

Economic Analysis

Retail Trade May 2023

Overview

Retail trade rose a seasonally adjusted 0.7% in May, which was a large upside surprise to the market participants who had expected just a 0.1% uptick.

The annual rate of growth continued to normalise, slowing to 4.2% from the upwardly revised 4.3% in April.

Industry Groups

The bigger than expected rise in retail sales was mainly due to a 2.2% increase in 'other retailing' and a 1.4% pick-up in cafes, restaurants and takeaway food.

According to the ABS, the solid increase in 'other retailing' was caused by strong online sales amid an early start to some end of financial year sales. In addition, there was a positive contribution from florists as well as pharmaceuticals and cosmetic retailers amid unusually high turnover ahead of Mother's Day. The latter could also have supported the bounce in dining out.

Household goods, which had been underperforming earlier in the year, picked up 0.6%, possibly also helped by early end of financial year sales.

Food sales rose by 0.3%, which - according to the ABS - was driven by higher prices rather than volumes.

At the same time, there were declines in turnover in clothing, footwear and personal accessories (-0.6%) as well as department stores (-0.5%), following strong results in April.

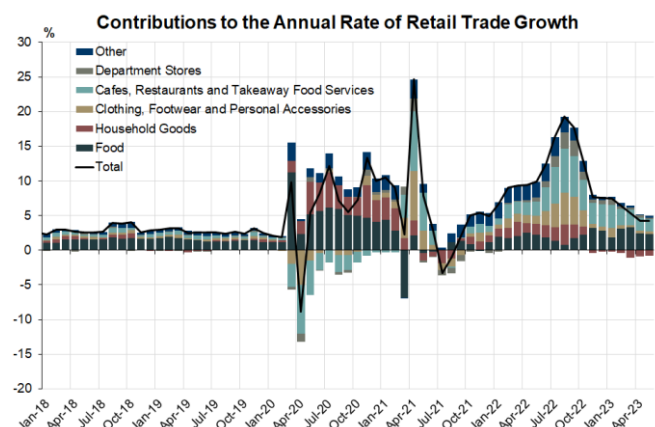
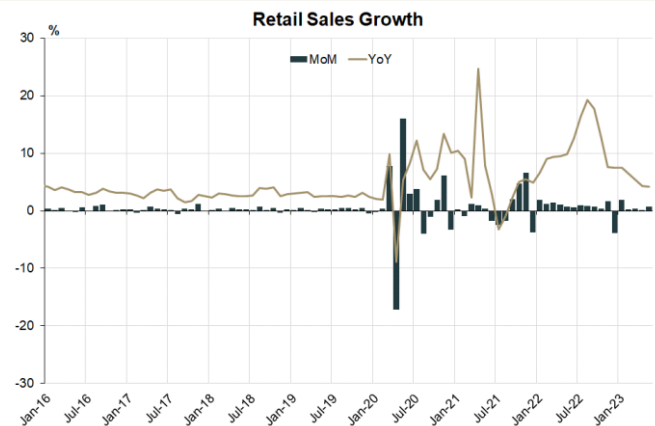
Seasonally Adjusted, %	MoM	YoY
Food	0.3	6.1
Household Goods	0.6	-4.4
Clothing, Footwear and Personal Accessories	-0.6	4.0
Cafes, Restaurants and Takeaway Food	1.4	12.7
Department Stores	-0.5	3.3
Other Retailing	2.2	2.3
Total	0.7	4.2

States

Retail sales rose in all mainland states, with Victoria seeing the strongest monthly increase of 1.0%.

Western Australia recorded a moderate 0.2% monthly gain, following a 1.0% rise in April, but boasted the second largest annual increase of all the states (+5.7%). Western Australia continued to lead other states in terms of retail sales performance over the past three years, with a 36.6% increase since January 2020.

Seasonally Adjusted, %	MoM	YoY
Western Australia	0.2	5.7
New South Wales	0.8	4.2
Victoria	1.0	4.8
Queensland	0.4	1.8
South Australia	0.4	6.5
Tasmania	-0.1	1.7



Comment

The May retail sales report was a large upside surprise, but this strength was due to temporary factors.

On the one hand, faced with cost-of-living pressures, many customers are taking advantage of the larger than usual promotional activity of some retailers.

On the other hand, there is still some degree of resilience in consumer demand, as evidenced by supersized sales related to Mother's Day.

Looking through these one-off factors, retail sales continued to slow in annual terms, with a negative contribution from the discretionary household goods and diminishing annual growth in department stores, and clothing, footwear and personal accessory sales.

Rising prices continue to be reflected in higher nominal spending for the predominantly non-discretionary food retailing.

Following the stronger-than-expected retail sales figures for May, the probability of a 25bps cash rate hike next week rose from 30% to around 45%. Despite the temporary nature of the factors driving this upside surprise, it has also reinforced our [view](#) that the RBA July meeting is definitely 'live'.

29 JUNE 2023

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