

# Light in the tunnel for retailers?

20 August 2010

- After six months of declines, a key gauge of economy-wide spending was flat in July. The Commonwealth Bank Business Sales Indicator was largely unchanged in trend terms in July. While hardly a stunning result, it was still the best reading recorded since December last year.
- The Commonwealth Bank Business Sales Indicator is obtained by tracking the value of credit and debit card transactions processed through Commonwealth Bank merchant facilities.
- Despite the improvement in the latest month, the Commonwealth Bank Business Sales Indicator was sharply lower than a year ago in trend terms. The Commonwealth Bank Business Sales Indicator fell 1.5 per cent over the past year, the biggest annual decline since data was first collected six years ago.
- The Commonwealth Bank Business Sales Indicator covers spending broadly across the economy rather than just retail sales, and it has consistently under-performed against the Australian Bureau of Statistics retail trade series over the past year.

## Business Sales Indicator July 2010

- The Commonwealth Bank Business Sales Indicator was broadly unchanged in trend terms in July after six months of declines as depicted in Figure 1 below. The weakness of consumer spending over 2010 mirrors the poor conditions experienced in 2008 when the global financial crisis was at its height.
- Over the past year the Commonwealth Bank Business Sales Indicator fell by 1.5 per cent in trend terms, the weakest result in the six-year history of the spending gauge. As per Figure 2 below, the trend pace of growth has consistently slowed over the past seven months, exactly tracking the slowdown in the Australian Bureau of Statistics retail trade series.
- From Figure 3, the last time that the Commonwealth Bank Business Sales Indicator was falling in trend terms was from October 2008 to January 2009. But the government and Reserve Bank responded to the weak conditions by respectively providing hand-outs to households and cutting interest rates. And the measures had the desired effect. From March to June 2009, monthly trend growth rates consistently held between 0.8-1.0 per cent. And annual growth rates also improved, peaking at 6.7 per cent in December 2009. But spending has consistently weakened in monthly and annual trend terms over 2010.
- Over recent months, the Commonwealth Bank Business Sales Indicator has consistently under-performed the Australian Bureau of Statistics retail trade series. Given that the Commonwealth Bank Business Sales Indicator is far broader in coverage that ABS retail trade, incorporating business and government spending, the results highlight the weakness of spending across the economy.
- In trend terms, the value of spending transactions fell in eight of the 20 industries in July; a similar result to both May and June. The strongest sector was Utilities (up 1.6 per cent) and Personal Service Providers (up 1.2 per cent). Spending growth at Personal Service Providers has lifted markedly since April while Transportation has also improved, but more modestly.
- The weakest sectors in July in trend terms were Automobiles and Vehicles (down 1.5 per cent), followed by Mail Order and Telephone Order Providers (down 1.3 per cent), and Retail stores (down 1.2 per cent). The weakness in Retail Stores has prevailed over 2010 while Miscellaneous Stores has been another area to record weaker spending since the start of the year.

Figure 1: BSI Monthly Trend

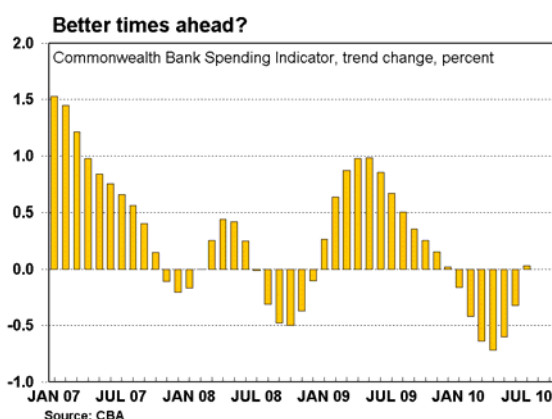
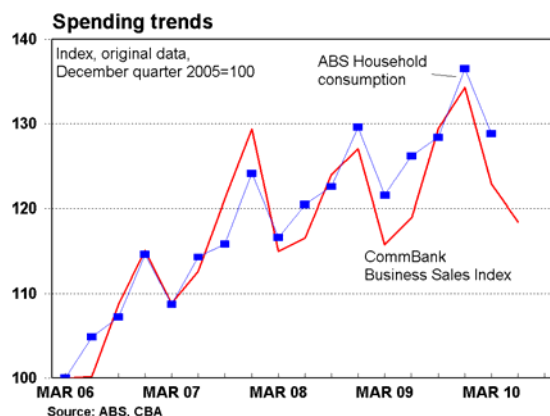
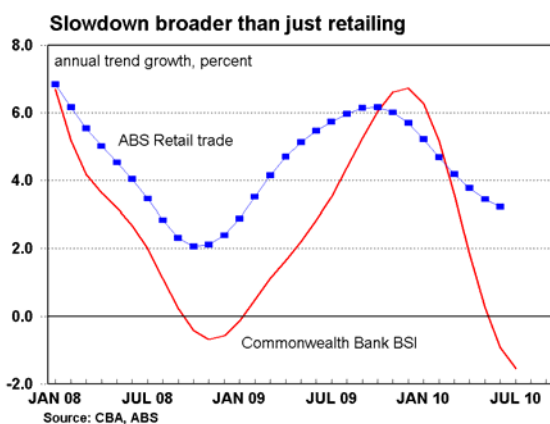


