

# ***Economic Conditions in the Retail Industry***

## **Being a Report Prepared for the Shop Distributive and Allied Employees Association (SDA) on Matters Pertaining to Economic Conditions in the “General Retail Industry”**

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## Terms of Reference

On 10<sup>th</sup> September 2012 the Shop Distributive and Allied Employees Association (SDA), via A. J. Macken & Co., requested that I [Kevin Kirchner] prepare an expert report for use in certain proceedings to take place within Fair Work Australia.

A. J. Macken advised that “... *the aspect of the proceedings in relation to which the SDA wishes to engage you to prepare an expert report concerns applications made by a number of employer organisations to vary the terms of the General Retail Trade Award 2010*”.

I was requested to prepare a report which addressed the following questions:

1. By reference to available economic data, to what extent, if any, have economic conditions in the national general retail industry as they impact on retailers changed between January 2010 and the present time? Please describe the nature and extent of any changes you identify.
2. By reference to available economic data, how do economic conditions between January 2010 and the present time as they impact on retailers in the national general retail industry compare to economic conditions over the previous 30 years?
3. Further to the previous question, to the extent that there has been any deterioration in economic conditions as they impact on retailers in the national general retail industry between January 2010 and the present time as compared to earlier periods, in your opinion, what were the causes of that deterioration?
4. By reference to available economic data, how does the level of aggregate profitability in the national general retail industry compare with the level of aggregate profitability in other industries?
5. By reference to available economic data, what is the proportion of total national retail sales which is attributable to:
  - a) on-line sales generally; and
  - b) overseas on-line sales in particular?

What implications, if any, does this have for retailers in the general retail industry?



## Executive Summary

The definition of the “general retail industry” used in this report is as defined in the General Retail Industry Award 2010. This definition is provided at Appendix A to this report. The data presented in this report is generally consistent with this definition and we have no reason to believe that the data does not present an accurate picture of economic conditions in the General Retail Trade Industry.

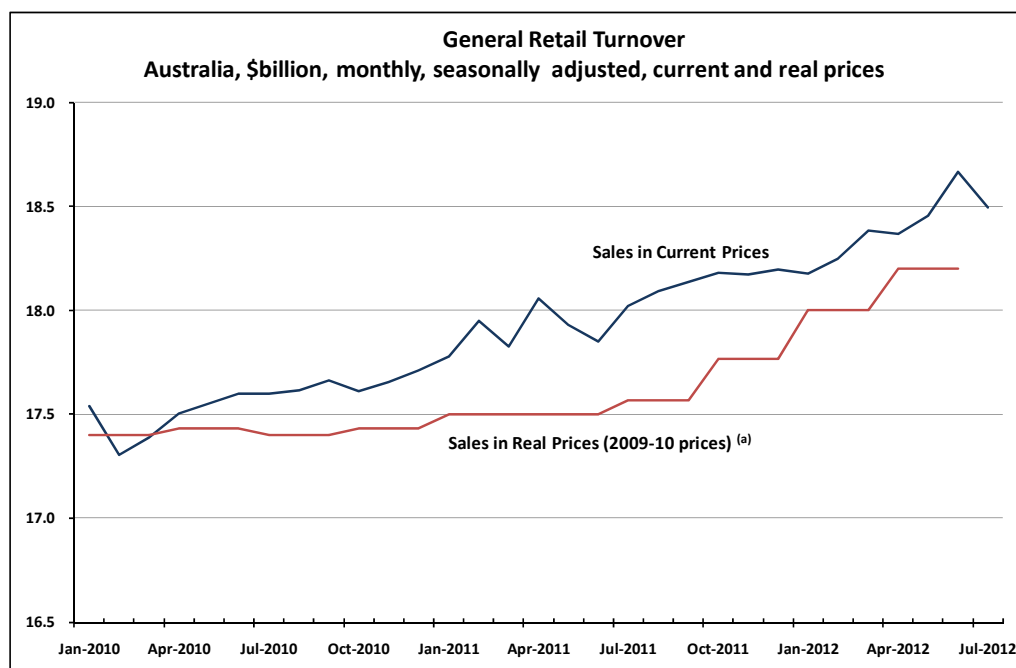
### Question 1

***By reference to available economic data, to what extent, if any, have economic conditions in the national general retail industry as they impact on retailers changed between January 2010 and the present time? Please describe the nature and extent of any changes you identify.***

General retail sales have only increased slowly since January 2010, with sales in the 3 months ended July 2012 (the latest month for which data is available) being only 6.7% higher in nominal terms than in the 3 months ended March 2010 (seasonally adjusted).

The pattern of growth in general retail sales since January 2010 is illustrated by Graph ES1.

