



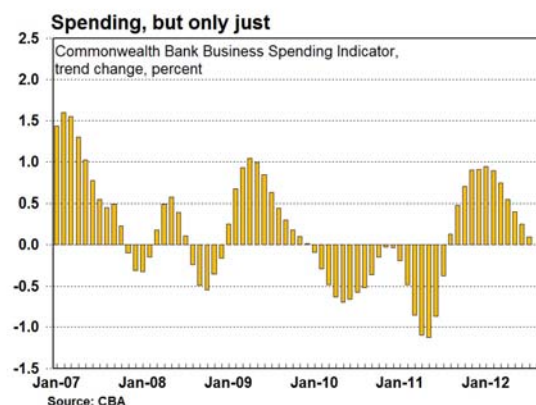
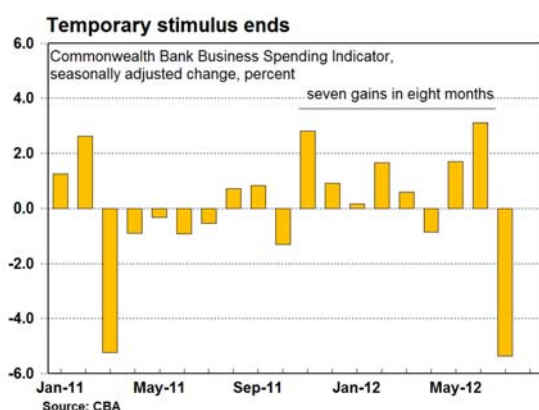
Spending slumps as temporary stimulus ends

Business Sales Index

- There was a sharp reversal in economy-wide spending in July after temporary stimulus had boosted spending in May and June. The Commonwealth Bank Business Sales Indicator (BSI) fell by 5.4 per cent in seasonally adjusted terms in July, more than reversing gains of 1.7 per cent in May and 3.1 per cent in June.
- But the less volatile trend estimates of spending continued to advance. In trend terms the BSI rose by 0.1 per cent in July – the 12th consecutive increase but the slowest growth since August 2011.
- The seasonally adjusted and trend estimates of the BSI results are derived via the SEASABS statistical program from the Australian Bureau of Statistics.
- At a sectoral level, five of the 20 industry sectors contracted in trend terms in July, a similar result to June but up from three in May. And two of the eight states and territories recorded weaker sales in trend terms in July, up from one in June.
- The Commonwealth 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?

- While there would be some disappointment about the drop in economy-wide spending in July, it was hardly unexpected. Over May and June interest rates were cut, petrol prices fell and the government delivered handouts to sections of the community. The temporary stimulus led to a temporary boost to spending.
- Still, tax rates were adjusted in July and the changes should support household incomes in coming months. In addition the job market remains tight, wage growth is exceeding growth of prices and both house prices and share prices have been moving higher. So the outlook for spending remains positive, even though business and consumer sentiment levels are still subdued.



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What do the figures show?

- According to the latest Commonwealth Bank Business Sales Indicator (BSI), the temporary stimulus provided by government payments in May and June has indeed proved to be a temporary boost to spending. Economy-wide spending fell by 5.4 per cent in seasonally adjusted terms in July after rising by 3.1 per cent in June and lifting by 1.7 per cent in May. Still, spending is still up 4.7 per cent on a year ago, although well down on the 10.7 per cent increase in the year to June.
- During May and June the government provided cash assistance grants to sections of the community while the Reserve Bank also cut interest rates in both months. Petrol prices also eased over June, adding to spending power.
- The less volatile trend measure of economy-wide spending edged just 0.1 per cent higher in July. While this is the 12th consecutive increase in the trend BSI series, it is the slowest growth rate recorded since August 2011.
- The Commonwealth 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, five of the industry sectors fell in July, a similar result to June. The strongest monthly trend increase in sales occurred in Mail Order & Telephone Order Providers (up 3.5 per cent), Service Providers (up by 3.3 per cent) and Wholesale Distributors and Manufacturers (up by 1.7 per cent).
- Amongst the weakest sectors in July were Automobile & Vehicles (down 0.7 per cent), Transportation (down 0.6 per cent) and Personal Service Providers (down by 0.2 per cent).
- In annual terms, two of the 20 industry sectors contracted in July, a similar result to both May and June. The weakest sectors were Airlines and Hotels & Motels.
- At the other end of the scale, spending was strongest at Wholesale Distributors and Manufacturers (up by 27.1 per cent), Mail Order & Telephone Order Providers (up 25.8 per cent), Service Providers (up by 24.5 per cent).
- Two of the states and territories recorded weaker sales in trend terms in July. Sales in Victoria fell by 0.2 per cent while sales fell 0.1 per cent in NSW. The strongest results were in South Australia and the ACT (both up 0.8 per cent) followed by Northern Territory (up 0.7 per cent), Tasmania (up 0.6 per cent) and Queensland and Western Australia (both up 0.4 per cent).
- The trend BSI has now risen for 13 straight months in Queensland, Northern Territory and Western Australia and for 12 straight months in South Australia. After 11 straight months of gains, sales in NSW fell in July.
- In annual terms, no state or territory had sales below a year ago. Strongest growth was posted in South Australia (up 15.2 per cent), followed by ACT (up 11.2 per cent), Queensland (up 10.8 per cent) and Western Australia (up 9.1 per cent). After 22 months of declines, sales in NSW have now risen in annual terms for the past four months.

What is the importance of the economic data?

- The Commonwealth 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. The BSI is a gauge of economy-wide spending.

What are the implications for interest rates and investors?

- The Reserve Bank certainly has the firepower to cut rates again. No doubt it will weigh its options carefully in coming months, assessing elements like the Aussie dollar, the European debt crisis, an economic recovery in China as well as home prices and consumer and business borrowing.
- The Reserve Bank watches all indicators very closely, and as demonstrated by the recent article in its quarterly *Bulletin*, takes a keen interest in the CBA Business Sales index. The drop in spending in July keeps a rate cut on the table.

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