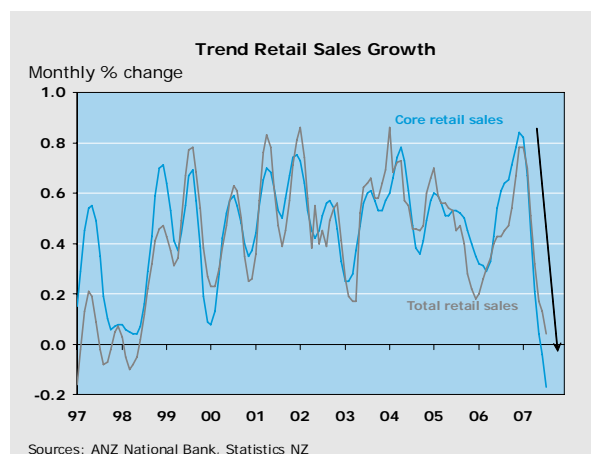


## RETAIL SALES - JULY

### Key points

- **Headline retail sales were flat in July, while core sales fell for the second consecutive month.**
- **Consumer spending is showing signs of moderation in line with housing activity.**
- **The Reserve Bank will take further comfort from today's data. The key for them now is whether this begins to feed into reduced non-tradable inflation pressures.**

	Core Retail Sales (% change)		Total Retail Sales (% change)	
	nominal m/m	Trend	nominal m/m	Trend
Jan-07	0.8	0.8	0.4	0.8
Feb-07	2.8	0.7	2.2	0.7
Mar-07	0.3	0.4	0.9	0.5
Apr-07	-0.9	0.2	-1.2	0.3
May-07	0.4	0.0	1.0	0.2
Jun-07	-0.5	0.0	-0.4	0.1
<b>Jul-07</b>	<b>-0.2</b>	<b>-0.2</b>	<b>0.0</b>	<b>0.0</b>
<b>ANZ</b>	<b>-0.2</b>	<b>-</b>	<b>0.0</b>	<b>-</b>
<b>Market</b>	<b>0.1</b>	<b>-</b>	<b>0.2</b>	<b>-</b>



### Assessment and implications

**Total retail sales were flat in July, slightly below market expectations.** Core sales (which exclude motor vehicle related industries) also came in below market expectations, recording a fall of 0.2 percent. These results come after falls of 0.4 percent and 0.5 percent for headline and core sales, respectively in June. In fact, it is the first time since 1998 that core sales have recorded two consecutive monthly declines. None of the 24 retail industries had sales movements of more than \$8 million in July compared with June 2007. Recreational goods retailing and clothing and softgoods retailing made the largest negative contributions to the monthly result, each falling by \$8 million (down 3.7 percent and 3.8 percent, respectively). Accommodation had the largest sales increase in July, up \$6 million (3.1 percent).

**It is now apparent that interest rate increases delivered this year are having the desired impact of slowing domestic demand.** Much of the weakness in today's data looks to have come from durables – an area of spending that is interest rate sensitive. Although trend measures experience a great deal of end-point bias and are subject to revisions, they are clearly reporting an easing in retail spending. The housing market – which has over the past few years provided plenty of support to consumer spending – now also looks to have turned, and consumers are likely to benefit less from the wealth effect of higher house prices as a result. While there are still strong pillars of support to retail spending coming from solid income growth, we expect the combination of higher interest rates and slowing house price growth to weigh on consumer spending over the coming months.

**Q3 GDP is looking sluggish.** After a likely weak result for private consumption in Q2, today's data illustrates that consumer spending has begun the September quarter in weak fashion, although both will represent some payback from an outsized surge in consumer spending in Q1. The Reserve Bank's GDP pick for Q3 of 0.8 percent expressed in today's *MPS* is looking decidedly lofty given soft consumer spending and housing activity in the quarter. There needs to be some strong growth from other areas to compensate for this in order to get a 0.8 percent result.

**The Reserve Bank will take further comfort from today's data** that domestic demand is moderating in response to higher interest rates. The key for the Bank, and now one of their major focuses going forward, will be evidence that this moderation is feeding into reduced non-tradable inflation pressures.

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