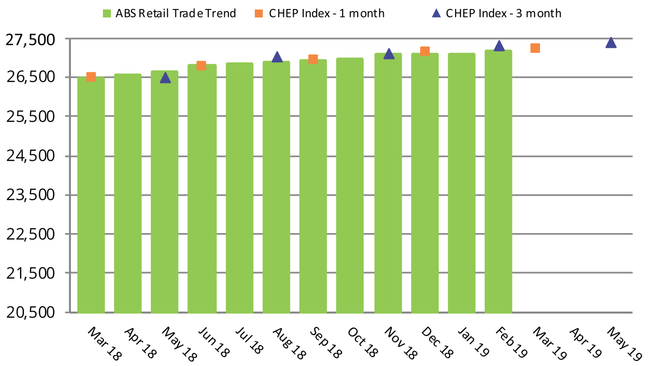
CHEP RETAIL INDEX

Retail sales growth to continue slowing through 2019

EDITION 33 - April 2019

Retail Trade Turnover - $Millions



Turnover ($Millions)

March 2019 – 27,229

May 2019 – 27,368

Year on Year Growth

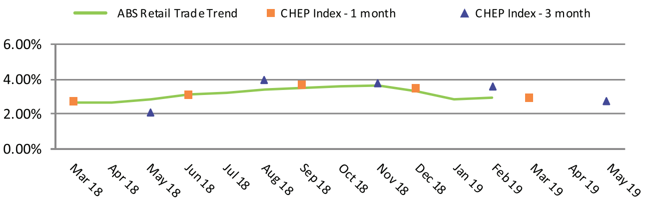


*Chart movements in nominal (current price) terms.

Analytics by Deloitte.

Year on Year Result

March 2019
2.8% increase in Retail Index

March 2019 Quarter
2.9% increase in Retail Index

May 2019
2.7% increase in Retail Index

June 2019 Quarter
2.8% increase in Retail Index

Highlights:

+ Retail turnover is expected to continue slowing through 2019, with the CHEP Retail Index estimating year-on-year growth to June 2019 of 2.8%
+ Weakness in the housing market combined with a subdued wage environment is reducing consumer willingness to spend.
+ A weaker trend in pallet movement data indicates retailers are expecting a difficult environment in the first half of 2019.

David Rumbens, partner at Deloitte Access Economics, comments that, “after a dismal Christmas period, retailers are more cautious heading into 2019. Significant house price falls have dented consumer confidence and their willingness to spend. There are tax cuts on the way, but they’re not here yet, so mid 2019 may mark a low point in the retail cycle.”

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Overview

The 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 July 2019 with forecasts for June 2019 and the September quarter.

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COMMENTARY ON CHEP RETAIL INDEX

Retail Turnover Trend	Edition 29		Edition 30		Edition 31		Edition 32	
	Mar 18	May 18	Jun 18	Aug 18	Sep 18	Nov 18	Dec 18	Feb 19
Aus. Bureau of Statistics	26,487	26,645	26,746	26,879	26,937	27,065	27,074	27,176
CHEP Retail Index	26,472	26,480	26,768	27,019	26,954	27,101	27,141	27,315
Turnover Error	99.9%	99.4%	100.1%	100.5%	100.1%	100.1%	100.2%	100.5%
Year on Year Movement Error	100.0%	99.3%	99.8%	100.5%	100.0%	100.1%	100.2%	100.6%

Retail spending in 2018 was supported by a run-down in the household savings rate, as spending outpaced income growth. Real household disposable income grew 1.2% in 2018, well behind the 2.6% growth in spending. But in the more cautious economic environment of 2019, consumers are now no longer as willing to run down their rate of saving.

This change has of course been very much influenced by the housing market, which is now undergoing a correction after prices reached very stretched valuations in 2017 and 2018. In the second half of 2018 prices began to decline as APRA tightened lending criteria and strong housing supply, particularly in Sydney and Melbourne, put downward pressure on prices.

The Reserve Bank of Australia has kept the official cash rate on hold at 1.5% for over two years, supporting demand for housing. Importantly, low rates have kept a lid on repayment costs allowing households to service their debt without cutting back on spending. Heading into 2019, the RBA has opted for a more neutral stance on future interest rate movements, indicating that a hike was just as likely as a cut. Importantly, it is relying on the ongoing strength of the labour market to drive wage growth and eventually support headline inflation.

Australia's labour market has performed strongly in 2018, with an additional 300,000 jobs created over the year, the majority of which were in full-time positions. Despite the strong employment gains, wage growth remains only moderate at 2.3% in the year-to December. Employment growth has started to slow, and this is expected to continue into 2019.

Pallet movements indicate that retailers are experiencing a slow start to 2019. The year-on-year retail index growth for Q1 2019 is estimated to be 2.9%, which is a deceleration on December's 3.4% growth. The June quarter year-on-year index growth is expected to decelerate further to 2.8%.

Looking forward to the remainder of 2019, the retail sector is expected to soften further as falling house prices combined with subdued income growth reduce consumer willingness to spend. Discretionary spending, especially on household goods, is likely to receive the brunt of weaker consumer spending as ongoing population growth provides some support to non-discretionary retailers such as supermarkets.

On a positive note, retailers may well receive a boost to sales in the second half of the year, with the 2019 budget set to provide low and middle-income families with higher tax rebates. Personal income tax cuts passed in the 2018 budget have yet to reach consumer pockets, and additional tax relief is on its way with both sides of politics promising to increase the 2018-19 tax offset ahead of the election. This means households can expect larger tax refunds in July or August 2019, boosting disposable income and potentially flowing through to spending activity.

Commentary provided by Deloitte on behalf of CHEP