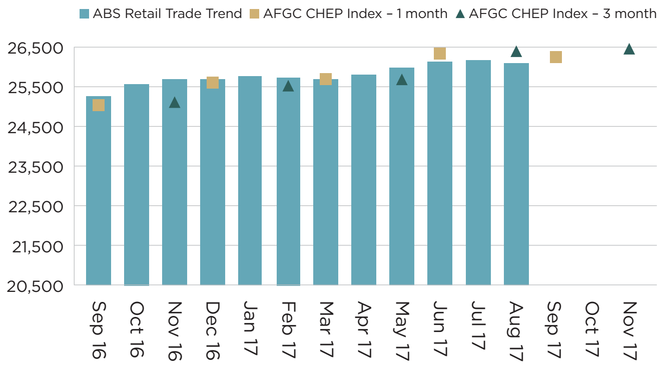
AFGC CHEP RETAIL INDEX

EDITION 27, OCTOBER 2017

Index predicts levelling out of retail sales growth

Retail Trade Turnover – $Millions

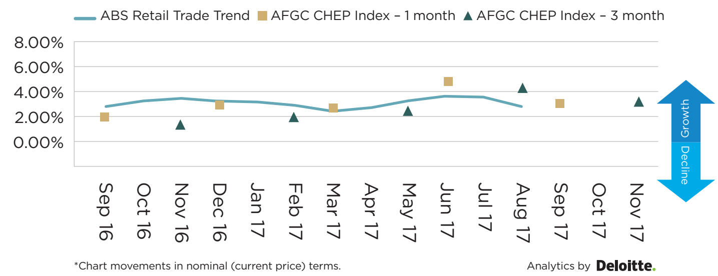


Turnover ($Millions)

September 2017 – 26,247

November 2017 – 26,461

Year on Year Growth



Year on Year Result

September 2017
3.3% increase in Retail Index

September Quarter 2017
3.0% increase in Retail Index

November 2017
3.4% increase in Retail Index

December Quarter 2017
3.3% increase in Retail Index

The AFGC CHEP Retail Index (based on CHEP pallet movements in Australia) estimates that retail turnover has weakened of late, with year-on-year retail turnover growth to September 2017 at 3.3% and year-on-year growth to the September quarter at 3.0%. This is a moderation on the results predicted by the previous edition of the Index in mid-2017.

The first half of 2017 saw retail spending growth pick up, driven by strengthening employment outcomes, including a rebound in full-time jobs growth, as well as continued wealth gains from housing. Despite this, low consumer sentiment and an array of financial risks remain key constraints, leading to retail sales growth declining through July and August. The forward-looking AFGC CHEP Retail Index suggests that retail trade growth will level out over the coming months (as determined from recent CHEP pallet activity across the country).

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Overview

The AFGC CHEP Retail Index provides an accurate and unique source of insight into the performance of the Australian retail sector, based on robust transactional data derived from the movement of CHEP pallets and supported by analysis and commentary from Deloitte.

Distribution

The next issue is due out in January 2018 with forecasts for December 2017 and the March quarter.

Contacts

AFGC
James Mathews
M|0407 416 002

Level 2,
2 – 4 Brisbane Ave
Barton ACT 2600
T | 02 6273 1466
W|www.afgc.org.au

Brambles Limited
James Millard
M|0414 777 680

Level 10, Angel Place
123 Pitt Street
Sydney NSW 2000
W|www.brambles.com

CHEP Australia Limited
Kathryn Crofts
M|0437 108 844

Level 6, Building C,
11 Talavera Rd
North Ryde NSW 2113
W|www.chep.com

For more information please visit www.afgc.org.au or www.chep.com

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COMMENTARY ON AFGC CHEP RETAIL INDEX

	Edition 23		Edition 24		Edition 25		Edition 26	
Retail Turnover Trend	Sep 16	Nov 16	Dec 16	Feb 17	Mar 17	May 17	Jun 17	Aug 17
ABS	25,460	25,657	25,652	25,726	25,794	25,957	25,996	26,051
AFGC CHEP Index	25,033	25,099	25,640	25,534	25,715	25,735	26,351	26,390
Turnover Accuracy	98.3%	97.8%	100.0%	99.3%	99.7%	99.1%	101.4%	101.3%
Year on Year Movement Accuracy	99.1%	98.1%	99.8%	99.1%	100.1%	99.1%	101.0%	101.4%

Over the coming months retail spending growth is expected to remain steady, at a rate which is a little lower than was seen in mid-2017. Year-on-year retail index growth for November 2017 is expected to be 3.4%, with a year-on-year December quarter result of 3.3%.

Australian consumer sentiment has been lower over recent months, but despite that, retail spending growth was ticking over at a reasonable pace mid-year. There has been a catalyst for that, with very strong jobs growth being recorded (particularly in full-time jobs), while low interest rates and continued buoyancy in the housing market remains broadly supportive of spending on big-ticket items.

The continuation of double digit house price growth in Melbourne, Canberra and Sydney is adding to the wealth of home-owning consumers. This is still having some positive effect on retail spending, albeit lower than when housing market risks were less of a focus for homeowners. Consumers are now more cautious about housing wealth, particularly as Australia's already-high household debt would face upward pressure if interest rates were to rise. Higher mortgage payments and the risk of a housing market downturn are also contributing to caution among consumers.

The best news for retailers has been that employment growth has improved significantly over the year. Jobs growth has been primarily driven by some recovery in fulltime job numbers, with full-time jobs rising 3.1% over the year to August, while part-time jobs grew by 2.0%. Despite this recent recovery, the proportion of part-time jobs is still high (around a third of total employment). There is also significant underemployment of 8.9%, which means that over 1,090,000 workers across Australia would prefer more hours of work than what they currently have.

Because so many workers are looking for more work, employers have little incentive to offer much in the way of wage growth. Wage growth over 2017 has been negligible and is currently sitting at 1.9%. This adds downward pressure on retail spending growth, since many workers are seeing no real growth in their take home pay, compared to last Christmas.

Intense competition and low consumer sentiment is keeping all retailers focused on delivering customer value at the least cost possible. This is resulting in very slow retail price growth of around 1% over the year. In addition to low consumer sentiment, other pressures keeping prices down include: negligible personal credit growth and increased competition from local, international and online retailers. Non-food categories are likely to see average prices fall over the next few years.

Looking state by state, a rebalancing of spending growth is starting to occur as Queensland and Western Australia see the beginning of a turnaround, and risks around the housing market in Victoria and NSW become more of a concern. However, South Australia and Tasmania continue to drive in the slow lane as demographic challenges limit growth, while the Northern Territory's continued reliance on major projects keeps its growth prospects minimal in the short term, while such projects are lacking.

The predicted steady growth in the AFGC CHEP Retail Index for the December quarter is consistent with the Australian economy continuing to advance modestly over the next year, as labour market indicators and wealth continue to improve. While retail spending is expected to rise with those indicators, significant factors remain, which are keeping a lid on spending growth. These factors include non-retail consumer expenses, housing market risks and an expectation that interest rates will rise.

Commentary provided by Deloitte on behalf of AFGC and CHEP.