

Consumers remain super-cautious on spending

Retail trade, International trade

- Retail spending grew by just 0.3 per cent in September, below expectations centred on a rise of 0.4 per cent. Non-food retailing rose by 0.4 per cent – the slowest growth in four months.
- In the September quarter, inflation-adjusted retail trade rose by 0.7 per cent (below forecasts for 1.1 per cent growth). The measure of retail prices rose by 0.7 per cent in the quarter. Prices fell in 4 of the 15 detailed sectors.
- Aussies spent up big on sporting goods in the September quarter and flocked to cafes and restaurants. But spending was down across almost half the retail categories, with specialised food outlets like butchers and seafood stores worst affected together with hardware, footwear, newsagents and clothing stores.
- Australia's trade surplus narrowed from \$2,446 million to \$1,760 million in September. Economists had tipped a surplus near \$1.9 billion. Exports fell by 1.5 per cent with imports up by 1.4 per cent.
- New car sales in October were up just 0.1 per cent on a year ago with 80,925 passenger cars sold in the month. Sales of 4WD vehicles continue to soar up 22.9 per cent on a year ago.

What does it all mean?

- The latest retail sales figures highlight the widespread weakness in retail activity. And unfortunately the modest 0.3 per cent increase in September sales may be as good as it is likely to get in the near term. Despite five months of interest rate stability, coupled with the considerable discounting by retailers, consumers were only enticed to tentatively start spending. The big question going forward is what will the recent rate hike do to confidence levels and activity?
- No doubt the vagaries of the weather also played a part in the latest weak result. In fact clothing and footwear retailing fell by 1 per cent in the September quarter. Looking forward even if the weather improved it is unlikely that consumer spending is likely to be robust.
- The rise in utility charges and the recent rate hike will ensure that activity remains subdued in the near term. And consumers are not just culling spending on discretionary items. The latest unpublished data from the Australian Bureau of Statistics has shown that consumers cut spending on food over the September quarter for the first time in 22 years.

Where prices are falling

Annual change, September quarter 2010

Using price deflators

All Retail	1.1%
Furniture, Floor covering	-0.3%
Footwear, watches & jewellery	-1.0%
Department stores	-1.2%
Clothing Retailing	-2.8%
Sporting goods, toys, video games	-5.3%
Electrical, Electronic & Gas Goods	-6.6%

Source: ABS, CommSec

What We Bought

September quarter 2010

Real (inflation-adjusted) spending	quarter change
Cafes And Restaurants	9.8%
Sporting goods, toys, video games	8.3%
Flowers, antiques etc	2.9%
Pharmaceutical Cosmetic And Toiletry	2.2%
Takeaway Food Services	1.7%
All Retail	0.7%
Furniture, Floor covering	0.6%
Liquor Retailing	0.5%
Electrical, Electronic & Gas Goods	0.1%
Supermarkets And Grocery Stores	-0.2%
Department stores	-0.3%
Clothing Retailing	-1.0%
Newspapers And Books	-1.6%
Footwear, watches & jewellery	-2.3%
Hardware, Building & Garden Supplies	-2.4%
Meat, fruit, bread, fish shops	-3.1%

Source: ABS, CommSec

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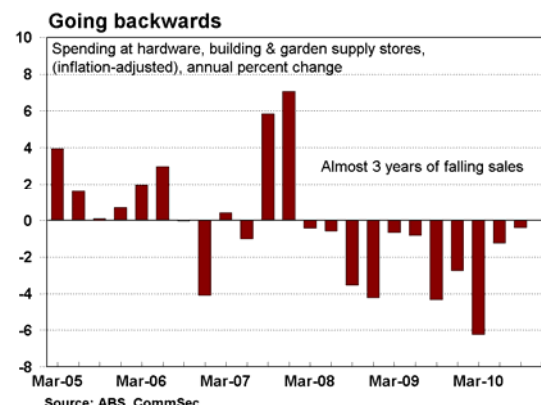
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- In inflation-adjusted terms spending was up 0.7 per cent in the September quarter – reasonable, but not great and below the longer term average of 1.0 per cent. Even to achieve that outcome it appears that a raft of retailers are being forced to cut prices. And given the sluggish outlook, deflation is likely to take a broader grip on retailing in coming months.
- The latest detailed inflation-adjusted data for the September quarter shows that Aussies splashed out on toys, sporting goods and video games and went out to restaurants in droves. But spending was slashed across a raft of retail categories including department stores.
- Today's data highlights the fragility of Australian households and will give the Reserve Bank plenty of food for thought before deciding on future rate hikes.
- Australia's trade balance is now firmly in the black, with the sixth consecutive trade surplus. It is an important result, signifying that Australia is again paying its way in the world and that income is flowing into the country. And the boost to Australian coffers is essentially what the Reserve Bank is banking on to spur domestic growth over the coming year. At present the additional income is not being spent but as the recovery gains traction it is likely that Australian businesses and consumers will follow through on spending and investment plans.
- Higher commodity prices and increased demand for coal and iron ore has helped insulate the Australian economy. And it's likely that more consistent trade surpluses are likely to be part of the economic landscape over the coming year.



