National Retail Association

Retail Connect

Industry Insights Report
April 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.

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Retail Connect is a quarterly review prepared by the National Retail Association to provide Australian retail businesses with analysis of top economic trends. Key insights for the current quarter are as follows:

Slight downgrade in growth forecast The National Retail Association estimates that the industry will grow by 4.4 per cent across 2015/16, generating actual sales of $298.6 billion. This is a slight reduction on the forecast of $299.2 billion made in April, which has been necessitated by flat sales growth across Q3.	***Flat consumer confidence*** Despite sustained improvements in business confidence across the past twelve months, consumer confidence continues to be relatively flat, with volatility in international financial markets, a decline in the Australian share market, and a cooling in the residential property market all contributing to greater caution in consumer spending.
Household Goods Drive Growth Continued performance in the household goods category has been the main driver of growth across the Australian retail industry. Analysis indicates that the category grew by 6.7 per cent in the most recent quarter, with MAT Change (%) also continuing to be well above the long run average of 2.8 per cent.	***Industry view:*** Although reasonably flat retail growth, across the third quarter of 2015/16, has required a slight downgrade of the retail sales forecast, the projected growth rate of 4.4 per cent will still place the current financial year close to the long run average of 4.5 per cent.

Slight Reduction in Growth Forecast for 2015/16

Despite a solid holiday trading period, retail sales across the third quarter of 2015/16 have been soft, with minimal growth in trend terms. As a result, the National Retail Association (NRA) has downgraded its annual forecast for the current financial year. The NRA now forecasts that the Australian retail industry will generate $298.6 billion in sales, which represents a reduction of 0.2 per cent on the $299.2 billion that was originally anticipated in January.

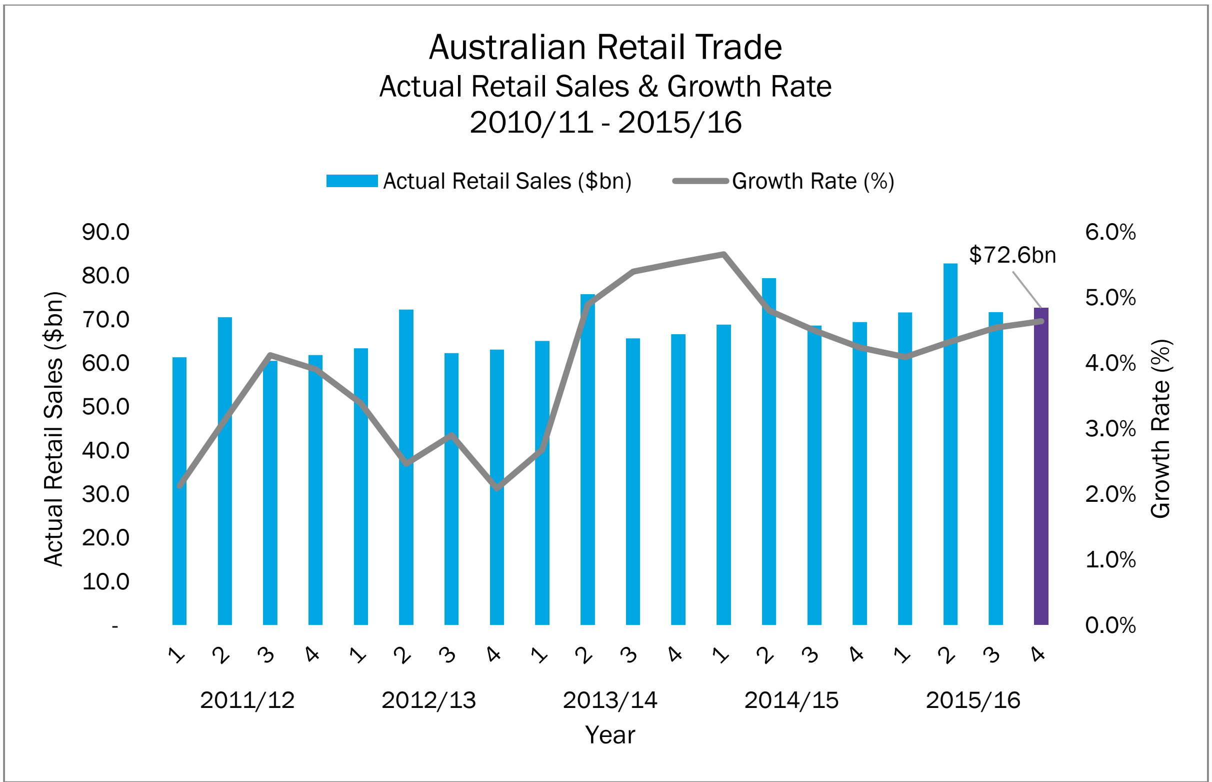
While business confidence has been growing steadily across the past twelve months, consumer confidence has been relatively flat, especially during the third quarter of 2015/16. Continued volatility in global financial markets, a drop in the Australian stock market, and a cooling of residential property markets, especially in Sydney and Melbourne, has certainly caused some consumers to be more careful with their spending. It is certain that this has made at least a partial contribution to the lower than average growth rates across the retail industry in recent months. Further, a soft labour market, with relatively little change in job vacancies, also continues to impact on sales growth across the retail industry. Despite these economic conditions, the estimated growth of 4.4 percent for 2015/16 is still a solid figure for the industry in broad terms.

