

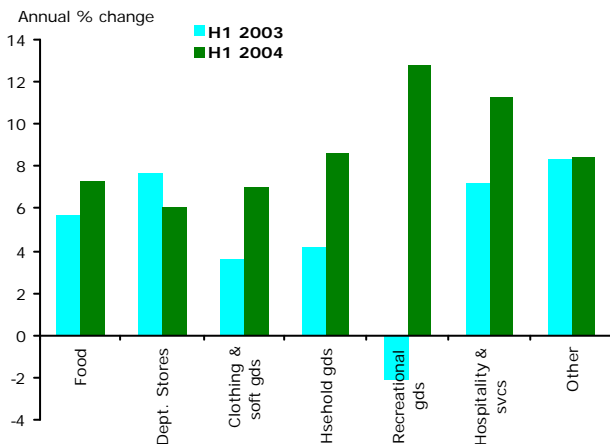
Industry brief: Retail Trade

Growth in retail trade exceeded expectations in the first half of this year and no let-up in spending is expected in the second half with consumer confidence at a 10-year high, unemployment at a 23-year low and consumers enjoying tax cuts/family payments. Retail trade is projected to expand by 8¼% in 2004, the highest rate in more than a decade.

No let-up in spending in 2004

Consumer spending has stayed robust, defying expectations of a slowdown induced by the effects of two interest rate hikes in late 2003, higher oil prices and more subdued wealth gains as a result of moderating house price growth. Instead, low unemployment, a strong Australian dollar, which has made imports cheaper, and fiscal stimulus have lifted consumer sentiment, which rose to a 10-year high in July, and have kept spending strong. Some \$96 bn worth of sales were generated in the first half of the year, up 8.3% from the same period in 2003.

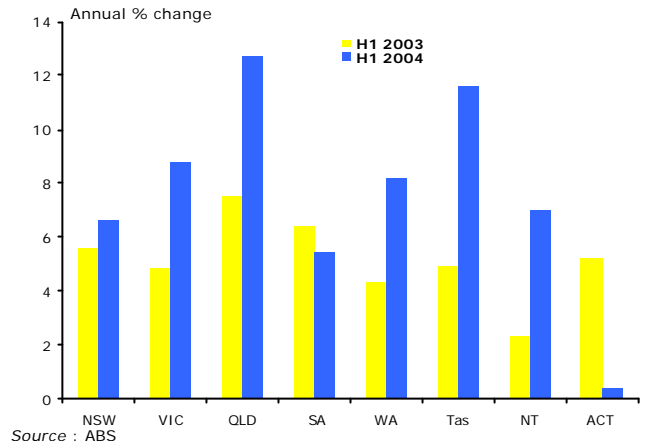
Retail sales in the first half of 2004, value terms



All industry groups except for department stores posted stronger growth in the first half of 2004. Sales of recreational goods recovered from the decline in 2003. New products and sliding prices helped to lift demand for household goods. The slowdown in department store sales can be partly explained by base effects, but it does highlight competitive pressures within this industry group and from other retailers such as clothing & soft goods and household goods.

On a state basis, Queensland and Tasmania were the star performers with retail sales growing by 12.7% and 11.6% respectively during January-June 2004 compared with the same period in 2003. All other states except for the ACT and South Australia posted growth of more than 6%.

Queensland and Tasmania : star performers



Outlook for 2004 revised up

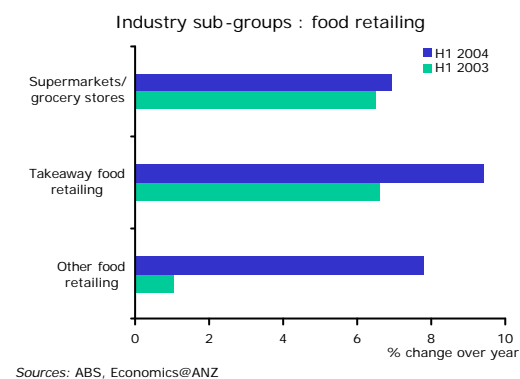
The spending environment in the second half of this year has been given a boost by income tax cuts for middle and higher income earners, the family tax benefits and maternity payment. These measures are projected to inject about \$7 bn into the economy in the year ending June 2005 and the expectation is that most of it will be used over the next few months. While some of it may be used to reduce debt, retailers' cash registers are likely to be ringing hot in the months ahead. The prospect of low unemployment and gains in financial wealth through rising equity markets will also keep consumer spending strong. In addition, international visitor arrivals have rebounded, lending further support to the industry.

