



Budget boost for business fades

Commonwealth Bank Business Sales Index

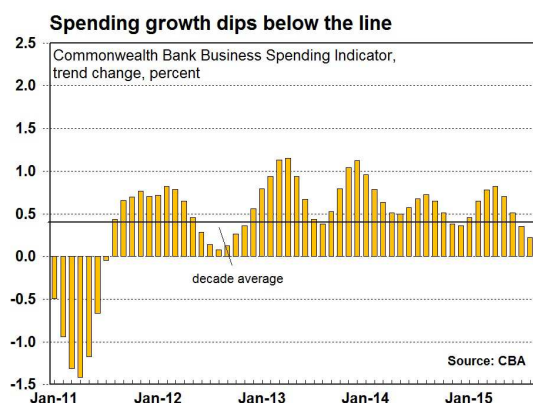
- According to the Commonwealth Bank Business Sales Indicator (BSI), economy-wide spending grew at the slowest pace in almost three years in August. The boost to business spending from the budget has now faded with sales at Business Services outlets posting the biggest fall in spending in six months.
- The overall BSI rose by 0.2 per cent in trend terms in August in trend terms after lifting by 0.4 per cent in July and 0.5 per cent in June. Annual growth slowed from 7.1 per cent to 6.6 per cent in August but is still above the decade-average trend of 5.1 per cent.
- 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 bout of volatility on global financial markets as well as the lower Aussie dollar appears to have spooked consumers and businesses. Whether it is a short term and tactical retreat from retailers, service providers and business outlets remains to be seen. More settled global markets and a reduction of political uncertainty should lead to a return to more “normal” spending growth.
- But while monthly trend growth in spending has slipped, the annual rate of spending is still healthy. So retailers, service businesses and business outlets are still doing well compared with a year ago.
- As the Reserve Bank Governor observed, consumers responding to sentiment surveys still believe their finances are in good shape, rather it is attitudes on the economy that have become more uncertain.

What does the data show?

- The Commonwealth Bank Business Sales Indicator (BSI), a measure of economy-wide spending, recorded the slowest growth in 35 months in August. The BSI lifted by just 0.2 per cent in August after rising 0.4 per cent in July and was well off the 0.8 per cent gains posted in March and April. Annual growth of spending eased for the third month to 6.6 per cent, still above the decade-average of 5.1 per cent.
- The seasonally-adjusted measure of sales fell for the second time in three months, falling by 1.0 per cent in August. Annual growth eased from 7.3 per cent to 5.6 per cent.
- 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



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

SEASABS statistical software. This allows analysis of the broader underlying trends that may be hidden in the raw data.

- Across sectors, six of the 19 industry sectors fell in trend terms in August including Airlines (down 4.4 per cent); and Mail Order/Telephone Order Providers (down by 3.5 per cent). Sales at Business Services outlets fell by 0.5 per cent in August, the biggest decline since February.
- Among the strongest sectors in August were Miscellaneous Stores and Clothing Stores (both up 1.1 per cent) and Professional Services & Membership Organisations and Transportation (both up 0.7 per cent).
- The large Retail Stores sector grew by 0.4 per cent in August after rising between 0.5-0.7 per cent per month over the previous 11 months.
- In annual terms in August, six of the 19 industry sectors contracted including: Utilities, Mail Order/Telephone Order Providers, Automobile and Vehicle Sales and Business Services.
- At the other end of the scale, sectors with strongest annual growth in August included: Hotels & Motels; Miscellaneous Stores; Personal Service Providers, Clothing Stores and Wholesale Distributors & Manufacturers.
- Sales rose in all states and territories in August except Northern Territory (down 0.5 per cent) and Victoria (down 0.1 per cent). Sales were flat in NSW. Sales rose the most in Tasmania (up 0.8 per cent), South Australia (up 0.7 per cent), Western Australia (up 0.5 per cent), Queensland (up 0.4 per cent) and ACT (up 0.1 per cent).
- In annual terms, three states and territories had sales below a year ago in August: Northern Territory (down 7.9 per cent), NSW (down 5.9 per cent) and Victoria (down 0.2 per cent). At the other end of the scale, growth was strongest in the ACT (up 12.3 per cent) from South Australia (up 8.3 per cent), Western Australia (up 7.8 per cent), Tasmania (up 7.7 per cent) and Queensland (up 6.7 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 latest data adds to our view that the Reserve Bank will leave official rates unchanged in coming months.

Craig James, Chief Economist, CommSec; Twitter: @CommSec
Savanth Sebastian, Economist, CommSec; Twitter: @CommSec

