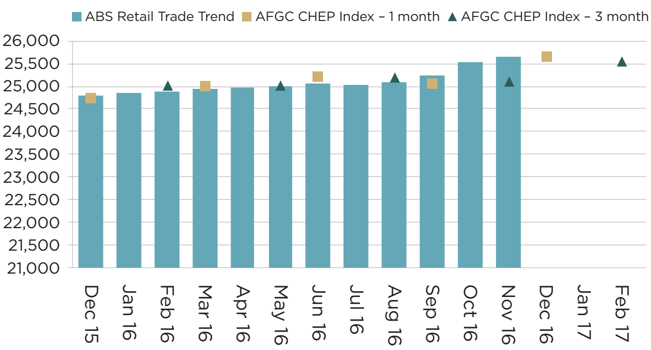
AFGC CHEP RETAIL INDEX

EDITION 24, JANUARY 2017

Index predicts a temporary uplift in retail sales

Retail Trade Turnover – $Millions



Turnover ($Millions)

December 2016 – 25,640
February 2017 – 25,534

Year on Year Growth

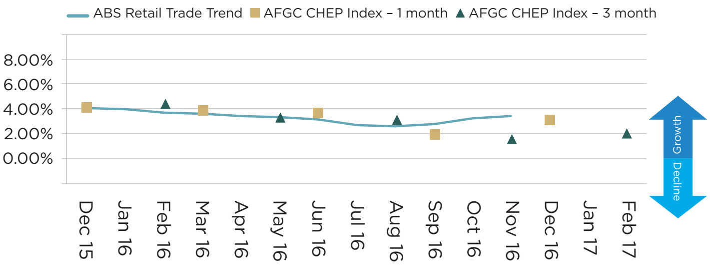


*Chart movements in nominal (current price) terms.

Analytics by **Deloitte.**

Year on Year Result

December 2016
3.0% increase in Retail Index

December Quarter
3.3% increase in Retail Index

February 2017
2.0% increase in Retail Index

March 2017 Quarter
1.9% increase in Retail Index

This latest edition of the AFGC CHEP Retail Index estimates an uplift in retail turnover growth over the December quarter. However, this isn't likely to be sustained over the first months of 2017.

Retail turnover growth in 2016 was largely characterised by inertia – growth every month was a little lower than the month before. However, ABS retail trade data recorded a small recovery of growth in the late months of the year[1]. The latest ABS retail trade results were slightly higher than the AFGC's previous prediction, as well as most other outlooks across the industry.

While it's still true that consumers became more cautious throughout the year, some of this caution may have been alleviated in the short term. The AFGC CHEP Retail Index estimates that year-on-year growth during the December quarter was 3.3%, including year-on-year growth for the month of December of 3.0%. It's important to note that the rise in retail turnover is not purely due to Christmas spending, since the growth rates compare the December quarter to last year's December quarter.

[1]http://www.abs.gov.au/ausstats/abs@.nsf/mf/8501.0

Overview

The AFGC CHEP Retail Index provides unique insight into the performance of the Australian retail market. Aggregating a combination of robust data sources, the AFGC CHEP Retail Index forecasts, with a high degree of accuracy, activity in the Australian retail sector.

Distribution

The next issue is due out in April 2017 with forecasts for March 2017 and the June quarter.

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COMMENTARY ON AFGC CHEP RETAIL INDEX

	Edition 20		Edition 21		Edition 22		Edition 23	
Retail Turnover Trend	Dec 15	Feb 16	Mar 16	May 16	Jun 16	Aug 16	Sep 16	Nov 16
ABS	24,783	24,873	24,931	25,014	25,052	25,094	25,460	25,657
AFGC CHEP Index	24,725	25,007	24,978	25,021	25,179	25,205	25,033	25,099
Turnover Accuracy	99.8%	100.5%	100.2%	100.0%	100.5%	100.4%	98.3%	97.8%
Year on Year Movement Accuracy	100.1%	100.6%	100.2%	100.0%	100.5%	100.6%	99.1%	98.1%

Looking forward, retail turnover growth is expected to slow again. Year-on-year Retail Index growth for the month of February 2017 is expected to be just 2.0%, for a year-on-year result for the March quarter of just 1.9% growth. After the uptick over the December quarter, that's a downgrade of more than a third.

This trend is a response to uncertainty in the national and global economy, which encourages consumers to be risk-averse and save more of their wealth.

Looking globally, the rebound of China's debt has delayed the transition of the country from construction to production, but has not stopped it. China is still likely to shift away from demanding large volumes of Australian commodities, but we don't know when or how fast that shift will occur. A reduction in demand for Australia's commodity exports would have a significant negative impact on national economic growth. This uncertainty, along with the recent Trump victory, is expected to translate to more cautious consumers.

Looking nationally, the economy is characterised by modest employment growth. Part-time employment is growing well, while the number of full-time jobs across Australia is declining. This means that many Australian workers are now underemployed (i.e. they would like to work full-time, but only have a part-time job). The spare capacity in the economy causes low wage growth, which leads to weak growth in household disposable income. As household disposable income growth slows, so does retail turnover growth. In the short term, wage growth is not expected to recover. The transition of the economy away from mining employment means that jobs are growing in lower-paying sectors and shrinking in high-paying mining-related employment.

Retail turnover by State continues to be dual-speed, mirroring the trends of the employment transition away from mining. Retail turnover growth in the south-eastern states is solid, as residents from the mining states move south and east and the residential construction boom triggers economic growth in Sydney and Melbourne. On the other side of the spectrum, the northern and western mining states (QLD, WA, NT) are falling further behind. Retail turnover growth in the northern states is limited by their transition away from the mining investment boom.

While residential construction has boosted retail spending, the effects of low interest rates and high house prices are running out of steam. In the past, homeowners saw their housing wealth rise and interest rates lower, which gave them more incentive to spend rather than save. But now consumers are more cautious. The downturn of personal debt over recent months is one key indicator that consumers are less willing to borrow, especially to spend on big-ticket retail items. The value of housing finance approvals has also sharply decreased over the last year (albeit from a high level), indicating that demand for housing has started to moderate.

Overall, uncertainty on a global and national scale is likely to put a damper on retail turnover in the early months of 2017. The outlook of the economy is consistent with the latest AFGC CHEP Retail Index.

The AFGC and CHEP are interested in your feedback on the AFGC CHEP Retail Index. The next AFGC CHEP Retail Index is Edition 25, which is due for release in April 2017.

Commentary provided by Deloitte on behalf of AFGC