Figure 2: BSI &amp; ABS Household consumption (%)



- In annual terms, amongst the sectors with the strongest gains in July were Service Providers (up 24.4 per cent), Personal Service Providers (up 7.9 per cent) and Repair Services (up 6.7 per cent). At the other end of the scale spending at Mail Order and Telephone Order Providers was down 10.7 per cent on a year earlier with Miscellaneous stores down 8.2 per cent and Automobile and Vehicles down by 7.0 per cent.
- Five of the eight states and territories recorded negative monthly trend growth in July. Leading the way was Western Australia (down 0.7 per cent), followed by Victoria (down 0.4 per cent), Queensland (down 0.3 per cent), Tasmania (down 0.2 per cent) and ACT (down 0.1 per cent). Spending was flat in South Australia and up 0.5 per cent in Northern Territory and up 0.1 per cent in NSW.
- In annual terms, spending growth was strongest in the ACT (up 3.3 per cent) and Northern Territory (up 2.2 per cent). At the other end of the scale, the spending gauge was weakest in Queensland (down 5.4 per cent), Tasmania (down 3.5 per cent), and NSW (down 3.1 per cent).

Figure 3: BSI Annual Trend (%)



## About the Commonwealth Bank Business Sales Indicator

- The Commonwealth Bank Business Sales Indicator is obtained by tracking the value of credit and debit card transactions processed through Commonwealth Bank merchant facilities throughout Australia.
- The Business Sales Indicator is compiled monthly and covers 20 industry sectors and all Australian states and territories.
- Credit and debit card transactions can be volatile on a month-to-month basis, affected by seasonal and irregular factors. To better gauge the direction and changes of spending across the economy, the Business Sales Indicator is tracked in trend terms.
- The monthly Business Sales Indicator has been devised to provide a more timely assessment of spending trends in the economy. The main monthly indicator of spending in the economy is the Australian Bureau of Statistics' (ABS) Retail Trade release. However these statistics cover just spending at retail establishments, and exclude spending at a raft of other businesses.
- The Business Sales Indicator includes transactions made at traditional retail establishments such as supermarkets, clothing stores and cafes & restaurants and as such is more comparable to the ABS Household Final Consumption Expenditure released on a quarterly basis. The Business Sales Indicator also covers businesses such as airlines, car dealers and utilities such as water and electricity companies as well as motels, business, professional and government services and wholesalers.
- The Business Sales Indicator includes industry sectors based on the International Merchant Category Code (MCC) categories. MCC is a four-digit number assigned to a business when the business first starts accepting cards as a form of payment. Refer to Table 1 for the MCC listing.

**Table 1: Merchant Types**

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|--|--|
| 1. Airlines                              | 11. Miscellaneous                                      |
| 2. Amusement and Entertainment           | 12. Miscellaneous Stores                               |
| 3. Automobile/Vehicle Rentals            | 13. Personal Service Providers                         |
| 4. Automobiles and Vehicles              | 14. Professional Services and Membership Organisations |
| 5. Business Services                     | 15. Repair Services                                    |
| 6. Clothing Stores                       | 16. Retail Stores                                      |
| 7. Contracted Services                   | 17. Service Providers                                  |
| 8. Government Services                   | 18. Transportation                                     |
| 9. Hotels and Motels                     | 19. Utilities  |
| 10. Mail Order/Telephone Order Providers | 20. Wholesale Distributors and Manufacturers           |

DISCLOSURE AND DISCLAIMER APPENDIX**Craig James – Chief Economist, CommSec (Author)****(02) 9312 0265 (work), 0419 695 082 (mobile) | [craig.james@cba.com.au](mailto:craig.james@cba.com.au)**

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