

## Australian economic update

### January retail spending

Growth in retail sales values was flat in January (JPMorgan 0.4%, consensus 0.5%) after rising a revised 0.4% in December (previously 0.5%). The moderation in sales growth emerged as consumer confidence plummeted in the January month (-8.4% m/m). Confidence tumbled as several domestic banks raised their standard variable loan rates in the absence of a rate in the official cash rate, and speculation rose that the RBA would tighten policy again in February, a rate rise that did come to fruition. Increased volatility in equity markets (stocks fell 11% in January) and still-elevated petrol prices also curbed spending. Still, better weather conditions, solid employment growth, and rising incomes, would have cushioned the downside for retailers.

#### Retail sales, seasonally adjusted

	Nov	Dec	Jan
\$ million	20046.6	20131	20138.5
% m/m	0.8	0.4	0.0
% oya	8.0	8.4	7.1

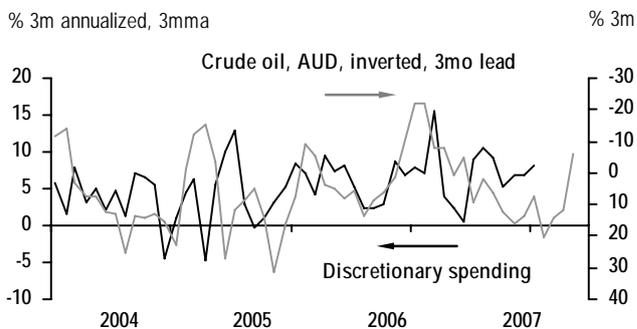
The retail sales print was not all bad news, however. Discretionary spending remained relatively strong (+0.2%) in comparison to non-discretionary spending which subsided (-0.1%). The largest component of the retail sales index, the food category, showed the value of food sales fell 0.4% in January as supplies of fruit and vegetables increased due to improved conditions in most growing areas, reducing prices. Excluding the food component, retail sales values grew 0.3%, down slightly from 0.4% in December. Prices also fell for clothing and soft goods (-0.2%), household goods (-0.5%) and hospitality and services (-0.6%). Making positive contributions to the index were recreational good sales (+3.4%), department store sales (+1.8%), and other retailing (+1.2%)

**Retail sales - Jan 2008**

	% m/m	% oya
Food	-0.4	6.9
Department Stores	1.8	6.4
Clothing and Soft Goods	-0.2	6.8
Household Goods	-0.5	5.7
Recreational Goods	3.4	14.8
Other Retailing	1.2	10.4
Hospitality and Services	-0.6	5.7
<b>Total</b>	<b>0.0</b>	<b>7.1</b>

Still-elevated petrol prices, equity market volatility, and rising interest rates, will keep a lid on consumer spending in coming months. The RBA hiked interest rates in February and will probably opt for another quarter point rate hike later today. Furthermore, the risk is that domestic banks may raise their variable mortgage rates by more than the anticipated 25bp rise in the official interest rate. On the upside, households' incomes should continue to increase as tight labour market conditions fuel faster wages growth and workers receive further income tax relief in July.

- Retail sales growth was flat in January, after a 0.4% rise in December.
- Retail sales rose 7.1% oya, slowing from 8.4% in December.

**Australia: crude oil and discretionary spending**

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