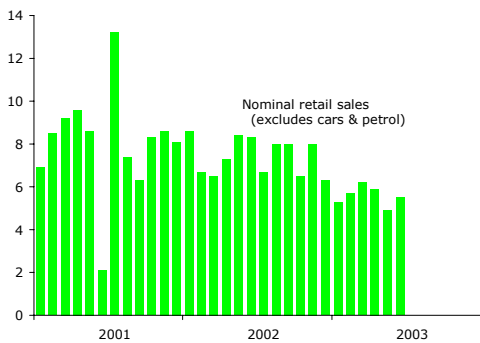


# Industry brief: Retail Trade

## 1. Retail trade resilient

% change from year earlier

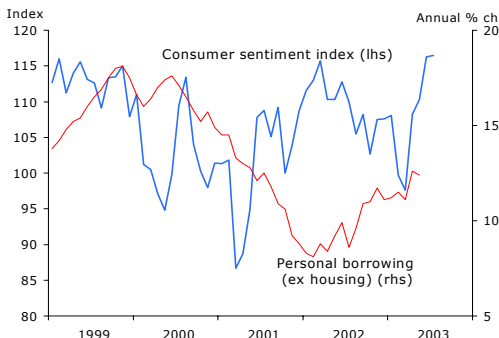


Source : ABS

Turnover for the first six months of this year was \$88.3 bn, in nominal terms. This was 5.6% higher than for the same period in 2002. Sales were supported by the post-war rebound in consumer confidence, fall in petrol prices and Australians opting to stay at home instead of travelling abroad amidst security fears and concerns over the outbreak of Severe Acute Respiratory Syndrome (SARS).

Although not expected to record the 7½-8% growth achieved over the previous two years, turnover in retail trade is expected to expand at a healthy pace, supported by accommodative macroeconomic policies.

## 2. Consumer confidence lifts

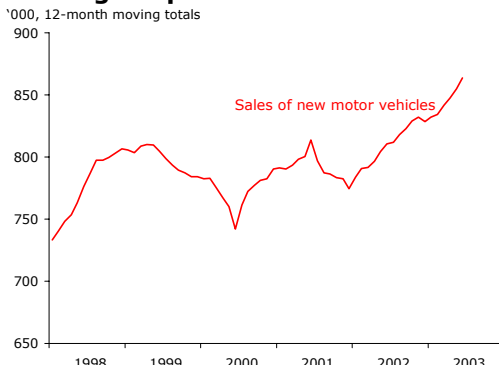


Sources : ABS, Economics@ANZ, Westpac/Melbourne Institute

The interest rate environment remains conducive to spending. The cash rate currently, at 4.75%, has stayed at this rate for over twelve months. Taxpayers are enjoying a surprise tax cut, albeit small, for the current financial year with its effect being more widespread than a marginal cut in interest rates. Consumer confidence has recovered with the Westpac/Melbourne Institute consumer sentiment index edging up. In addition, consumer borrowing continues to grow at a relatively healthy pace.

Now that the SARS virus appears to be under control and the Iraq war over, international tourist arrivals should recover strongly in the second half and positively impact retail sales.

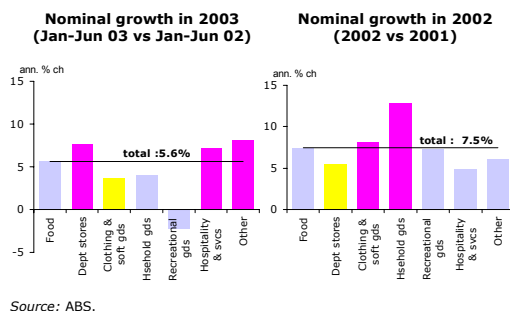
## 3. Strong competition for consumer dollar



Source : ABS

Why not the 7½-8% growth of recent years? After robust growth over 2002, dwelling investment is headed for a downturn and, in turn, demand for household goods is expected to grow at a slower pace. This is already evident with demand for consumer durables moderating. In addition, competition for the consumer dollar remains strong. For instance, motor vehicle sales, which are not included in total retail trade, continue to exceed expectations. A strong Australian dollar is also likely to lift demand for overseas travel. Moreover, smaller gains in household wealth and an anticipated modest rise in the unemployment rate are expected to limit a pick-up in household spending.