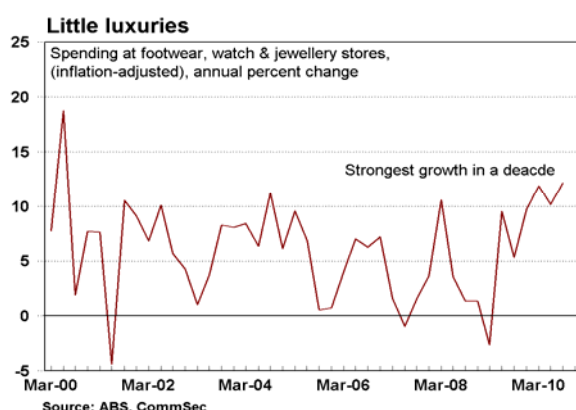
What do the figures show?

Retail trade (September month):

- Retail trade** rose by 0.3 per cent in September after a similar increase in August. Non-food retailing was up 0.4 per cent. Over the first nine months of 2010 overall retail spending has risen by just 2.9 per cent. Over the past year retail trade lifted 3.9 per cent.
- Sales by chain stores and other large retailers** rose by 0.2 per cent in seasonally terms in September while sales by smaller retailers rose by 0.4 per cent. In annual terms sales at chain stores were up 3.5 per cent on a year ago while sales at smaller retailers were up 4.4 per cent.
- During September**, sales increased most at footwear and other personal accessory retailers (up 3.3 per cent) and hardware, building and garden suppliers (up 2.5 per cent) while sales fell most at furniture, floor covering and home ware stores (down 0.8 per cent). Across states, sales lifted most in Western Australia (up 1.0 per cent) and fell the most in Tasmania (down 0.4 per cent).

Retail trade (September quarter):

- Retail trade grew by 0.7 per cent in real (inflation-adjusted) terms in the September quarter after rising 1.0 per cent in the June quarter. Annual growth rose from 1.3 per cent to 2.8 per cent (long term average 4 per cent).
- The measure of retail inflation – the retail deflator – rose 0.7 per cent in the September quarter after 0.1 per cent growth in the June quarter. Annual retail inflation rose from 0.3 per cent to 1.1 per cent in the September quarter. Deflation – falling prices – occurred in four of the



Retail Spending

Annual growth, September quarter 2010	
Real (inflation-adjusted) spending	annual change
Cafes And Restaurants	15.2%
Footwear, watches & jewellery	12.2%
Sporting goods, toys, video games	9.4%
Pharmaceutical Cosmetic And Toiletry	7.1%
Electrical, Electronic & Gas Goods	6.9%
Takeaway Food Services	6.4%
Newspapers And Books	3.6%
Furniture, Floor covering	3.3%
All Retail	2.8%
Department stores	1.6%
Liquor Retailing	0.7%
Clothing Retailing	0.2%
Supermarkets And Grocery Stores	0.0%
Hardware, Building & Garden Supplies	-0.4%
Flowers, antiques etc	-2.4%
Meat, fruit, bread, fish shops	-7.8%

Source: ABS, CommSec

15 retail sectors in the September quarter.

- In real terms, spending rose most in the quarter at cafes and restaurants (up 9.8 per cent), but spending at butchers, fruit & veg shops, bakers and fish shops fell by 3.1 per cent,
- Compared with a year ago, cafes and restaurant sales are up 15.2 per cent, and spending at footwear, watches and jewellery retailers is up 12.2 per cent. But at the other end of the scale spending at butchers, fruit & veg shops, bakers and fish shops was down by 7.8 per cent.

International trade

- Australia's trade surplus narrowed by \$686 million in September to \$1,760 million. Economists had tipped a \$1.9 billion trade surplus. Exports fell by 1.5 per cent in the month while imports rose by 1.4 per cent. It was the sixth consecutive trade surplus.
- Rural exports fell by 8.2 per cent in September while non-rural exports fell by 2.9 per cent and non-monetary gold rose by \$306 million or 36 per cent.
- Within non-rural exports, metal ores and minerals fell by 12 per cent but coal, coke and briquettes rose by 5 per cent. Within rural exports cereal grains rose by \$65 million or 14 per cent.
- Within imports, consumer imports remained flat in September, capital goods imports fell by 4.1 per cent while intermediate goods imports rose by 2.4 per cent after falling by 13.4 per cent in August.

What is the importance of the economic data?

- The monthly **International Trade in Goods and Services** release from the Bureau of Statistics provides estimates on exports and imports of physical goods (such as coal, beef and computers) and services (such as travel receipts). The balance of goods and services (BOGS) is a narrower description of Australia's external position than the current account estimates. The import data is a useful gauge of consumer and business spending while exports reflect global demand as well as domestic influences such as drought.

What are the implications for interest rates and investors?

- The Reserve Bank will point to our trade surpluses as evidence of the mining boom's impact on the economy. As more dollars flow into the country, policy has to tighten to soak up the extra money and thus prevent inflationary pressures from building.
- However the lackluster retail sales result, coupled with the recent rate hike suggests activity is likely to be subdued in the near term. Retailers will need to continue discounting in the lead up to Christmas.
- The strength of the Australian dollar is acting as a quasi rate hike making exports less competitive. Rural exports slumped by over 8 per cent in September – marking the biggest monthly decline in 17 months. CBA currency strategists expect the Aussie dollar to remain above parity well into the New Year – further dampening exports.

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