

Australian economic update

May retail sales and building approvals

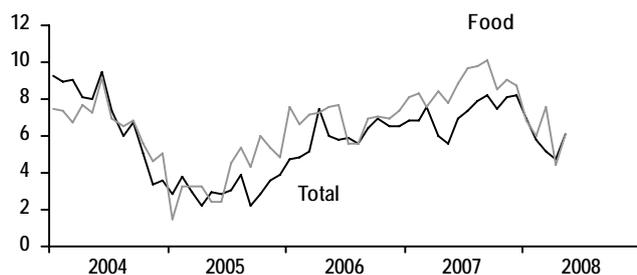
Retail sales values surged unexpectedly in May, rising 0.7% m/m (JPMorgan - 0.3%, consensus +0.1%), after falling a revised 0.1% in April (previously - 0.2%). This was the largest rise in retail sales values since November 2007, but only the second rise in retail sales this year. The trend in retail sales remained unchanged in May at 0.1% m/m for the fifth consecutive month.

	Mar	Apr	May
\$ million	20121	20099.5	20239.5
% m/m	0.3	-0.1	0.7
% oya	5.1	4.8	6.1

Importantly, non-discretionary spending, on food and clothing for example, was strong, rising 1.2% m/m; this was largely attributed to higher food sales. Food is the largest category of the retail sales index, and rose 1.0% m/m in May. The rise in the value of food sales was unexpected, however. We had expected that recent rainfalls would have boosted supplies of fruit and vegetables, and other food products, putting downward pressure on prices. Ex. food sales grew 0.5% m/m, the same rate as in the previous month.

Australia: retail sales

%oya

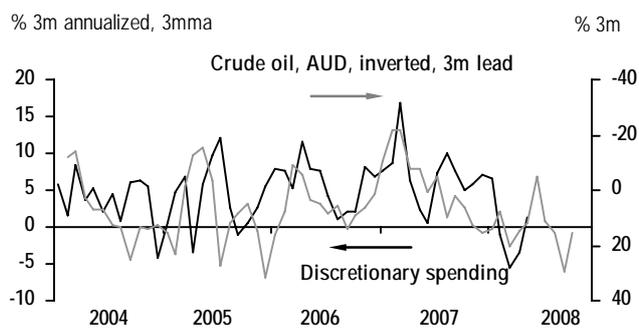


Discretionary spending was flat in May after rising 0.5% m/m in April for the first time in four months – recreational good sales were up significantly, but this rise was offset by declines in department store sales and sales of household goods.

Retail sales	% m/m	% oya
Food	1.0	6.1
Department Stores	-0.8	5.3
Clothing and Soft Goods	-0.3	7.5
Household Goods	-1.0	2.3
Recreational Goods	2.2	15.7
Other Retailing	3.1	15.1
Hospitality and Services	0.8	2.3
Total	0.7	6.1

Consumers are still facing significant headwinds, owing to higher interest rates and elevated petrol prices. Consumer confidence is near a 15-year low following back-to-back rises in interest rates in February and March, and higher borrowing costs continue to eat into households' disposable incomes. Rising living costs will to some extent offset the positive impact on consumer spending of the personal income tax cuts to be delivered from July 1.

Australia: crude oil and discretionary spending



The details:

- Retail sales rose 0.7% m/m in May, after contracting 0.1% in April.
- On year ago retail sales were up 6.1%, after rising 4.8% previously.
- The trend estimate was unchanged for the fifth straight month.

Other data showed that building approvals fell 6.5% m/m in May (JPMorgan - 6.0%, consensus -3.4%), after spiking 7.8% in April. The fall was driven by an 18.2% m/m slump in approvals for other dwellings, such as apartment buildings, while approvals of private sector houses fell 1.2%.

The outlook for the building sector remains negative. Building and material costs in the residential construction sector are elevated, excessive red tape continues to deter new development, and higher interest rates are weighing on new home building.

