising by 0.6 per cent in July. Home prices rose by 1.6 per cent in the past three months but are still down 2.4 per cent on a year ago.
- **Fuel prices:** According to the Australian Institute of Petroleum, the national average retail petrol price fell from 13-week highs, down by 1.8 cents to 144.0 cents a litre in the past week. CommSec tips prices to fall by 1-2 cents a litre over the coming fortnight.

### What does it all mean?

- Not a lot of good news in the economy at present. The latest data showed profits, job ads and retail sales all fell, while the manufacturing sector continued to contract and house prices tracked sideways. The main piece of good news is that consumer prices remain subdued while petrol prices continue to decline with more falls on the way.
- With inflation under control and the economy effectively treading water, the Reserve Bank is well placed to cut interest rates again. However given that the recent monetary policy statement contained upgraded economic growth forecasts it will be difficult for the central bank to justify a rate cut tomorrow. Rather it may wait on the next round of inflation data in October before cutting rates in November. Importantly in recent weeks the Aussie dollar has softened, delivering an additional dose of stimulus to the economy.
- Of particular disappointment would be the surprising weakness in retail sales activity. It seems that the Federal Government handouts and lower tax rates have been unable to have a sustained impact on boosting retail activity. In fact not only did



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retail activity disappoint against expectations for a rise but the weakness was across all the states and territories. And when you look at non-food retailing it fell by an even larger 1.3 per cent in July.

- It is clear that consumers are remaining conservative and holding back on significant retail purchases. And department stores have borne the brunt of the weakness. Department store sales fell by 10.2 per cent in July – marking the weakest monthly result since mid-2005. Interestingly Western Australia which has been the stalwart of retail activity also tracked lower for the first time in 2012. The slowdown in mining activity may be playing a part but it is too early to tell. The result will certainly concern the Reserve Bank who has been hoping that the recent stimulatory efforts would boost activity.
- The ongoing weakness in job advertisements is clearly playing a part in the lack of confidence. Tough trading conditions for businesses, is ensuring that employers are holding back from new hiring. As such it is likely that the labour market will tread water over coming months.
- It was encouraging to see petrol prices appear to have topped out over the past fortnight after lifting sharply over the last few months. Importantly the latest fall in fuel prices is likely to be maintained given that key regional prices have tracked lower over the past week. As such CommSec believes that the national average petrol price could be broadly stable over the next fortnight.

## What do the figures show?

### Retail trade

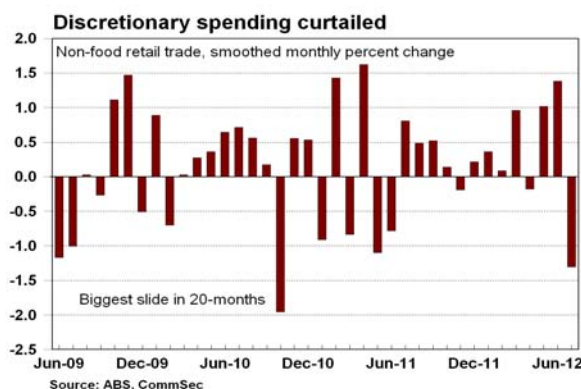
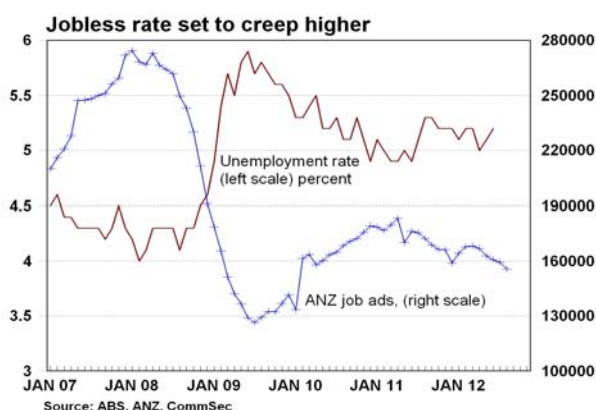
- Retail trade fell by 0.8 per cent in July after lifting by 1.2 per cent in June. Annual spending growth fell from 5.3 per cent to 3.5 per cent.
- Non-food retailing fell by 1.3 per cent in July after a 1.4 per cent lift in June. Sales by chain-store retailers and other large retailers fell by 0.8 per cent in July after a rise of 1.4 per cent in June. Sales by chain-store retailers and other large retailers were up 4.6 per cent on a year ago.
- Sales fell across all eight states and territories, led by Northern Territory down 2.6 per cent, followed by Tasmania (down 1.4 per cent), Queensland (down 1.1 per cent), NSW (down 0.8 per cent), South Australia (down 0.7 per cent), Western Australia (down 0.6 per cent), and Victoria (down 0.4 per cent), and the ACT (down 0.2 per cent).
- The biggest gain in the month was by “Hardware, building and garden supplies retailing” up 3.5 per cent. Healthy gains were recorded for “Furniture, floor coverings, houseware and textile goods retailing” up 2.2 per cent.
- The biggest drop in spending occurred at “Department stores” down 10.2 per cent in July – marking the biggest monthly slide since April 2005.