## 4. Retail trade by industry group

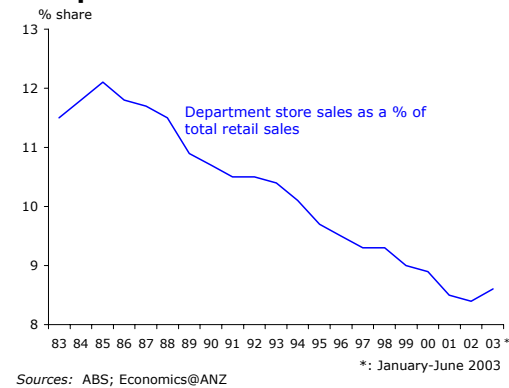


Source: ABS.

Against this backdrop, Economics@ANZ forecasts nominal retail sales to grow by around 5½% in 2003 and at a marginally slower rate of 5% in 2004. While this represents an easier growth phase, retail trade turnover remains resilient particularly after two years of above-average growth.

Looking at the seven industry groups, turnover in department stores, hospitality & services, and other retailing have grown at a faster pace than total retail trade this year. The picture is different from 2002 where turnover in household goods and, clothing & soft good retailing were strong performers.

### 5. Department stores

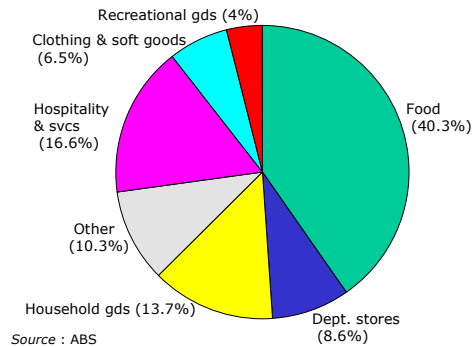


Department stores' share of total retail sales has dropped from 10.7% in 1990 to 8½% currently. The stronger performance this year, with turnover rising by 7.6% during January-June 2003 compared with the same period in 2002, partly reflects the effects of restructuring, fresh concepts, launch of new and exclusive brands and positive consumer sentiment.

However, the expansion of specialty fashion outlets and bulky goods stores (eg. Ikea, Harvey Norman) means that competition remains intense. In addition, the rise in prominence of discount department stores has increased pressures for traditional department stores to reposition themselves in the market. While restructuring has begun to bear fruit, sustaining this performance will be the key challenge.

### 6. Food forms bulk of retail turnover

Nominal Retail Sales : \$88.3 bn (Jan-June 03)



Food retailing, which accounts for 40.3% of total retail turnover, grew by 5.6% during January-June 2003 compared with the same period in 2002.

Supermarkets and grocery retailing constitute the bulk of sales and growth has been relatively steady, reflecting the inelastic nature of demand. This, however, masks the increasing competition within the sub-group from consumers' changing tastes and preferences and the entry of new participants. This has prompted the more prominent players to expand the range of products or services offered (eg. discount petrol, pharmacy services a possibility) and to increase market share in selected businesses through acquisitions (eg. liquor retailing) while smaller supermarket chains continue to rationalise and refocus their strategy to capture market share.

### 7. Recreational good retailing



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

More players in the market, such as supermarkets, department stores and convenience outlets, have heightened competition for booksellers, newsagents and stationery shops. After strong sales in the second half of 2002, growth has slipped to negative territory. While "Potter-mania" would have provided a reprieve, the competitive environment will continue to put pressure on sales.

