

# Economic research note

3 April 2009

## Retail and housing: the impact of stimulus

- The Federal Government's first fiscal stimulus was not enough to sustain further strong retail sales in February, but elsewhere the significant cuts in interest rates and the bolstered first home owners grant caused a fillip in residential building approvals.
- Nominal retail sales in Australia rose 4.1% in the year to February 2009, although monthly sales fell 2.0% on a seasonally adjusted basis, from the January 2009 level.
- Monthly retail sales numbers can be expected to remain volatile in 1H09 as further stimulus is added to the household incomes. The outlook for 2H09 will also likely be more dependent on the state of the labour market.
- In contrast, new building approvals rose 7.8% in the same month. This was the first rise since June 2008, although the vast bulk of the increase was in the volatile apartments sector, with private sector houses up just 0.1% on the month. Annually approvals remain weak and are 25% lower than February last year.
- However, in the year ahead housing approvals could be expected to show signs of positive growth, though from a very low base, as the positive impact of low interest rates and grants to first home-buyers spur activity in the sector.

### The data

Seasonally adjusted annual growth in retail sales was 4.1% in the year to February 2009, however, monthly growth fell 2.0%. The data is shown in Figure 1. Sales were flat in the food sector, while growth was weakest in department stores, falling 10%. Of the large states, WA and NSW saw the biggest monthly fall in sales of 2.7% and 2.4%, respectively, while sales fell by just 1.3% in Victoria, though it should be noted that sales in NSW since November are up 4.4% compared to 2.3% nationally.

Dwelling approvals, the primary indicator of future residential housing supply, showed the first signs of improvement in February. Approvals rose 7.8% in the month, though annual approvals remain weak; 25% lower than a year earlier. Other dwellings (apartment blocks and townhouses) showed the largest monthly rise of 34%, compared to just a 0.5% rise for houses. In 2008 approvals had fallen to levels last observed in 2001.

Figure 1

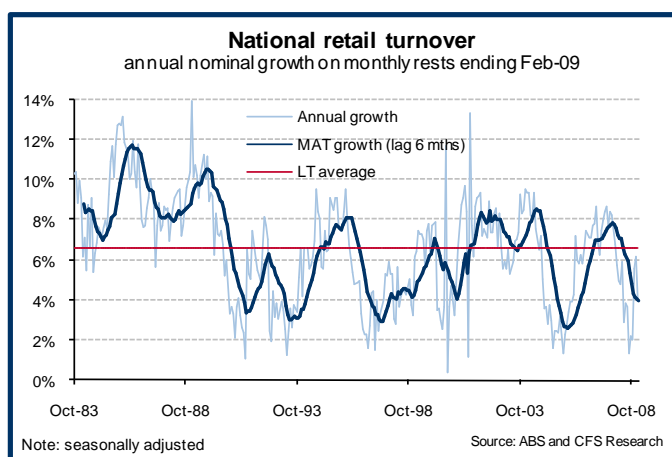
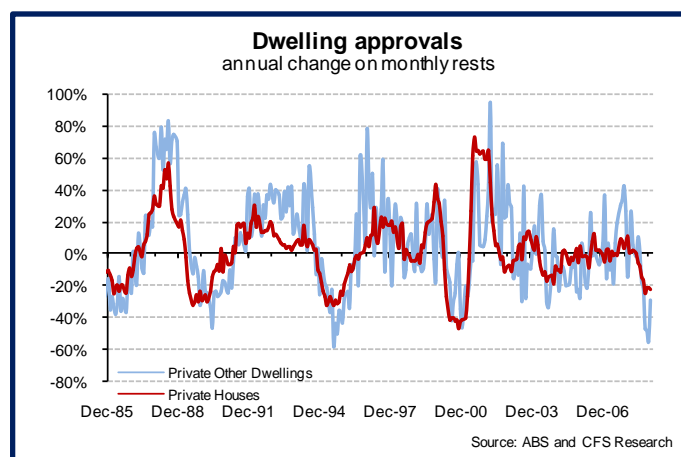


Figure 2



## Analysis

Retail sales data showed that recent positive spending trends were largely the result of the first fiscal stimulus package; cash transfers targeted at families and pensioners that have now largely played out. Monthly sales in February fell back towards levels slightly higher than those prevailing prior to the stimulus. This level is likely to be maintained over March, before sales likely rise again in April, with the payment of a second cash transfer to a broader range of recipients. The broader scope of the second stimulus means its initial impact on spending may be greater than the rise observed in December 2008, although this will depend critically on a potential ongoing increase in the savings rate.