### Business indicators

- **Company profits** fell for the third straight quarter, dropping by 0.7 per cent in the June quarter. Profits only rose in five of the 15 industry groups. Profits in Professional, scientific and technical services rose by 20.3 per cent and rose by 6.6 per cent in Construction. But profits fell 8.0 per cent in Manufacturing, fell 3.8 per cent in Retail Trade and fell 1.0 per cent in Mining.
- **Inventories** rose for the third straight quarter, lifting 0.6 per cent in the June quarter. It is assumed that the increase was an unintended lift in stocks, especially in mining due to slower global demand. Inventories rose in only two sectors - mining, up 7.9 per cent, and wholesale trade, up 3.2 per cent.
- **Sales** rose in just 7 of the 15 industry sectors in the June quarter. Sales in Transport, postal and warehousing rose by 4.1 per cent with Rental Hiring and real estate services up 2 per cent and Professional, scientific and technical services up 1.9 per cent. But sales fell 1.7 per cent in Mining, fell 1.8 per cent in Manufacturing and rose just 0.1 per cent in Retail trade.

### Job advertisements:

- The combined number of internet and newspaper job advertisements, as tracked by ANZ, fell for the fifth straight



month, dropping by 2.3 per cent in August after a 0.8 per cent decline in July. Job ads are down 9.6 per cent on a year ago.

- Newspaper job ads fell by 6.1 per cent in August while the far larger component of internet job ads fell by 2.1 per cent. ANZ provides data on newspaper job ads by state but given their minor importance in relation to internet ads and poor record in tracking total advertisements, the data is not useful for analytical purposes.

#### Inflation gauge:

- The monthly inflation gauge rose by 0.6 per cent in August after no change in prices over the previous three months. Still, the annual rate of inflation rose from 1.5 per cent to 2.2 per cent.
- The underlying rate (trimmed mean) rose 0.6 per cent in July following a 0.4 per cent rise in April. The annual rate rose from 1.4 per cent to 2.2 per cent.
- Excluding volatile items like petrol and fruit & vegetables, the inflation gauge rose just 0.2 per cent in August after a 0.4 per cent rise in July. The annual rate lifted from 2.4 per cent to 2.6 per cent.
- TD Securities noted that *"Contributing to the overall change in August were price rises for fruit and vegetables, automotive fuel, and alcohol and tobacco. These were offset by falls in footwear, holiday travel and accommodation, and audio, visual and computing equipment and services. The price of fruit and vegetables rose by 7.2 per cent in August, and the price of automotive fuel increased by 7.7 per cent."*