That said, competition for the consumer dollar will remain keen. Travel and car purchases, which are not included in these retail trade figures, are likely to remain healthy. Car sales are headed for a record year in 2004 and outbound travel, which grew by 36% in the first five months of the year compared with the same period in 2003, has surpassed the Tourism Forecasting Council's estimate of 12% for 2004, and is likely to continue to be strong.

Our forecasts have been revised upwards with retail sales projected to rise by 8¼% in 2004, the highest rate since 1989. In inflation-adjusted terms, retail trade is forecast to expand by around 7½%, the highest on record. A more detailed analysis of the industry follows.

A Sectoral Analysis

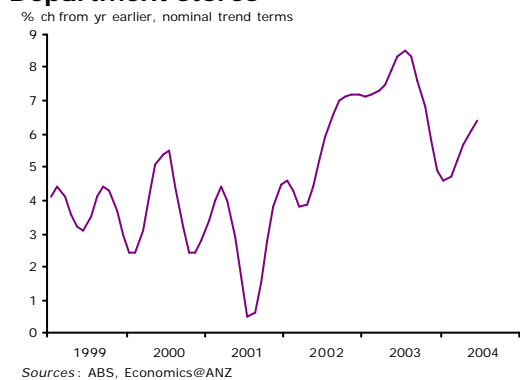
Food



Supermarket and grocery retailing constitute about 70% of total food retailing and has been growing at a steady pace. This mainly reflects the inelastic nature of demand and the income boost is therefore not likely to have as large an impact on sales. Indeed, aggressive pricing strategies due to intense competition amongst the majors and expansion of discount operator, Aldi, are likely to continue to keep a lid on price growth and even, encourage price rollbacks to outbid the competition.

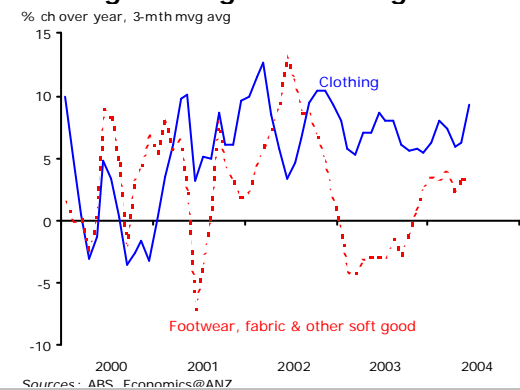
Higher discretionary income has benefited takeaway and other food retailers (eg. specialist food retailers, liquor stores) with annual turnover rising by 9.4% and 7.4% respectively during January-June 2004. Further growth is expected given the boost to consumers' incomes but competition from cafes and restaurants will limit momentum as more people decide to dine out.

Department stores



While being the only sector to record slower growth compared with last year, annual turnover of 6% during January-June 2004 represents relatively healthy sales expansion. Nevertheless, competition within the department store sector has deepened with "brand exclusivity" being strongly marketed, extended interest-free periods being offered and discounting still widespread. Store refurbishments are also underway to attract customer traffic. Sales at bulky goods stores and specialty fashion outlets have picked up strongly, heightening competition for department stores and increasing price pressures. This competitive environment is likely to limit the pace of growth in department store sales.

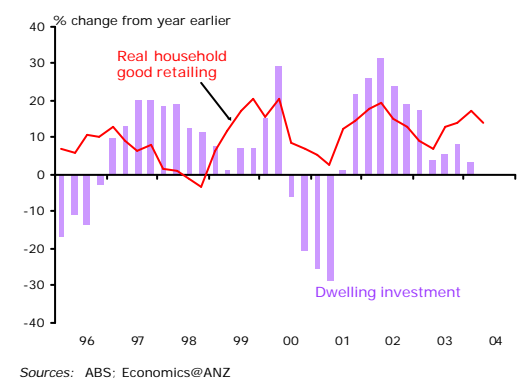
Clothing & soft good retailing



Clothing and soft good retailers have not only benefited from the strong Australian dollar but also from increased spending on exclusive fashions. Turnover has been much stronger than anticipated. This has provided some scope for margin restoration, particularly for specialty retailers as opposed to discount variety operators where cut-price retailing dominates.

Turnover is expected to continue to grow at a relatively healthy pace in 2004 lifted by higher discretionary income but is likely to moderate thereafter as the fiscal "bonus" effect dissipates. Margin pressures are likely to increase as a weaker dollar makes imports more expensive but intense competition limits the scope for price increases.

