



National
Retail
Association

Hardware, Building & Garden Supplies

Industry Insights & Intelligence Report
May 2016



About the National Retail Association (NRA)

The NRA is Australia's largest and most representative retail industry organisation. For almost 100 years, the NRA has represented the interests of the retail, fast food and broader service sector, delivering critical information and advice to thousands of businesses nationally. NRA's services are delivered by a team of highly trained and well qualified people, in-house, with decades of retail-specific knowledge and experience.

About the NRA Business & Industry Intelligence Unit

The NRA has a dedicated Business and Industry Intelligence Unit that provides insight into the ever-changing retail environment, how businesses are adjusting to change, and what they are doing to remain relevant in an increasingly digital marketplace.

With extensive experience and expertise across the Australian retail landscape, team members in the Business & Industry Intelligence Unit have the insight and technical support needed to deliver a broad range of advice to retailers, as well as businesses and agencies that service this diverse industry.

The team has the knowledge and technical experience to understand and translate the current and future needs of retail businesses, and through deep engagement and evidence-based decision making, can facilitate genuine and reliable collaborations between retailers, service providers and government.

About Cameron Meiklejohn, NRA Industry Research & Data Analyst

Cameron has been working in the area of market and social research for more than a decade, with experience across the private, government and academic sectors. His experience is diverse, ranging from brand management, media relations, and data analysis.

With a constantly evolving role, to meet the needs of members and industry, Cameron is responsible for analysing and interpreting industry, economic and social data, to better understand the retail landscape and its position within the broader economy.

Disclaimer

While extreme care and diligence has been exercised in the preparation of this report, the National Retail Association does not warrant the accuracy of the information contained within and accepts no liability for any loss or damage that may be suffered as result of reliance on this information. Any projection can be impacted by unforeseen variables used in the analysis, and as such, no warranty is given that a particular set of results will be achieved.



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Industry Insights & Intelligence – May 2016

*Prepared by Cameron Meiklejohn
Industry Research & Data Analyst
National Retail Association*

This industry insights and intelligence report has been prepared by the National Retail Association to provide businesses, operating within the Hardware, Building and Garden Supplies category, some analysis and commentary around top economic trends. Key insights are as follows:

<p><i>Sales Forecast Downgraded</i></p> <p>The National Retail Association has revised its sales forecast for hardware, building and garden supplies to 6.7 per cent, with projections suggesting soft conditions across the final quarter of 2015/16. It is now expected that the category will generate total actual sales of \$18.19 billion.</p>	<p><i>Housing Churn & Hardware</i></p> <p>Number of established residential dwellings purchased is a key predictor of sales within this category of retail. As property prices cool across the major cities, and Sydney and Melbourne in particular, potential contraction in retail sales are possible, but many analysts suggest a soft landing for the housing.</p>
<p><i>Tradie Tax Deduction</i></p> <p>The \$20,000 tax deduction, which was offered to businesses with a turnover of less than \$2 million at the 2015 budget, had a clear impact on sales across this category in June 2015. This one-off boost to retail sales will not be observed in 2016, further impacting actual retail sales growth in Q4.</p>	<p><i>Industry view:</i></p> <p>One of the main factors for hardware, building and garden supply businesses to watch in the coming months will be residential property purchases and prices. Potential cooling of the market presents some challenges for hardware, which may lead to softer sales conditions in coming months.</p>

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Sales Forecast Downgraded

The hardware, building and garden supplies category of retail has enjoyed strong sales growth across the past two years, with the average growth rate between 2013/14 and 2014/15 being 8.4 per cent. Driven by a rise in residential property sales, especially in the key markets of Sydney and Melbourne, sales growth reached an unprecedented 13.5 per cent in November 2014. With a cooling of the property market in recent months however, sales conditions for hardware, building and garden supply businesses has softened, with a clear decline in sales growth occurring in the past six months. Despite some sporadic improvements, most notably in the busy trading period of December, conditions are expected to remain soft across the final quarter of 2015/16, with sales growth expected to fall below the long run average of 5.0 per cent for the first time since the first quarter of 2013/14. As a result, the National Retail Association has downgraded its sales forecast by 0.2 per cent to \$18.19 billion. Despite this slight reduction in forecast sales, the anticipated total still represents growth of 6.7 per cent, compared with 2014/15, which places hardware, building and garden supplies as one of the best performing retail categories in Australia.

