



Economy-wide spending continues to slow

Commonwealth Bank Business Sales Index

- Growth of economy-wide spending eased further in January. The Commonwealth Bank Business Sales Indicator (BSI) – a measure of economy-wide spending – rose by 0.2 per cent in trend terms in January – the slowest growth since late 2012. Still, annual growth of 6.8 per cent is above the five-year average of 2.7 per cent.
- The more volatile seasonally adjusted estimate of spending rose by 0.8 per cent in January, reversing a 0.8 per cent decline in December. Annual growth eased from 6.8 per cent to 6 per cent.
- At a sectoral level, eight of the 19 industry sectors contracted in trend terms in January, up from seven sectors in December. And sales fell in four of the states and territories in January.
- The seasonally adjusted and trend estimates of the BSI results are derived via the SEASABS statistical program from the Australian Bureau of Statistics.
- The Commonwealth Bank BSI is obtained by tracking the value of credit and debit card transactions processed through Commonwealth Bank merchant facilities. The BSI covers spending broadly across the economy rather than just retail sales, including spending on automobiles, personal services and airlines.

What does it all mean?

- Retail spending had been growing above longer-term averages for the past year, so it was to be expected that sales would start to under-perform the “normal” growth rates. But the outlook is still positive. Lower petrol prices and lower interest rates boost spending power. But it is important to note that wage growth is only marginally ahead of the inflation rate.
- Sales at retailers that are dependent on home building and purchases should remain well supported. Domestic travel has lifted with the lower Aussie dollar and that is helping hotels and motels and other tourism operators.

What does the data show?

- The Commonwealth Bank Business Sales Indicator (BSI), a measure of economy-wide spending, rose by 0.2 per cent in January, in line with the five-year average growth rate but below the long-term average sales growth of 0.4 per cent per month. Sales growth has slowed for the past five months.
- In annual terms, the BSI grew by 6.8 per cent in January, the slowest growth in 21 months, and down from the recent high of 9.3 per cent in September.
- The seasonally-adjusted measure of sales rose by 0.8 per cent in January after falling by 0.8 per cent in December. Annual growth slowed for the third straight month to 6.0 per cent.



Craig James – Chief Economist (Author)
 (612) 9118 1806 (work); Twitter: @CommSec

- The Commonwealth Bank BSI is obtained by tracking the value of credit and debit card transactions processed through Commonwealth Bank merchant facilities. And in line with the practice of the Bureau of Statistics with its retail trade data, seasonally adjusted and trend estimates of the BSI are obtained by applying statistical software. The seasonally adjusted and trend BSI results are derived from the same SEASABS statistical software. This allows analysis of the broader underlying trends that may be hidden in the raw data.
- Across sectors, spending fell in eight of the 19 industry sectors in trend terms in January: Amongst the weakest sectors were Business Services (down 4.1 per cent); Mail Order/Telephone Order Providers and Automobile & Vehicle Sales (both down 1.5 per cent); and Professional Services & Membership Organisations (down 0.8 per cent).
- Among the strongest sectors in January were, Hotels & Motels (up 1.5 per cent); Transportation (up 1.0 per cent); and Service Providers and Miscellaneous Stores (both up 0.7 per cent).
- In annual terms in January, only six of the 19 industry sectors contracted including: Utilities, Automobile and Vehicle Sales, Business Services, Automobile/Vehicle Rentals and Clothing Stores.
- At the other end of the scale, sectors with strongest annual growth in January included Amusement & Entertainment; Hotels & Motels; Miscellaneous Stores; Transportation; and Wholesale Distributors & Manufacturers.
- Across the states and territories, sales fell in four of the economies in trend terms in January. Sales rose most in ACT (up 0.7 per cent) followed by Tasmania (up 0.5 per cent), Western Australia (up 0.3 per cent) and Queensland (up 0.1 per cent). Spending fell most in NSW (down 2.0 per cent) followed by Northern Territory (down 1.1 per cent), South Australia (down by 0.6 per cent) and Victoria (down 0.3 per cent).
- The trend BSI has risen for 43 straight months in Queensland. In Tasmania sales have risen for 34 months.
- In annual terms, only the ACT and NSW had sales below a year ago. At the other end of the scale, growth was strongest in Tasmania (up 9.6 per cent), Queensland (up 7.4 per cent), South Australia (up 4.9 per cent), Western Australia (up 4.7 per cent) and Victoria (up 2.2 per cent).

What is the importance of the report?

- The **Commonwealth Bank releases its Business Sales Index** around the 20th each month. The data provides a broader perspective of consumer spending. 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

What are the implications for interest rates and investors?

- The Reserve Bank will consider cutting rates at the next few Board meetings and there remains a high chance that it will cut rates again at the March Board meeting. Still, much data is still to be issued over the next week.
- The outlook for retailers is positive. Job advertisements have risen for eight straight months; the Aussie dollar is stabilising near US78 cents; petrol prices remain low; and interest rates are at generational lows. In addition domestic retailers remain under pressure to match prices provided by overseas retailers, but that is good news for consumers.

Craig James, Chief Economist, CommSec
Work: (612) 9118 1806; Twitter: @CommSec