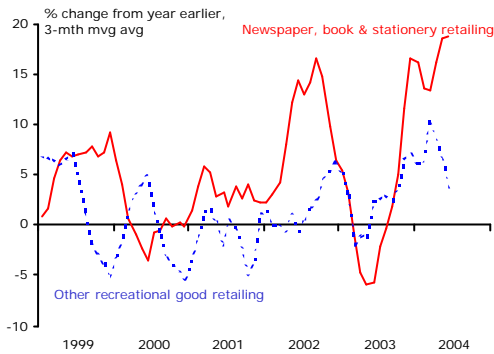
Household good retailing



Its boom time for household good retailers with demand for domestic appliances such as plasma TVs, home entertainment systems etc growing at a frantic pace propelled by heavy price reductions, the run-up to the Olympics and the cash windfall. In inflation-adjusted terms, turnover of household goods has grown at double-digit rates over the past 4 quarters, in year-on-year terms. Home renovations and housing construction have also underpinned demand for furniture and flooring covering and domestic hardware.

The budget impetus will lift growth further over the next few months but 2005 is likely to see a slowdown as dwelling investment declines with a pick-up only expected in the second half of 2005 and into 2006.

Recreational good retailing

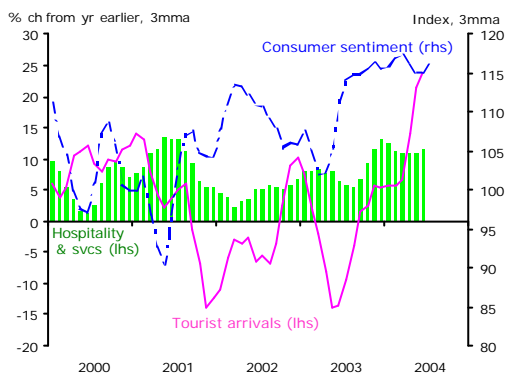


Sources: ABS, Economics@ANZ

Recreational good retailing includes newspaper, book & stationery retailing and other retailing such as sport & camping equipment, toy & game and photographic equipment retailing.

Positive consumer sentiment and income growth have underpinned sales in this sector. However, sales growth is likely to moderate in 2005, coming off a high base. Competitive pressures remain strong with other outlets such as department and convenience stores offering similar product lines. A weaker Australian dollar is also likely to make imported books more costly and may limit demand. Other recreational retailing have also benefited from higher incomes. Domestic tourism and the popularity of digital technology have fuelled spending in this sector.

Hospitality & services

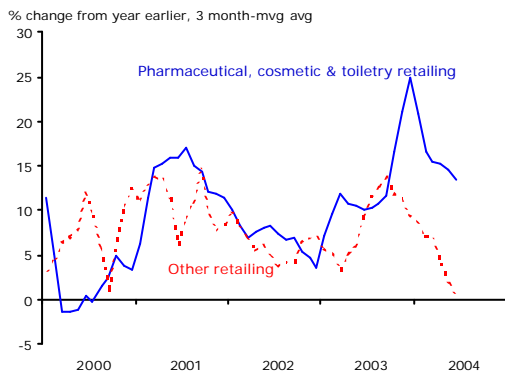


Sources: ABS, Economics@ANZ

Hospitality & services include hotels, licensed clubs, cafes & restaurants, and other services such as hairdressing & beauty salons and video hire outlets.

Higher dining-out budgets and a rebound in tourist arrivals have contributed to the strong pace of growth in sales in the hospitality and services sector. Turnover rose by 11.2% during January-June 2004 compared with the same period in 2003. There is still some more momentum expected in the next few months but growth is likely to moderate once the fiscal stimulus runs its course. The discretionary nature of this type of spending means that this sector would be one of the first to experience a winding-back of expenditure. Tourist arrivals are still expected to expand at a healthy pace in 2005 but are not likely to record as strong a growth as in 2004.

Other retailing



Sources: ABS, Economics@ANZ

Other retailing comprises pharmaceutical, cosmetic and toiletry retailing and other retailing such as antique & used good, garden supplies, flower, and watch & jewellery retailing.

Growth in turnover has slipped but this is from a high base. Pharmaceutical, cosmetic & toiletry retailing remains one of the strongest performers in the retail industry. Higher disposable incomes and growing health consciousness are likely to continue to underpin demand for complementary medicines. In addition, an ageing population and development of new medicines are likely to sustain growth over the medium term. A wide range of businesses fall under "other" retailing making it difficult to offer a trend in this sub-group. Some retailers, like antique and used good retailers are facing tougher business conditions as online services provide a viable alternative to browsing through shops for time-poor customers. Demand for garden supplies is likely to soften as residential building completions moderate. Watch & jewellery retailing, on the other hand, are likely to benefit from rising incomes and positive consumer sentiment.

Conclusion

The fundamentals support continued strong retail activity over the rest of 2004 with some easing projected in 2005 partly reflecting high base effects. In addition, less of a fiscal injection in 2005 and more subdued wealth gains are likely to temper growth. Retail trade growth will, however, remain healthy with turnover forecast to rise by 5¼% in 2005 (4¼% in inflation-adjusted terms).

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