Retail sales and housing approvals data highlight the importance of the fiscal stimulus package in supporting domestic activity since December 2008. Support for domestic economic activity in 2009 will likely also be dependent on further fiscal stimulus due in April 2009, income tax cuts beginning from July and the ability of low interest rates and the first home buyers' grant to stimulate housing construction.

The improvement in residential approvals also reflects the importance of stimulus from both fiscal and monetary initiatives. Substantial cuts to mortgage rates and a tripling of the first home buyers' grant to \$21,000 for new buildings have led to a sharp improvement in housing affordability and, in February, encouraged an increase in new building activity. The majority of this increased activity in the residential sector will likely occur in the lower end of the market – where first home buyers are most evident.

Fiscal and monetary policy is designed to offset some of the impact of the weakness in the labour market characterised by a rise in the unemployment rate in February to 5.2% and evidence of reductions in working hours that will limit household disposable income.

For the remainder of 2009, these two competing forces of policy stimulus versus labour market deterioration will determine the direction for retail sales and the residential housing market. Interest rates have delivered a substantial improvement to Australian households, in the order of an 8% increase in disposable income, in addition to cash transfers. However, rising unemployment is weakening job security and acting as a substantial brake on any expansion in household consumption and investment decisions.

**CFS Research contact details**

Anthony De Francesco	Head of Research	<a href="mailto:adefrancesco@colonialfirststate.com.au">adefrancesco@colonialfirststate.com.au</a>	+612 9303 3598
James White	Investment Economist	<a href="mailto:jwhite@colonialfirststate.com.au">jwhite@colonialfirststate.com.au</a>	+612 9303 2645
Mary Culjak	Research Assistant	<a href="mailto:mculjak@colonialfirststate.com.au">mculjak@colonialfirststate.com.au</a>	+612 9303 3518

**Investment Markets Research contact details**

Stephen Halmarick	Head of Investment Markets Research	<a href="mailto:shalmarick@colonialfirststate.com.au">shalmarick@colonialfirststate.com.au</a>	+612 9303 3030
Belinda Allen	Analyst	<a href="mailto:ballen@colonialfirststate.com.au">ballen@colonialfirststate.com.au</a>	+612 9303 3110

**For further information****cfsinstitutional@colonialfirststate.com.au****Head of Business Development, Australia and New Zealand**

Tony McFadyen +61 2 9303 2699

**Institutional Business Development**

Matt Russell +61 2 9303 7024

Liz Krajewski +61 2 9303 2927

Nadene Moore +61 3 8628 5615

Simon Good +61 3 8628 5681

Lucas Rooney +61 7 3328 5875

**Institutional Account Management**

Jeremy Edmonds +61 2 9303 2695

Daniel Bristow +61 2 9303 6311

Peter Weldon +61 2 9303 6860

Ali Karmali +61 2 9303 6070

Helen Squadrito +61 2 9303 6142

Hugh O'Neill +61 2 9303 6116

**DISCLAIMER**

Product Disclosure Statements (PDS) and Information Memoranda (IM) for the funds issued by Colonial First State Investments Limited ABN 98 002 348 352, Commonwealth Managed Investments Limited ABN 33 084 098 180, and CFS Managed Property Limited ABN 13 006 464 428 (collectively CFS) are available from Colonial First State Global Asset Management. Investors should consider the relevant PDS or IM before making an investment decision. Past performance should not be taken as an indication of future performance.

No part of this material may be reproduced or transmitted in any form or by any means without the prior written consent of CFS. This material contains or is based upon information that we believe to be accurate and reliable. While every effort has been made to ensure its accuracy we cannot offer any warranty that it contains no factual errors. We would like to be told of any such errors in order to correct them.

This material has been prepared for the general information of clients and professional associates of CFS. You should not rely on the contents. To the fullest extent allowed by law, CFS excludes all liability (whether arising in contract, from negligence or otherwise) in respect of all and each part of the material, including without limitation, any errors or omissions.

This material is intended only to provide a summary of the subject matter covered. It does not purport to be comprehensive or to render specific advice. It is not an offer document, and does not constitute a recommendation of any securities offered by CFS. No person should act on the basis of any matter contained in this material without obtaining specific professional advice.

Colonial First State Global Asset Management is the consolidated asset management division of the Commonwealth Bank of Australia ABN 48 123 123 124.

Copyright © CFS 2009

All rights reserved.