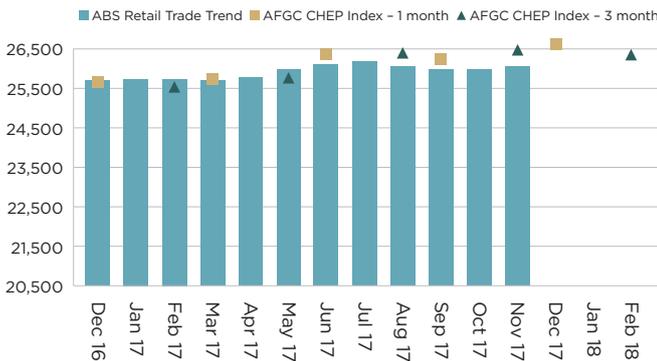


AFGC CHEP RETAIL INDEX

EDITION 28, JANUARY 2018

AFGC CHEP Index predicts modest retail sales growth in Q1 2018

Retail Trade Turnover – \$Millions



Turnover (\$Millions)

December 2017 – 26,576

February 2018 – 26,340

Year on Year Growth



*Chart movements in nominal (current price) terms.

Analytics by **Deloitte**.

Year on Year Result

December 2017

3.5% increase in Retail Index

December Quarter 2017

2.4% increase in Retail Index

February 2018

2.4% increase in Retail Index

March Quarter 2018

2.6% increase in Retail Index

Highlights:

- The early 2018 moderation in pallet movements suggests that retailers expect a modest trading environment over the next few months.
- Retail sales showed some strength in late 2017, but this was not enough to offset soft growth in average retail spending over the rest of the year.
- Looking forward, the economic environment is supportive of some potential improvement in retail sales growth in 2018, when the improved business confidence, investment and labour market outcomes in 2017 flow through to consumer spending.

David Rumbens, partner at Deloitte Access Economics, comments that “shaky retail sales growth during most of 2017 reflected fragile consumer confidence, continuing underemployment and a lack of wage growth. However, the improvement in retail sales growth towards the end of the year was some reward for retailers linked to the stunning rate of jobs growth which has also been seen through 2017.”

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Overview

The AFGC 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 2018 with forecasts for March 2018 and the June quarter.

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COMMENTARY ON AFGC CHEP RETAIL INDEX

	Edition 24		Edition 25		Edition 26		Edition 27	
Retail Turnover Trend	Dec 16	Feb 17	Mar 17	May 17	Jun 17	Aug 17	Sep 17	Nov 17
ABS	25,652	25,726	25,794	25,957	25,996	26,051	26,008	26,042
AFGC CHEP Index	25,640	25,534	25,715	25,735	26,351	26,390	26,247	26,461
Turnover Accuracy	100.0%	99.3%	99.7%	99.1%	101.4%	101.3%	100.9%	101.6%
Year on Year Movement Accuracy	99.8%	99.1%	100.1%	99.1%	101.0%	101.4%	101.2%	101.7%

The business side of the Australian economy improved last year, with significant gains in employment, business confidence and investment outcomes.

“The last 12 months saw Australia deliver a stunning gain of 380,000 jobs, many of which were full time, which will provide good impetus for income growth in the early part of 2018. This has eased underemployment from record highs and is expected to bring wage growth up from the record lows seen in 2016 and 2017.” says Rumbens.

And the dividends of improved labour market outcomes may have already begun for the retail sector, with 1.2% growth in seasonally adjusted retail sales in the month of November 2017. Online retailing has grown even faster, now representing approximately 7.6% of total retailing, up from around 7% a year ago¹. The growing presence of online retailing is adding significant price competition to the market, and is keeping retail inflation well below other consumer products in the economy. This price competition is expected to bring up volumes of retail purchases in the coming year.

But pallet movements show that retailers are not expecting a jump in sales growth in the early months of 2018. Indeed, the CHEP index is expected to grow modestly over the coming months. The year-on-year March quarter result is forecast at 2.6%, a slight improvement on December quarter result of 2.4%. This indicates that retailers expect that improving business confidence will translate to only modest improvements in consumer spending and the retail sector in the first quarter of 2018.

On the one hand, there are reasons for consumers (and retailers) to be cautious about spending. Slowing housing price growth in late 2017 may lead to caution among home-owning consumers, who may not be as confident about their growing wealth as they were in previous years. Rising cost of living pressures such as energy and health care, as well as significant mortgage debt, are also factors that could crimp retail spending.

But on the other hand, improved labour outcomes should still mean that consumers have more money to spend in 2018 than they did a year ago. Hence, there is some potential for retailers to be surprised on the upside, as retail spending may grow at a faster pace than is currently being planned for.

¹NAB Online Retail Sales Index

Commentary provided by Deloitte on behalf of AFGC and CHEP.

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