

Monthly economic e-news

July 2011



‘The growth of the resources sector has outpaced weak retail sales as consumer confidence struggles.’

Craig Turnbull
Chief Investment Officer

Declining retail sales emphasise a two speed Australian economy

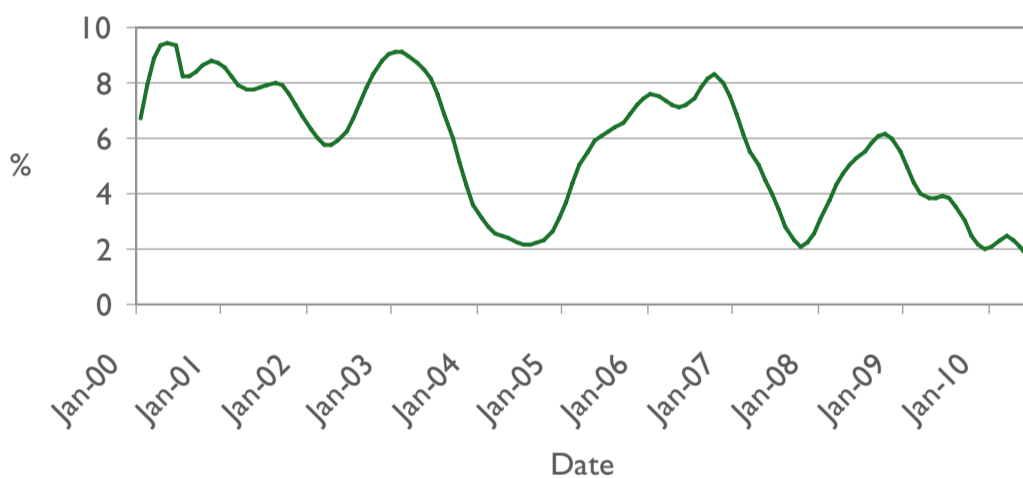
There has been a lot of talk about the “two speed” Australian economy. What this means is that two of the main economic sectors, being resources and retail, are growing at very different speeds. The resources sector is booming, however retail isn't performing as well.

Why has a two speed economy emerged in Australia?

A number of factors have led to this situation, primarily the resources boom, which has been driven by enormous demand for commodities like iron ore, coal and natural gas by the developing nations such as China. This has propelled the price of commodities up and resulted in the development of huge new projects to expand production.

The growth of the resources sector has outpaced weak retail sales as consumer confidence struggles. Retailers prefer it when sales are growing at 6 or 8% rather than hovering around the 2% mark, where they've been since the end of last year.

Australian Retail Sales Growth



Source: ABS

Not all retail sales are down though

In light of this, Woolworths reported that their total sales for the year were up by 4.7%, but the BIG W division had a fall in sales. Similarly, Wesfarmers saw sales growth of 6.3% for their Coles supermarkets, however over the same period sales for their combined Target and Kmart division were down.

Elsewhere in the retail sector David Jones was forced to warn their investors that they experienced weak sales throughout the June clearance period and the outlook is negative for sales and profits in the second half of 2011. David Jones CEO, Paul Zahra, said “the rapid deterioration in trading conditions in the fourth quarter of the 2011 financial year has been unprecedented”.

Local Government Super has significant investments in both Woolworths and Wesfarmers, as they are the two dominant retailers listed on the Australian share market. Their combined retail sales for the last financial year were \$102 billion, out of total \$245 billion for all forms of retail spending.

A positive outlook by the Reserve Bank of Australia

Glen Stevens, the Governor of the Reserve Bank of Australia recently gave a speech about the state of consumer spending and said the slowdown in spending is likely to be temporary, as income growth in Australia has continued to be healthy. At some point in the future, people will stop saving so much and retail spending will accelerate again.

Markets at a glance

for the month ending 31 July 2011

- ↓ Australian shares¹ down by **3.97%**
- ↓ Australian Government Bonds² down to **4.81%**
- ↑ Australian dollar up to **US\$1.0954**
- Cash rate³ steady at **4.75%**
- ↓ International shares⁴ down by **1.88%**

1 ASX 200
2 Yield on 10 year Australian Government bonds
3 RBA cash rate
4 MSCI – World ex Australia