



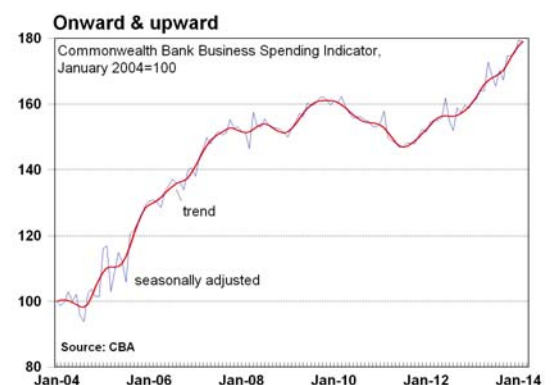
# Sales growth slows to more sustainable pace

## Commonwealth Bank Business Sales Index

- Economy-wide spending expanded at a slower, more sustainable pace in February according to a new survey. The Commonwealth Bank Business Sales Indicator (BSI) – a measure of economy-wide spending – rose by 0.7 per cent in trend terms in February, down from 1.0 per cent in January, 1.1 per cent in December and 1.2 per cent in November. It was the 18<sup>th</sup> consecutive month of spending growth.
- The more volatile seasonally adjusted estimate of spending eased by 0.3 per cent in February after lifting by 2.2 per cent in January. Annual growth eased from 11.9 per cent to 10.7 per cent in the month.
- 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, 17 of the 19 industry sectors expanded in trend terms in February, a similar result to December and January. And for the sixth straight month, seven of the eight states and territories recorded firmer sales in trend terms in February.
- 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?

- Economy wide spending remains healthy although it is showing signs of consolidating. More importantly the strength in activity is broad-based with the majority of sectors and regions are reporting firmer sales. Certainly the outlook for the business sector has improved over the past few months
- The Australian economy posted higher- than- expected GDP growth in the December quarter, while more than 60,000 new jobs created in the first two months of 2014. The recent half yearly profit reporting season also showed Australian companies are enjoying extremely strong profit revenue growth.
- Although we are still rebalancing from a mining-led economy to an economy with a more diversified growth profile, there are good reasons to be optimistic as we enter a record 23rd year of uninterrupted growth
- The housing recovery continues to gather momentum, while rising wealth levels, low interest rates and a recovering share market is supporting consumer confidence and in turn spending. The lower Australian dollar should continue to drive exports and help to alleviate the risks surrounding the rebalancing of the economy.
- We expect the Reserve Bank to remain on the interest rate sidelines. It is a case of so far, so good. Forward looking indicators continue to point to a lift in activity, while downside risks are diminishing. Cash rates have likely bottomed.



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## What does the data show?

- Economy-wide spending is consolidating. The Commonwealth Bank Business Sales Indicator (BSI) rose by 0.7 per cent in February, the slowest pace in five months, and down from gains of 1.0-1.2 per cent between October and January. Despite the slowdown, sales have now expanded for 18 straight months.
- In annual terms, the BSI was up by 10.4 per cent in February, down from 10.8 per cent in January which had been the strongest annual pace in over six years.
- The seasonally-adjusted measure of sales eased by 0.3 per cent in February, the first fall in sales in five months. Annual growth also eased from 11.9 per cent higher to 10.7 per cent in the month.
- 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, 17 of the 19 industry sectors expanded in trend terms in February. Amongst the strongest sectors in February were Transportation (up 2.0 per cent), Amusement & Entertainment (up 1.9 per cent) and Hotels & Motels (up 1.7 per cent).
- Spending fell only at Professional Services & Membership Organisations and Airlines in February. It was the sixth straight drop in sales for the Professional Services & Membership Organisations sector. Slower spending growth was identified across most industry sectors in February.
- In annual terms in February, only two of the 19 industry sectors contracted: Mail Order/Telephone Order Providers (down 10.6 per cent) and Business Services (down 3.5 per cent). These two industry sectors have been consistently declining for the past year but the extent of the declines has moderated for the past five months.
- At the other end of the scale, sectors with strongest annual growth in February included Amusement & Entertainment, Wholesale Distributors & Manufacturers, Transportation, Hotels & Motels and Government Services.
- Across the states and territories, sales rose in February in trend terms in all but the ACT (down by a record 6.2 per cent). Sales have now fallen for six straight months in the ACT. Of the other states & territories, leading the gains was Queensland (up 1.1 per cent), followed by Western Australia (up 0.9 per cent), Tasmania (up 0.8 per cent), NSW (up 0.7 per cent), South Australia (up 0.6 per cent), Victoria (up 0.5 per cent) and Northern Territory (up 0.4 per cent).
- The trend BSI has now risen for 33 months in the Northern Territory, for 31 straight months in South Australia, for 24 straight months in Tasmania, for 20 straight months in Victoria and for 6 straight months in NSW and Queensland.
- In annual terms, only the ACT had sales below a year ago. At the other end of the scale, growth was strongest in South Australia, Northern Territory NSW and Tasmania.

## 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?

- Interest rate settings are on hold. The global economy continues to recover, while on the domestic front, rising wealth levels and healthy confidence levels should keep Aussie consumers spending.
- The Reserve Bank has retired to the sidelines. We believe that it will be reluctant to cut rates again unless global or domestic factors unexpectedly weaken. The Reserve Bank would be hopeful that the economy continues to strengthen in coming months, underpinned by super-low interest rates and momentum provided by home construction and sales.

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