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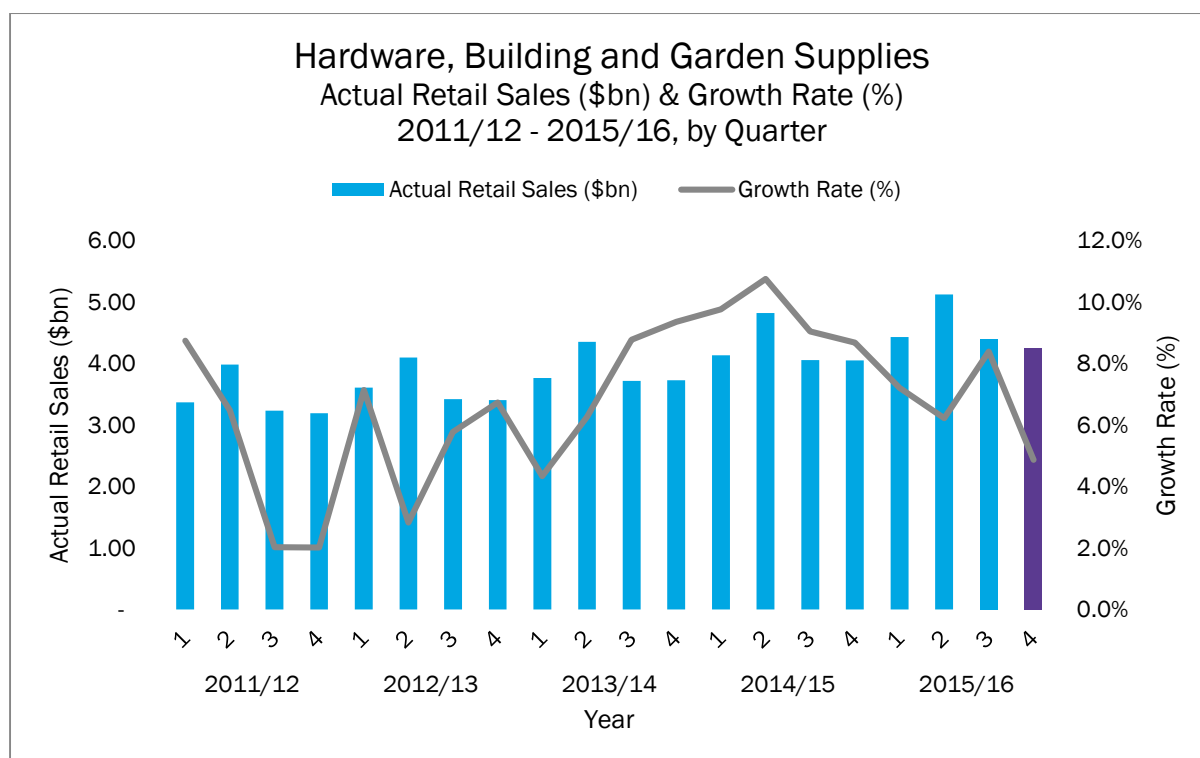
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Softer Property Market Impacts Sales

Residential property prices have started to contract in recent months, and it is anticipated that the market will be slower, although more predictable and consistent, across much of 2016. While this will likely present some opportunities for first home buyers, which are expected to have less competition from both domestic and international investors, it is anticipated that a cooling in residential property sales will also impact growth in this category.

