

CHEP RETAIL INDEX

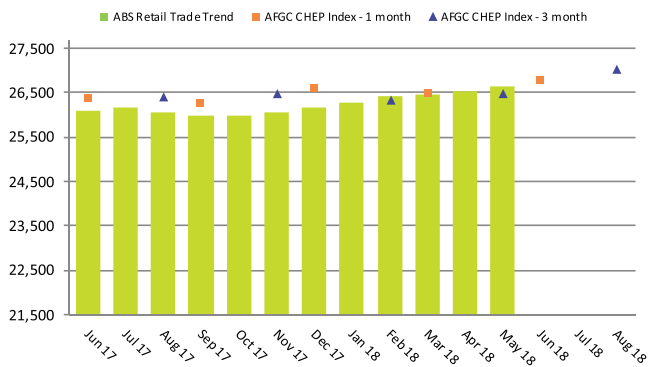
CHEP Retail Index predicts strengthening retail sales growth in late 2018

EDITION 30 - JULY 2018

CHEP

A Brambles Company

Retail Trade Turnover - \$Millions

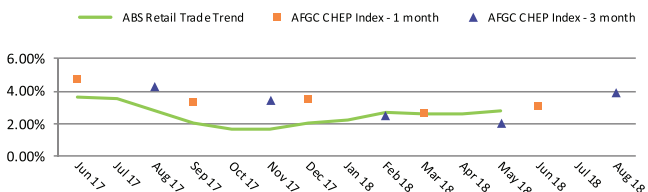


Turnover (\$Millions)

June 2018 – 26,768

August 2018 – 27,019

Year on Year Growth



*Chart movements in nominal (current price) terms.

Analytics by **Deloitte**.

Year on Year Result

June 2018

2.9% increase in Retail Index

June Quarter 2018

2.9% increase in Retail Index

August 2018

3.9% increase in Retail Index

September Quarter 2018

3.9% increase in Retail Index

Overview

The CHEP Retail Index provides an accurate and unique source of insight into the performance of the Australian retail sector, based on robust transactional data derived from the movement of CHEP pallets and supported by analysis and commentary from Deloitte.

Distribution

The next issue is due out in October 2018 with forecasts for September 2018 and the December quarter.

Highlights:

- + Retail turnover is strengthening in 2018 after a sluggish start to the year, with the CHEP Retail Index estimating year-on-year growth to June 2018 of 2.9%
- + Strong population growth and glimpses of wage growth are expected to flow through to stronger retail spending in the latter half of the year
- + However, rising trade tension and the prospect of higher interest rates has dented business confidence somewhat in 2018, but the recent pick up in pallet movements suggest that it has done little to deter retailers' confidence about the outlook on spending.

David Rumbens, partner at Deloitte Access Economics, comments that, "Retailers continue to face difficult conditions in 2018. We do expect wage growth to edge higher through the year as the labour market tightens a little, and stronger wages will be good news for retail spending, driving a modest but broad-based pick-up in spending power across the workforce."

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COMMENTARY ON CHEP RETAIL INDEX

Retail Turnover Trend	Edition 26		Edition 27		Edition 28		Edition 29	
	Jun 17	Aug 17	Sep 17	Nov 17	Dec 17	Feb 18	Mar 18	May 18
ABS	25,996	26,051	26,008	26,042	26,226	26,412	26,487	26,645
CHEP Index	26,351	26,390	26,247	26,461	26,576	26,340	26,472	26,480
Turnover Error	101.4%	101.3%	100.9%	101.6%	101.3%	99.7%	99.9%	99.4%
Year on Year Movement Error	101.0%	101.4%	101.2%	101.7%	101.5%	99.8%	100.0%	99.3%

Business conditions are broadly supportive of economic activity in 2018, although confidence has taken a hit from ongoing trade tensions and the potential fallout from the Royal Commission into the banking sector. Worryingly, retail conditions fell into negative territory in April.

After a strong performance in 2017, the labour market has started the year on a softer footing. The Australian economy has added over 60,000 jobs so far in 2018, with many of these positions in part-time roles. Slower employment growth is to be expected after last year's strong performance, but it is also limiting the anticipated improvement in wage growth given some ongoing spare capacity in the labour market. Household budgets have struggled under the weak wage growth environment, further exacerbated by rising prices for energy and healthcare.

The subdued labour market conditions and concerns about household finances has weighed on retail spending so far in 2018. Food spending has been the hardest hit, as it is disproportionately impacted by movements in household income.

But it's not all bad news for consumers. The onslaught of new entrants to the market from overseas, combined with the rise in online retailing, means that consumers face more choice than ever before. This is especially the case for the fashion and homewares sectors, where strong volume growth is coupled with falling prices as retailers compete for market share.

Pallet movements indicate that retailers expect spending to strengthen heading into in the latter half of the year. The year-on-year retail index growth for the June quarter is forecast to reach 2.9%, a modest improvement on March's 2.6% result. Furthermore, year-on-year retail index growth is expected to strengthen further to around 3.9% to August.

Over the coming six-to-twelve months, wage growth is likely to pick up as the labour market tightens further. This outlook for improved wage growth, coupled with income tax cuts outlined in the 2018 budget, is good news for retailers, as it will allow for a modest but broad-based pick up in household spending power.

However, there are risks to the outlook. The housing market has run out of steam so far in 2018 – especially in Sydney, where things had been hottest – and this will likely continue through the rest of the year. A weaker housing market means an end to surging wealth experienced over the past few years, potentially resulting in households saving more of their income rather than spending on discretionary items. And for those households saddled with high housing related debt loads, the fall in wealth may come at the same time as modestly rising mortgage repayment costs, with some banks raising interest rates in response to higher funding costs.

Commentary provided by Deloitte on behalf of CHEP

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