Slower Growth, But Still Solid

Although there has been a clear contraction in the growth of retail sales across 2015/16, sporadic improvements in sales, as well as moderate holiday trading figures, has seen the industry maintain some momentum into the second half of the current financial year. While a return to growth of upwards of 6.0 per cent, which was achieved in 2014/15 is unlikely in the short term, maintaining growth of above 4.0 per cent does appear to be realistic in the current economic climate. It is estimated that January, February and March improved on the results of the preceding quarter, with actual retail sales being $71.63 billion, which represents a 4.5 per cent ($3.11bn) increase on the same quarter last year.

When adjusted for inflation, the increase in actual retail sales was 2.6 per cent, compared with the same quarter last year.

As indicated in the chart below, it is expected that in the final quarter of 2015/16, actual retail sales will total $72.59 billion, which would be a 4.6 per cent increase on the same quarter in 2014/15. As indicated previously, if this figure is achieved, the Australian retail industry will generate actual retail sales of $298.6 billion in 2015/16, representing growth of 4.4 per cent.



Source: ABS, NRA

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.

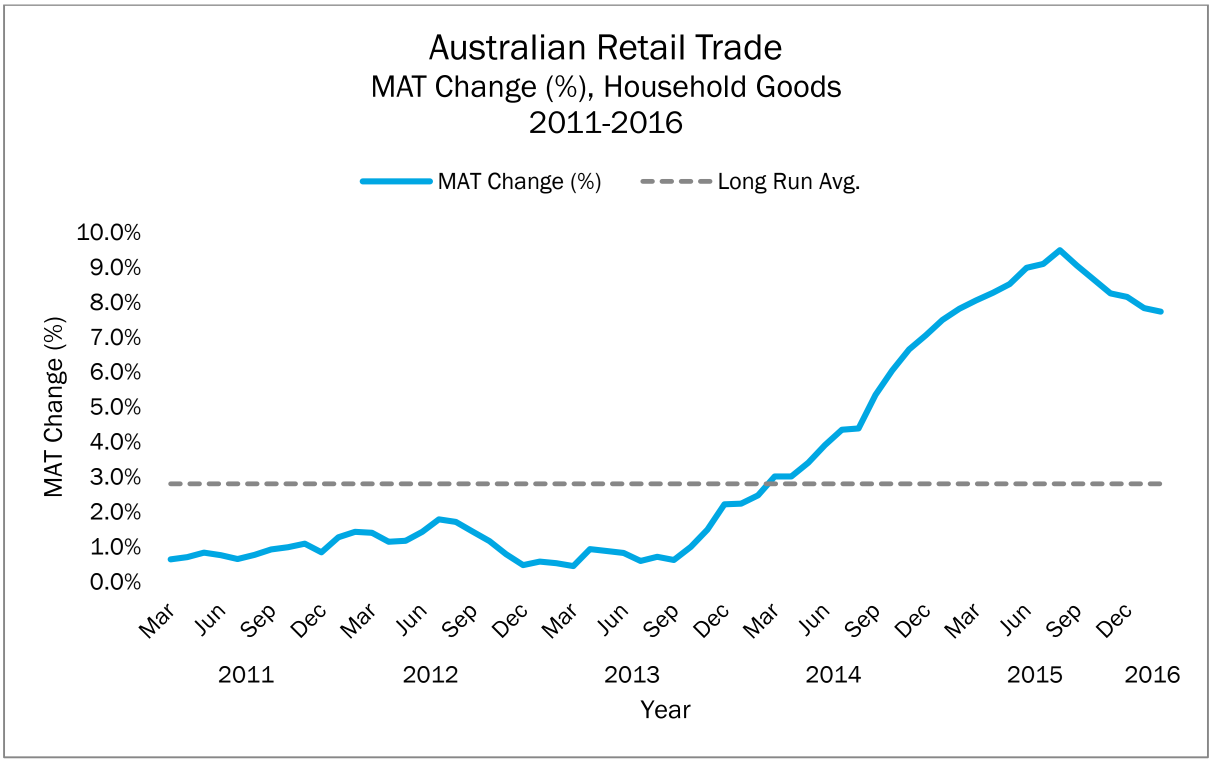
Household goods, which includes the sub-groups of homewares, electronic goods and hardware, continues to have the largest growth rate within the Australian retail industry at 6.7 per cent, despite this category recording four straight quarters of contraction.

Analysis conducted by the NRA suggests that much of the growth within this category has been driven by significant churn in the sale of established residential dwellings, which has been shown to have a strong correlation with increased sales of household goods.

These results indicate that Australians are continuing to spend strongly on items for their homes.

The NRA suggests that especially within hardware, building and garden supplies, the almost record levels of established residential dwelling sales, primarily in Sydney and Melbourne, has been a key factor in the recent success of the household goods category. Indeed, modelling reveals that for every established residential property sold in Australia, an average of $3,145 is spent in hardware stores as home owners undertake renovations, painting, and other improvements on their purchase. Further, purchasing a new residential property is also the time when people are most likely to upgrade furniture, appliances, and other items for the home. As a result, the recent boom in property sales has also produced improved trading conditions for those business operating across homewares, household furniture and appliances, hardware, and garden supplies.

As indicated in the chart below, the benefit enjoyed by the household goods retail category, from the increase in property sales, is revealed through MAT Change (%) increasing steadily from September 2013, in line with the rise in property sales.