#### Performance of Manufacturing

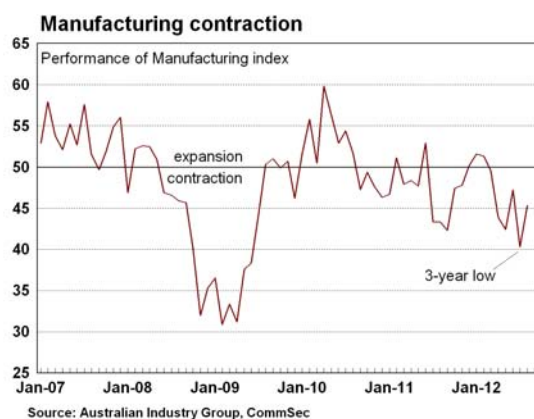
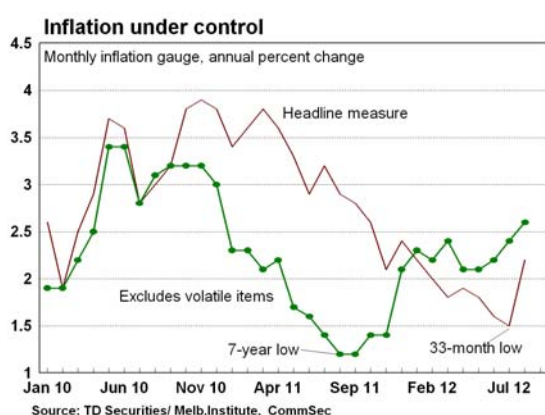
- The Performance of Manufacturing index rose by 5.0 points to 45.3 in August. Still, it was the sixth month below a reading of 50 points, suggesting contraction in the sector.
- Of the components, production rose from 37.8 to 43.1; new orders rose from 40.4 to 49.1; employment rose from 38.9 to 41.2, but exports orders fell from 48.1 to 47.3. Capacity use fell from 72.9 per cent to 72.5 per cent.

#### House prices

- **The RP Data-Rismark Hedonic Australian Home Value index of capital city home prices** were flat in August. However prices have risen by 1.6 per cent over the past three months. Home prices are down 2.4 per cent on a year ago.
- House prices were flat in August but apartments rose by 0.2 per cent. House prices are down 2.5 per cent on a year ago but apartments are only down 1.7 per cent.
- The average Australian capital city house price (median price based on settled sales over quarter) was \$476,125 and the average unit price was \$420,000.
- Dwelling prices rose in four of the eight capital cities in August: Adelaide (up 1.4 per cent), Canberra (up 1.2 per cent), Melbourne and Sydney (both up 0.1 per cent). Prices fell the most in Perth and Hobart (both down 1.2 per cent), Darwin (down 0.5 per cent) and Brisbane (down 0.2 per cent).
- Home prices are lower than a year ago across all capital cities except Darwin (up 4.2 per cent) and Canberra (up 0.3 per cent). Prices fell most in Hobart (down 5.3 per cent), followed by Brisbane (down 4.3 per cent), Adelaide (down 4.2 per cent), Melbourne (down 3.7 per cent), Sydney (down 1.1 per cent), and Perth (down 0.6 per cent).
- Total returns on capital city houses were up 1.6 per cent on a year earlier and units were up 3.2 per cent.

#### Petrol prices:

- According to the Australian Institute of Petroleum, the national average Australian price of unleaded petrol fell by 1.8 cents a litre to 144.0 cents a litre in the week to September 2. The metropolitan price fell by 2.8 c/l to 142.5 c/l, while the regional average price rose by 0.3 cents per litre to 147.0 c/l.
- Average petrol prices across states over the past week were: Sydney (down 4.5 cents to 139.6 c/l), Melbourne (down 5.6 cents to 137.9 c/l), Brisbane (down 3.6 cents to 146.2 c/l), Adelaide (up 5.4 cents 147.2 c/l), Perth (up



0.7 cents to 145.7 c/l), Darwin (up 1.2 cents to 158.3 c/l), Canberra (flat at 149.7 c/l) and Hobart (up 1.8 cents to 151.8 c/l).