The strength of the Australian property market across much of the past two years has been particularly beneficial to this retail category. As indicated in the chart below, growth in the sector had a peak of 10.7 per cent in the second quarter of 2014/15, which coincided with one of the most aggressive property markets in recent years. With property prices and total sales expected to slow across much of 2016, it is also expected that sales growth in hardware, building and garden supplies will also be soft. In the final quarter of 2015/16, actual retail sales are forecast to be \$4.25 billion, which represents a 4.9 per cent (\$197 million) increase on the same quarter last year.



Source: ABS, NRA

When adjusted for inflation, the increase in actual retail sales will be 1.3 per cent, compared with the same quarter last year.

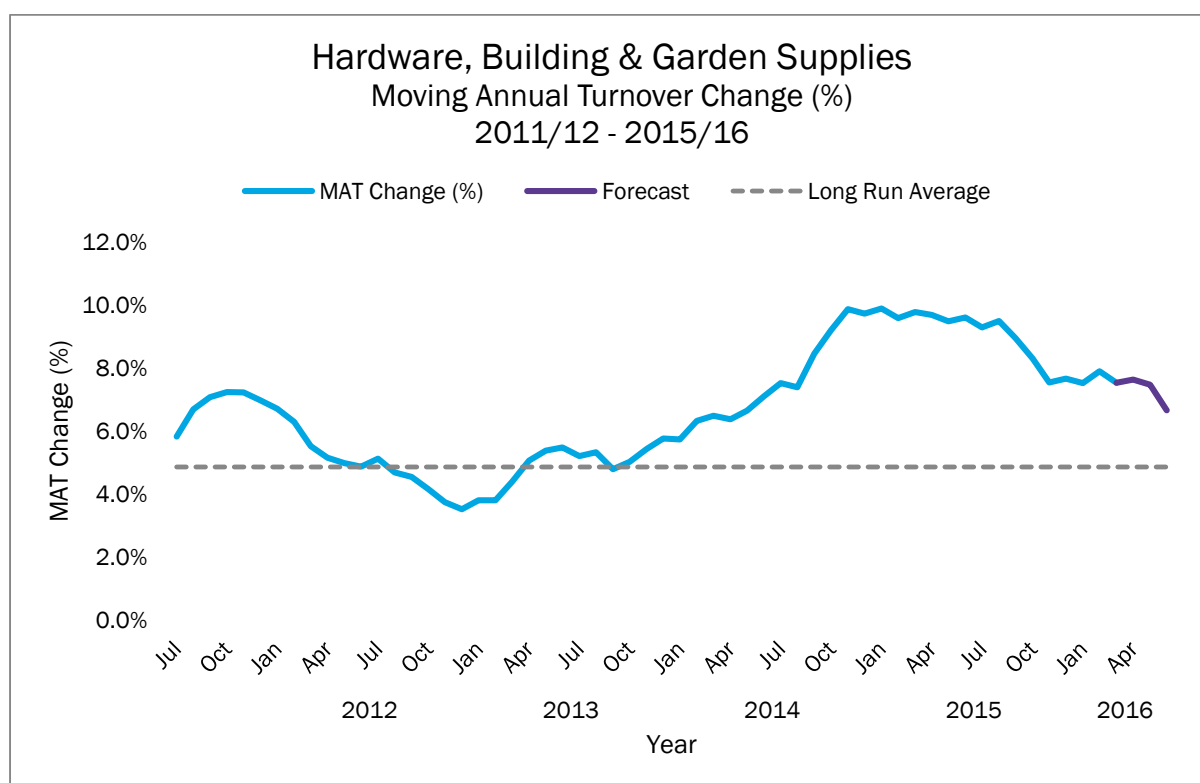
As this suggests, Australians are continuing to spend within the hardware, building and garden supplies category, but not at the levels seen in recent years. Indeed, at the time of writing, the MAT

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Change (%) for hardware, building and garden supplies was 7.5 per cent, although projections suggest that the rolling annual total will continue to decline across the final quarter of 2015/16¹. Indeed, it is anticipated that by the end of the current financial year, MAT Change will fall below 7.0 per cent for the first time since early 2014, with further contraction anticipated at the beginning of 2016/17 as the sector adjusts to changing market conditions.



