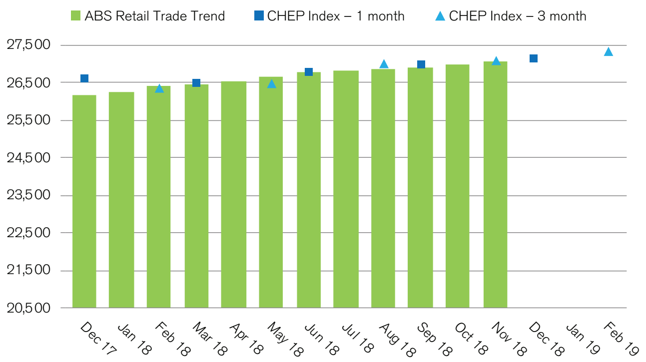
CHEP RETAIL INDEX

Moderation in retail sales growth in early 2019 predicted by the CHEP Retail Index

EDITION 32 – January 2019

Retail Trade Turnover – $Millions



Turnover ($Millions)

December 2018 – 27,141

February 2019 – 27,315

Year on Year Growth

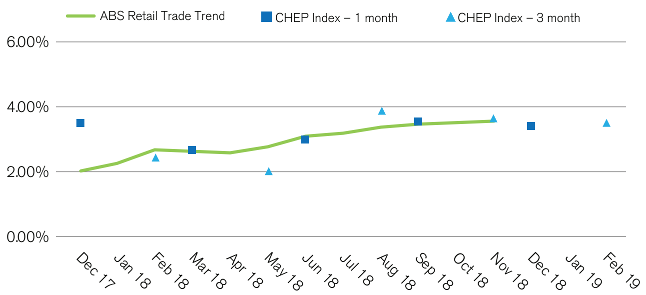


*Chart movements in nominal (current price) terms.

Analytics by **Deloitte.**

Year on Year Result

December 2018
3.4% increase in Retail Index

December Quarter 2018
3.6% increase in Retail Index

February 2019
3.5% increase in Retail Index

March Quarter 2019
3.4% increase in Retail Index

Highlights

+ Retail turnover has moderated slightly heading into the first quarter of 2019, with the CHEP Retail Index estimating year-on-year growth to March 2019 of 3.4%.
+ Households continued to use savings to support retail spending throughout 2018, however with house prices in decline, consumers are looking to wages to drive spending.
+ The slight moderation in pallet movement data indicates retailers may be reassessing the outlook after a subdued Christmas period.

David Rumbens, partner at Deloitte Access Economics, comments that, "bricks and mortar retailers were optimistic heading into the Christmas period, however data suggests that sales may not have met the expectations implied by pallet movements".

CHEP

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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 April 2019 with forecasts for March 2019 and the June quarter.

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COMMENTARY ON CHEP RETAIL INDEX

Retail Turnover Trend	Edition28		Edition29		Edition30		Edition31	
	Dec 17	Feb 18	Mar 18	May 18	Jun 18	Aug 18	Sep 18	Nov 18
ABS	26,226	26,412	26,487	26,645	26,746	26,879	26,937	27,065
AFGC CHEP Index	26,576	26,340	26,472	26,480	26,768	27,019	26,954	27,101
Turnover Error	101.3%	99.7%	99.9%	99.4%	100.1%	100.5%	100.1%	100.1%
Year on Year Movement Error	101.5%	99.8%	100.0%	99.3%	99.8%	100.5%	100.0%	100.1%

The Australian retail environment was mixed in 2018. Performance was strong towards the beginning of the year as cheap credit and rising asset prices fuelled confidence to spend. This resulted in yet another year where spending growth has exceeded income growth, with the household savings rate falling sharply. Towards the end of the year household wealth declined due to both falling house prices and share market declines. The deterioration in household wealth has flowed through to consumer willingness to spend, especially on discretionary retail items where sales slowed towards the end of the year.

On a positive note, Australia continues its long run of uninterrupted economic growth which has flowed through to the labour market. Job growth remains strong, and while income growth has been limited, we are beginning to see signs of stronger wage growth as the labour market continues to tighten. Low inflation prompted the Reserve Bank of Australia to leave official interest rates on hold at a record low for 2½ years. This is supporting household budgets by limiting repayment costs on high levels of housing related debt.

Consumer confidence has drifted lower as falling house prices offset good news from the labour market. The Westpac-MI consumer sentiment index fell to 99.6 in January 2019 with a broad-based decline across all survey components. Despite the number of pessimists outnumbering the optimists, consumer sentiment remains above the five year average. On the other hand, retailers were optimistic heading into the Christmas period.

Positive retailer sentiment was reflected in pallet movement data, which indicated retailers expected sales to strengthen over the Christmas period and into 2019. However, initial information suggests that retail sales over the Christmas period were relatively weak, with foot traffic relatively low. To some degree this may reflect stronger online sales, as consumers switch from braving the crowds to shopping in the comfort of their own home. However, if retailers overestimated spending activity in the Christmas period, they may have to implement additional discounting to move stock in the early months of 2019.

Looking forward to 2019, the retail sector is expected to maintain solid growth in turnover as the positives from the labour market offsets the weaknesses in housing. The March quarter year-on-year index growth is expected to moderate slightly to 3.4%. Population growth and employment gains are anticipated to boost food retailers, while some department stores and household goods retailers may continue to struggle as weaker house prices and rise of online competitors hurts sales.

Commentary provided by Deloitte on behalf of CHEP