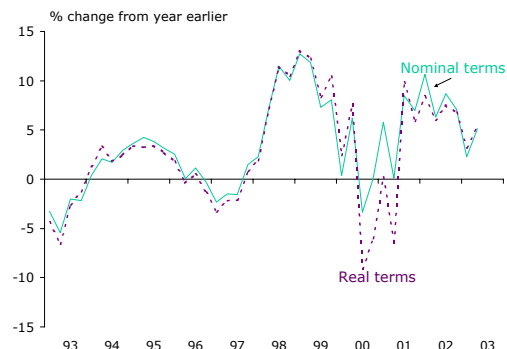
### 8. Household good retailing



Demand for household goods, which comprise furniture & floor covering, domestic appliance & recorded music and domestic hardware & houseware, grew at a robust pace in the lead-up to the GST in July 2000. Household good retailing picked up speed again in late 2001, riding on a rebound in dwelling investment.

Now that growth in housing investment has passed its peak and is headed for a further downturn before a recovery in the second half of 2004, household goods retailing is likely to grow at an easier pace over the coming months.

### 9. Clothing & soft good retailing

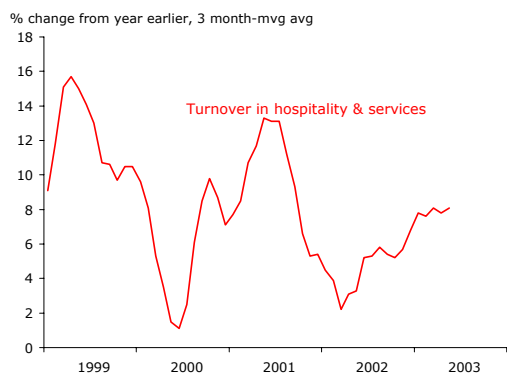


Source: ABS

From very weak sales in 2000, turnover in clothing & soft good picked up strongly in 2001 and 2002. However, aggressive price discounting has kept margins tight. Growth in turnover is expected to soften in 2003, reflecting in part, the milder seasonal conditions which have had an adverse impact on demand, and coming off a high base.

In terms of industry sub-groups, turnover in clothing retailing continues to expand, albeit at a slower rate, of 7% for the first six months of this year compared to the corresponding period in 2002. However, sales in the footwear, fabric and other soft good retailing sub-group have been weak, declining by some 3½% during January-June 2003 compared with the same period in 2002.

### 10. Hospitality & services

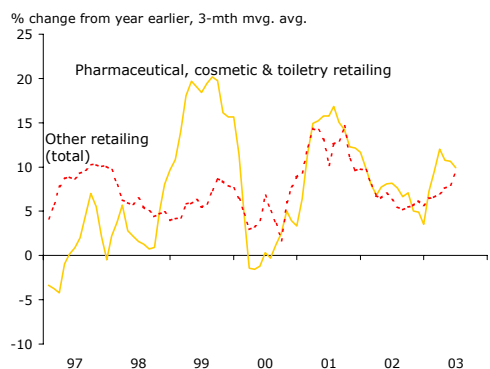


Source: ABS

Turnover in hospitality & services which includes hotels, licensed clubs, cafes and restaurants, and other services such as hairdressing salons and video hire outlets, grew at a healthy pace of 7.2% during the first half of 2003 compared with the corresponding period in 2002. This is especially encouraging given the 8% decline in the number of international visitor arrivals during the same period.

Turnover in the hospitality & services industry is expected to continue to grow at a strong pace, boosted by the anticipated rebound in the inbound visitor market in the second half.

### 11. 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.

Pharmaceutical, cosmetic and toiletry retailing has grown at a faster pace in 2003. While growth in turnover would have been stronger if not for the adverse impact of the PAN Pharmaceuticals recall, the expected recovery in demand for complementary medicines as well as expansion of services offered at pharmacies is expected to support further growth. However, competition among pharmacies and health & beauty chains will be heightened by the wider range of health/skincare products offered and non-pharmacy operators entering the pharmacy market.

### Conclusion

Despite the fall back in the rate of growth, sales performance in most areas of retail trade remain strong. The industry is being underpinned by reasonable domestic economic growth and accommodative fiscal and monetary policies. Although turnover remains resilient, margins, however, remain under pressure from keen competition.

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