

## Strongest annual spending growth in 4 years

### Commonwealth Bank Business Sales Index

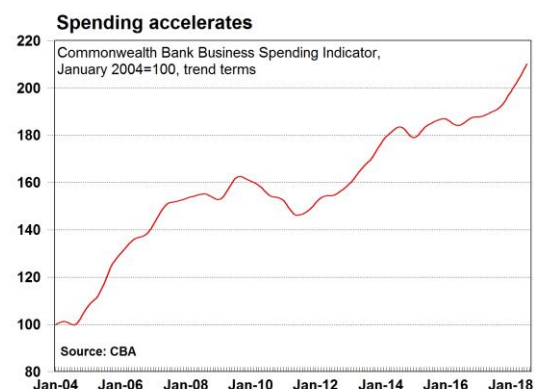
- The Commonwealth Bank Business Sales Indicator (BSI), a measure of economy-wide spending, rose by 1.0 per cent in trend terms in July.
- The annual trend growth in sales rose to a 4-year high of 10.4 per cent in July, up from 9.6 per cent in June. Growth is well above the decade-average pace of 3.4 per cent.
- The more volatile seasonally adjusted measure of the BSI rose by 2.7 per cent in July after lifting 0.4 per cent in June.
- At a sectoral level, all 19 industry sectors rose in trend terms in July, up from 18 sectors in June. And sales rose in all of the states and territories in the month.
- 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?

- Economy-wide spending has been remarkably stable this year. In fact spending has risen by 0.9-1.0 per cent every month. Consumers are benefiting from retail deflation with prices across a raft of goods and services continuing to fall, encouraging Aussies to open their purses and wallets. And better job security, combined with low and stable interest rates are supportive of household consumption.
- Spending at Retail Stores has consolidated with monthly sales growth averaging 1.2 per cent so far in 2018. And the July annual growth rate of 16.6 per cent is the strongest since June 2006.
- In a particularly encouraging sign for retailers and business owners, annual growth in overall spending is the strongest in four years and broad-based across all sectors of the economy. Double digit growth in spending is most evident for Retail Stores, Automobiles & Vehicles and Hotels & Motels.

#### What does the data show?

- The Commonwealth Bank Business Sales Indicator (BSI) - a measure of economy-wide spending - rose by 1.0 per cent in trend terms in July.
- The growth pace started lifting in September 2017 and over the period from December 2017 to July 2018 consistently grew between 0.9-1.0 per cent a month. And the BSI has increased by 1.0 per cent a month for the last four months.
- Annual trend growth for the BSI rose to a 4-year high of 10.4 per cent in July, up from 9.6 per cent in June.
- The more volatile seasonally adjusted measure of the BSI rose by 2.7 per cent in July after lifting 0.4 per cent in June.
- The Commonwealth Bank BSI is obtained by tracking the value of credit and debit card transactions processed through the Commonwealth Bank merchant facilities. And in line with the practice



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of the Bureau of Statistics with retail trade data, seasonally adjusted and trend estimates of the BSI are obtained by applying statistical software. The seasonally adjusted and trend BSI results permit analysis of the broader underlying trends that may be hidden in the raw data.

- Across sectors, all 19 industry sectors rose in trend terms in July. The biggest lift in sales occurred for Automobiles & Vehicles (up 1.2 per cent), Government Services, and Hotels & Motels (both up 1.0 per cent). The weakest sales growth occurred at Clothing Stores and Transportation (both up 0.1 per cent).
- Meanwhile spending at Retail Stores has consolidated over the past three months, rising 0.8 per cent a month over the period, with sales up by 16.6 per cent over the year to July – the strongest annual growth rate in 12 years.
- In annual terms in July, all but one of the 19 industry sectors recorded gains. Spending fell by 0.2 per cent over the past year in the Contracted Services sector.
- At the other end of the scale, sectors with strongest annual growth in July included Retail Stores (up 16.6 per cent), Automobiles & Vehicles (up 14.9 per cent) and Hotels & Motels (up 11.8 per cent).
- Sales were stronger across all states and territories in July. The strongest growth occurred in Queensland (up 1.7 per cent), followed by Victoria and the Northern Territory (both up by 1.1 per cent), Western Australia (up 0.9 per cent), ACT (up 0.8 per cent), South Australia (up 0.7 per cent), NSW (up 0.5 per cent) and Tasmania (up 0.1 per cent).
- In annual terms all states and territories had sales above a year ago. The strongest growth was in Queensland (up 14.9 per cent); Victoria (up 11.1 per cent), Western Australia (up 10.5 per cent); South Australia (up 9.2 per cent); Northern Territory (up 8.4 per cent), NSW (up 8.0 per cent), ACT (up 7.9 per cent) and Tasmania (up 6.9 per cent).

### What is the importance of the report?

- The **Commonwealth Bank releases its Business Sales Index** around the 20<sup>th</sup> 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?

- Measures of consumer sentiment are above average and near the best levels in four years. And annual growth in economy-wide spending is also the strongest in four years. The Reserve Bank recently noted in its Statement on Monetary Policy that household consumption *“has been fairly stable in year-ended terms at around 3 per cent.”*
- Consumer optimism continues to be boosted by retail deflation. Global e-commerce growth and competition remains significant, keeping goods prices in check, supporting spending. And Aussie consumers may focus on domestic spending in coming months. Aussie dollar weakness against the greenback has made overseas sourced goods more expensive. And exorbitant overseas delivery charges and the recently introduced GST on imported goods valued at \$1,000 or less could further inhibit foreign spending.
- Queenslanders are the biggest spenders Australia-wide, reflecting strong interstate net migration, the recovery in the mining sector and buoyant conditions in the services sector, such as tourism, health and education.
- CommSec continues to expect stable interest rate settings through until 2019. But wage and price trends are being carefully watched.

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