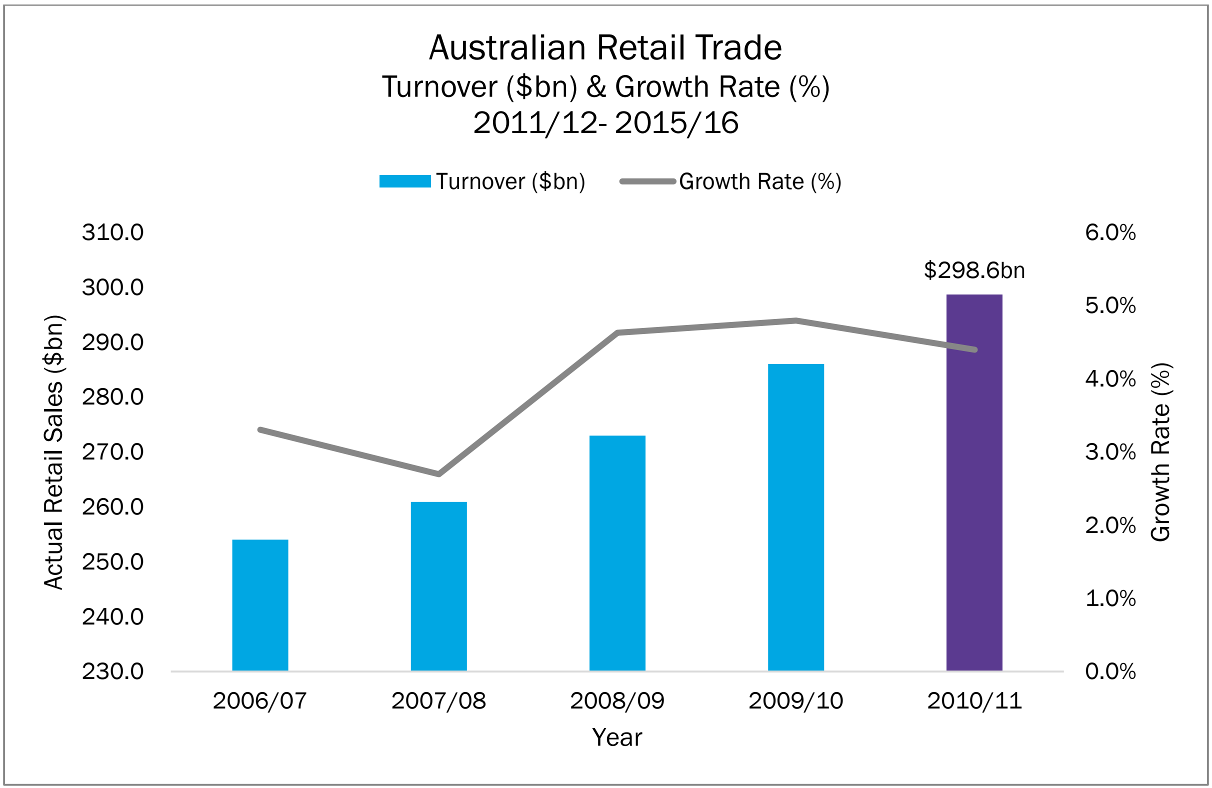


Source: ABS

Although this chart highlights that the category is beginning to contract, falling from the peak of 9.5 per cent, which was recorded in August 2015, MAT Change for household goods continues to remain well above its long run average of 2.8 per cent suggesting sustaining, above average results for this particular retail category.

Predictions for 2016

Given the relatively soft results across the third quarter of 2015/16, and persistent flatness in consumer confidence, the expectations for the second half of the financial year to be particular robust has not occurred. Analysis conducted by the NRA suggests that volatility in global financial markets, a decline in value of Australian shares, and a cooling of the residential property market, have all contributed to greater caution in consumer spending and weaker sales figures in early 2016. As indicated in the chart below, while actual retail sales are anticipated to increase by $12.6 billion in 2015/16, this represents a lower rate of growth that what was recorded in the previous year.



Source: ABS, NRA

While the Australian retail industry will not reach the $299.2 billion in sales that was anticipated in January, the NRA still expects that 2015/16 can achieve solid growth of 4.4 per cent. At this level, the Australian retail industry will achieve actual retail sales of $298.6 billion, placing 2015/16 just below the long run average growth rate of 4.5 per cent. In broad terms, the momentum generated by residential property sales between 2013 and 2015 will continue to drive growth with the household goods category across the final quarter of 2015/16. Further, it is also hoped that the recent introduction of major international clothing brands into the Australian market will sustain the good results that have been recorded in the Clothing, Footwear and Personal Accessories category in the past six months.

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