Source: ABS, NRA

Predictions for 2016

Despite the relatively positive growth achieved across the first half of 2015/16, a cooling of the residential property market, as well as softer conditions in the broader economy, have limited the growth potential for this area of retail in the opening months of 2016. Despite improvements in labour demand, with the national unemployment falling to 5.7 per cent, these improved conditions are unlikely to have much influence on hardware sales in the short term.

The National Retail Association estimates that turnover for the hardware, building and garden supplies category will reach \$18.19 billion for the 2015/16 financial year, representing growth of 6.7 per cent on 2014/15. Should this target be achieved, the sector would remain above the long

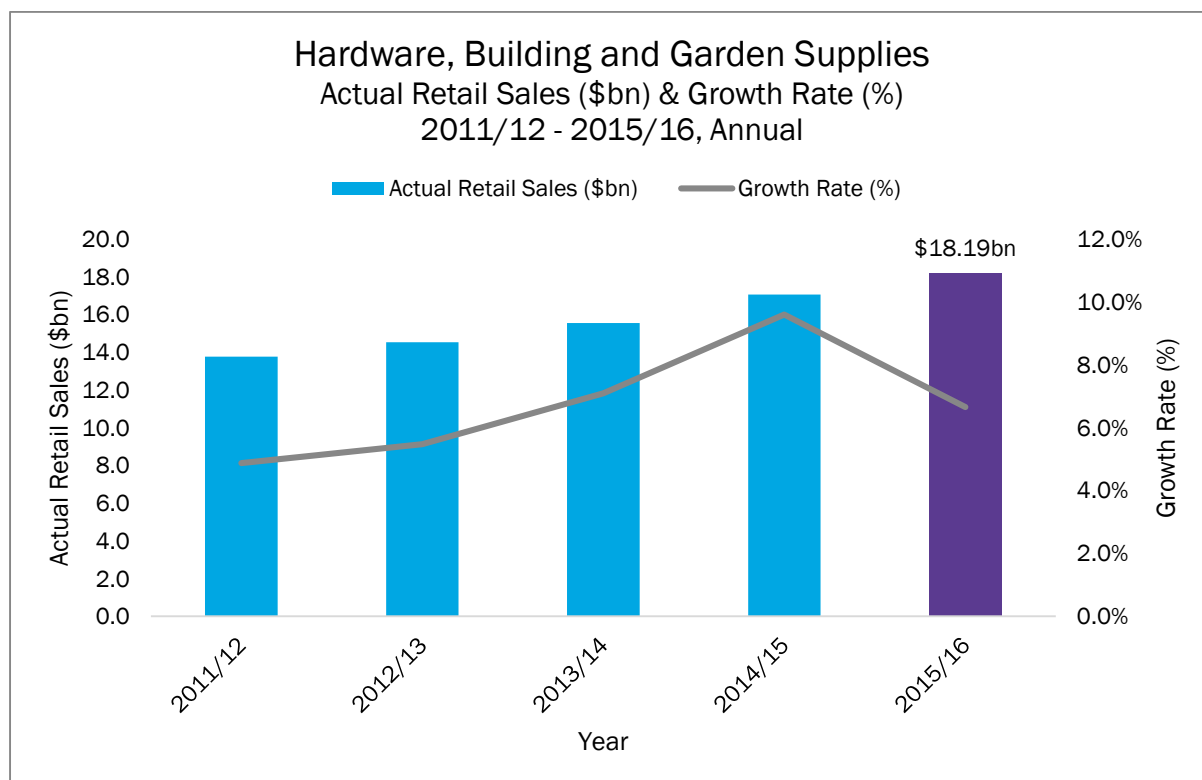
¹ Moving annual turnover (MAT) is the total value of consumer spending for a twelve month period, calculated on a monthly rolling basis.

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run average growth rate of 5.0 per cent, making hardware, building and garden supplies one of the strongest performing categories of retail across Australia in 2015/16.



Source: ABS, NRA

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