

RETAIL DEMAND TRENDED UPWARD, IN 2014, WHAT'S IN STORE FOR 2015

Following the recent surge in house prices, retail turnover has shown an equivalent response with spending trending upwards over the past 12 months, particularly in NSW and VIC.

The recovery has been underpinned by a combination of historically low interest rates and an increase in wealth levels brought about by the gains in property prices. Additionally, the Australian dollar has moderated in recent months which has supported domestic retailers by making offshore purchases more expensive. The improvement in spending has now been persistent for the past 12 months, where annual growth totalled 4.1% over the year to December 2014.

Across the country, house price and retail turnover growth has been greatest within NSW and Vic, which accentuates the strong correlation between consumer spending patterns and house prices. As figure 1 suggests, the two are closely aligned.

By category, retail turnover has been mixed with some sectors experiencing their highest levels of growth in years while others continue to underperform the broader retail market. Food retailing continues to be the benchmark with growth remaining above the more discretionary categories. The last five years has seen food retailing record average annual growth of 4.2% compared to 3.0% for non-food categories.

Specifically, the upturn in residential building activity has led to robust sales in household goods retailing where annual growth in excess of 11% was achieved. In recent years, growth in online sales has significantly outstripped growth in traditional retail spending, however more recently, online sales experienced a considerable slowdown, largely off the back of a weaker Australian dollar. In dollar terms, this rate of growth meant that Australians spent approximately \$16.3 billion via online retail over the year to November, equating to 6.8% of total retail sales, slightly above the 6.4% recorded for the year earlier.

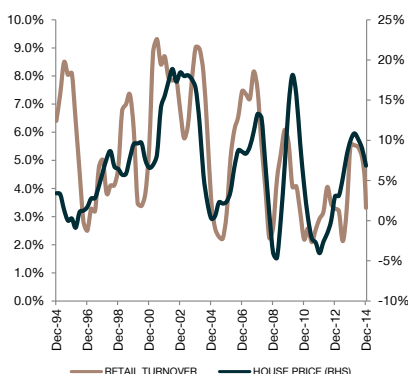
Growth in online retailing remains a competitive force on retailers, however landlords appear to be actively managing tenancy mixes and focusing on the experience aspect of a centre to the benefit of income sustainability.

There remains several headwinds facing the retail sector with consumer sentiment remaining weak. Consumers remain cautious following the May Federal Budget and weaker economic news. Meanwhile, wage growth remains subdued off the back of patchy labour market conditions which is likely to be a drag on spending levels over the short to medium term.

Looking forward, retail turnover is expected to remain around the 10 year average during 2015 and into 2016, with low interest rates and rising wealth levels to provide scope for sustained levels in consumer spending. However as households continue to show a growing propensity to spend on services such as travel and health, non-discretionary categories such as food retailing are expected to continue outperforming other discretionary categories. Sluggish employment growth and patchy labour market conditions further support this outlook as it will remain at the forefront of consumers spending habits, thereby hindering sentiment towards the more discretionary retail categories.

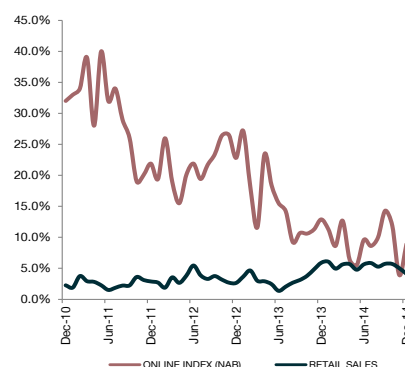
NSW is expected to remain the standout performer, underpinned by the construction sector and benefiting from the lower Australian dollar. The recent increase in residential building is likely to see an uplift in retail turnover through the purchasing of household goods such as furniture and fittings. Similarly, retail spending in the resource dominant states of Qld and WA is expected to remain below the national average well into 2015.

FIGURE 1
Retail & Housing Relationship, Aust.



Source: Knight Frank, ABS

FIGURE 2
Growth in Online Retailing



Source: Knight Frank, ABS

RESEARCH & CONSULTING

Paul Savitz

Associate Director
+61 2 9036 6811
Paul.savitz@au.knightfrank.com

Luke Crawford

Analyst
+61 2 9036 6629
Luke.crawford@au.knightfrank.com

RESEARCH

Matt Whitby

Group Director
Head of Research and Consultancy
+61 2 9036 6616
Matt.whitby@au.knightfrank.com

For more information or for forecasts on any other aspect of the Australian property market including alternative asset classes, such as student accommodation, serviced apartments or hotels, please contact Matt Whitby, Paul Savitz or Luke Crawford.

Knight Frank Research provides strategic advice, consultancy services and forecasting to a wide range of clients worldwide including developers, investors, funding organisations, corporate institutions and the public sector. All our clients recognise the need for expert independent advice customised to their specific needs.

RECENT RESEARCH INSIGHT BRIEFINGS



Driving Growth - Property or the economy



Residential approvals gain momentum



The birth of child care opportunities



Foreign investment in Australian property

Knight Frank Research Reports are available at KnightFrank.com.au/Research

© Knight Frank 2015 This report is published for general information only. Although high standards have been used in the preparation of the information, analysis, views and projections presented in this report, no legal responsibility can be accepted by Knight Frank Research or Knight Frank for any loss or damage resultant from the contents of this document. As a general report, this material does not necessarily represent the view of Knight Frank in relation to particular properties or projects. Reproduction of this report in whole or in part is not permitted without prior consent of, and proper reference to Knight Frank Research.