- Today, the national average wholesale (terminal gate) unleaded petrol price stands at 136.9 cents a litre, down 1.2 cents a litre from a week ago. CommSec expects the national average retail petrol price (pump price) to fall by 1-2 cents a litre over the coming fortnight.
- Last week the key Singapore unleaded petrol price fell by US\$4.54 (3.6 per cent) to US\$122.70 a barrel. In Australian dollar terms the Singapore gasoline price fell by \$2.79 (2.3 per cent) last week to \$119.11 a barrel. Over the past fortnight the Singapore gasoline price has fallen by A\$6.09 a barrel or just under 4 cents a litre..

### What is the importance of the economic data?

- The Bureau of Statistics' **Retail trade** publication contains the most current readings on the performance of consumer spending. The ABS surveys 500 'larger businesses' and 2,750 'smaller businesses'. Retail trade covers spending at a broad range of retail outlets but excludes both petrol and motor vehicle sales. A weak retail trade result may point to a slowing economy as well weighing on the share prices of listed retail stocks. But retail trade estimates can't be assessed in isolation – it is important to look at the influences determining future trends in consumer spending, such as income, employment and confidence levels.
- The quarterly **Business Indicators** publication by the Bureau of Statistics contains measures such as inventories, company profits and income from sales. Higher inventory (stock) levels can be either intentional or unintentional. If stocks are low and sales are expected to rise in the future, businesses will seek to build up stocks. However an unintentional build-up in stocks is where sales fall short of expectations, leaving more goods on the shelves than desired. If profits are increasing then this may point to increased capital spending and employment in the future. Rising profits are also a sign of favourable business conditions.
- The monthly **Job Advertisements** release is a leading employment indicator. Employers only seek additional staff if business activity is strong, and more importantly, if they expect that conditions will remain favourable in coming months. It takes around 5-6 months for the new staff to be added to the payrolls. But a fall in job advertisements would have a more immediate impact on monthly employment estimates.
- The **TD Securities/Melbourne Institute Monthly Inflation Gauge** is designed to "provide a timely and accurate monthly measure of inflation in Australia". The Bureau of Statistics only releases the Consumer Price Index on a quarterly basis.
- The Australian Industry Group and PricewaterhouseCoopers compile the **Performance of Manufacturing Index (PMI)** each month. The Australian PMI is the Australian equivalent of the US ISM manufacturing gauge. The PMI is one of the timeliest economic indicators released in Australia. The PMI is useful not just in showing how the manufacturing sector is performing but in providing some sense about where it is heading. The key 'forward looking' components are orders and employment.
- The **RP Data-Rismark Hedonic Australian Home Value Index** is based on Australia's biggest property database covering more than 312,000 sales during 2011. Unlike the ABS Index, which excludes terraces, semi-detached homes and apartments, the RP Data-Rismark Hedonic Index includes all properties. Home prices are an important driver of wealth and spending.
- **Weekly figures on petrol prices** are compiled by ORIMA Research on behalf of the Australian Institute of Petroleum (AIP). National average retail prices are calculated as the weighted average of each State/Territory's metropolitan and non-metropolitan retail petrol prices, with the weights based on the number of registered petrol vehicles in each of these regions. AIP data for retail petrol prices is based on available market data supplied by MotorMouth.

### What are the implications for interest rates and investors?

- The Reserve Bank has a rock solid case to cut interest rates. The latest data shows that the economy is barely growing while inflation is solidly under control. The only question now is when the next rate cut will take place. Not only is the domestic data weak but recent Chinese economic data will add to the worry level.
- While the upward trend of the petrol price seems to have come to an end, it is likely that high fuel prices, removal of temporary stimulus should mean that consumers remain conservative about purchases. And the latest retail sales data does not bode well for the sector.
- The job market is interesting. There are plenty of anecdotes that businesses can't get the staff they want and are bringing in migrants. At the same time there are high-profile job losses in manufacturing, construction and retailing. Unemployment could edge slightly higher in coming months, but we don't see it as a major concern at present.

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