



Economy-wide spending slows in February

Commonwealth Bank Business Sales Index

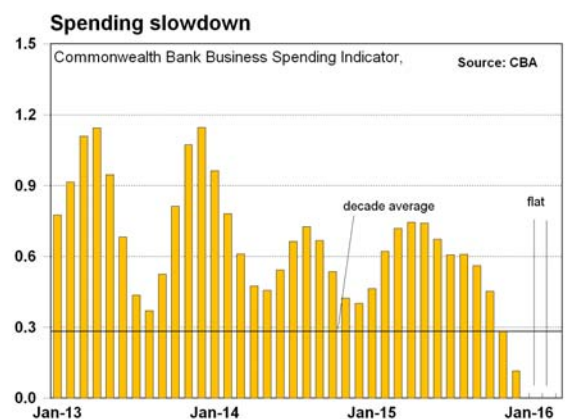
- According to the Commonwealth Bank Business Sales Indicator (BSI), economy-wide spending was broadly unchanged in February, matching the January result but representing a clear slowdown in spending from the third quarter of 2015.
- In September 2015 the BSI had lifted by 0.6 per cent, but the growth rate slowed to 0.5 per cent in October, to 0.3 per cent in November and to 0.1 per cent in December. The annual trend growth moderated from 6.3 per cent to 5.6 per cent in February – although still above the decade-average of 4.8 per cent.
- The more volatile seasonally adjusted estimate of spending fell by 1.7 per cent in February after rising 1.1 per cent over the two previous months. Annual growth slowed from 7.4 per cent to 5.0 per cent.
- At a sectoral level, seven of the 19 industry sectors contracted in trend terms in February, down from nine sectors in both December and January. But sales rose in six of the eight states and territories in February.
- 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?

- The slowdown in economy-wide spending matches the slowdown in the job market. Both indicators recorded out-sized gains late last year before slowing over the past 3-4 months. Certainly both spending and employment had been growing well above the 'normal' or decade-average pace. The volatility on financial markets may have caused consumers and businesses to be more circumspect. But financial markets have become more settled in the past few weeks with consumer sentiment also lifting.
- The Reserve Bank won't be in a rush to change interest rate settings. However it will no doubt hope that the recent slowdown is just the pause that refreshes.

What does the data show?

- The Commonwealth Bank Business Sales Indicator (BSI) – a measure of economy-wide spending – weakened further in February. The BSI was broadly flat in the month after a similar result in January. Spending had grown above the long-term average pace through most of 2015, especially February-September. The volatility on global financial markets since the start of 2016 may have contributed to the softening of spending growth.
- The annual growth of spending eased from 6.3 per cent to



Craig James – Chief Economist (Author)
Twitter: @CommSec

5.6 per cent in February. The annual growth rate had held at healthy levels of between 7.1-7.6 per cent between April and November 2015.

- The seasonally-adjusted measure of sales fell by 1.7 per cent in February after rising by 0.4 per cent in January and rising by 0.7 per cent in December.
- 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 allowing analysis of the broader underlying trends that may be hidden in the raw data.
- Across sectors, seven of the 19 industry sectors fell in trend terms in February: Airlines, Automobiles & Vehicles, Amusement & Entertainment, Business Services, Mail Order/Telephone Order Providers, Retail Stores and Transportation.
- While spending growth slowed across most of the sectors, spending lifted 0.3 per cent at Clothing Stores in February after falling in the two previous months.
- Of the sectors recording gains, notable was Government Services (up 1.9 per cent and the sixth consecutive lift in sales). Sales at Automobile & Vehicle Rentals rose for the 14th straight month, up by 0.6 per cent in February.
- In annual terms in February, just five of the 19 industry sectors contracted including Mail Order/Telephone Order Providers, Airlines and Retail Stores.
- At the other end of the scale, sectors with strongest annual growth in February included: Hotels & Motels; Miscellaneous Stores; Business Services and Government Services.
- Sales rose in six of the eight states and territories in February: ACT (up 1.2 per cent), Northern Territory (up 1.0 per cent), NSW (up 0.7 per cent), Tasmania and Western Australia (both up 0.2 per cent) and South Australia (up 0.1 per cent). Sales fell in Victoria (down 1.1 per cent) and Queensland (down 0.02 per cent).
- In annual terms no state or territory had sales below a year ago. Strongest growth was in ACT (up 11.4 per cent) from Tasmania (up 11.3 per cent), Western Australia (up 9.1 per cent), NSW (up 7.2 per cent), Northern Territory (up 6.4 per cent), South Australia (up 6.1 per cent), Queensland (up 5.7 per cent) and Victoria (up 2.3 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?

- Interest rate settings are set to remain on hold for the foreseeable future.
- But the Reserve Bank will closely watch the slowdown in business spending to determine if it is a temporary or more lasting change.

Craig James, Chief Economist, CommSec

Twitter: @CommSec