**Graph ES1**



*(a) Data for retail turnover in real terms is only available on a quarterly basis. Hence, the data shown in this graph for real retail sales is simply the appropriate quarterly data divided by 3, to give an indicative monthly number. The base year for chain volume measures (ie real price data) is 2009-10.*

*Source: Australian Bureau of Statistics, cat. no. 8501.0 Retail Trade, via [www.rba.gov.au](http://www.rba.gov.au); and Fulcrum Economics Australia.*

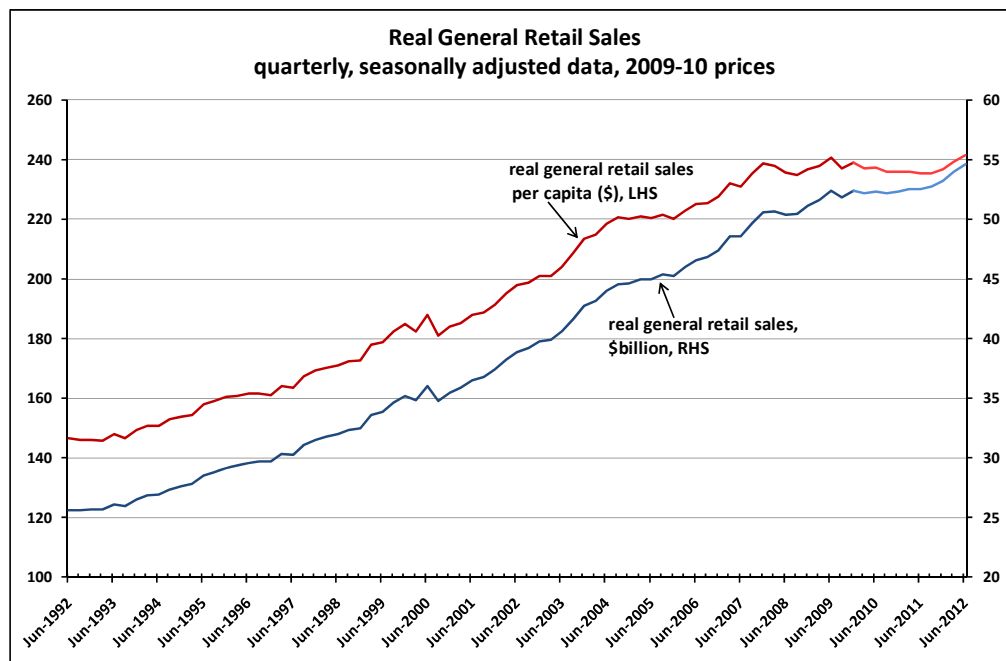
While general retail sales in nominal terms have exhibited slow growth throughout the period since January 2010, sales in real terms, which is the better indicator of underlying economic conditions within the retail trade sector, were flat through 2010 and in the first half of 2011, before starting to grow again from around the middle of 2011. Growth in real general retail sales has continued since then, so that sales in the June quarter 2012 were 3.9% greater in real terms than in the June quarter 2011.

Furthermore, sales growth in all sectors of the retail industry has strengthened over this period, with sales in some sectors now growing strongly, in real terms. The strongest growth is occurring in food retail (up 5.1% in real terms in the June quarter 2012 compared to sales in the June quarter 2011), in ‘other retailing’ (up 5.3% across the same period) and, to a lesser extent, in department stores (up

3.2%). And even in those sectors where growth is not yet strong – namely, household goods retailing and clothing, footwear and personal accessories retailing – it is at least now positive in real terms. Data is provided at Table 1 in the report.

It is instructive to put the recent performance of general retail sales in historical context. The relevant data is provided at Graph ES2. The graph shows that notwithstanding the weakness in general retail sales growth through 2010 and 2011, general retail sales have remained around historically high levels in the period since January 2010. Of particular significance is the fact that general retail sales *per capita* remain much higher than in earlier periods.

**Graph ES2**



**Profitability** in the general retail trade industry, as in any industry, can be considered at two levels, namely:

- i. aggregate profitability across the industry as a whole; and
- ii. profitability of individual businesses.

The pattern of **aggregate profitability** of the retail industry since January 2010 is illustrated by Graph ES3.

Gross Operating Profit of the Retail Trade sector in the December quarter 2011 was 12.7% greater than in the previous December quarter, with profit in March quarter 2012 being 7.0% greater than in the previous March quarter (in current prices). Profit in the June quarter 2012 was only 1.0% greater than in the previous June quarter. Nevertheless, if we add all this up and consider it on an annual basis then the outcome is that total profitability of the retail trade sector in 2011-12 was 6.2% greater (in nominal terms) than profitability in 2010-11.

It also can be noted that gross operating profit is calculated *exclusive of interest payments*. Consequently, the above data would, to at least a small extent, under-estimate the extent to which profitability in the retail trade sector has improved over the past twelve months, given the decline in interest rates in this period. The RBA has progressively reduced the target cash rate from 4.75% last October to its current level of 3.25%.

Graph ES3



(a) Gross operating profit refers to profits before income tax and with certain other selected items also being excluded, so as to provide a better measure of underlying profits. The items excluded include interest income and expenses; depreciation and amortization; and selected items which do not involve the production of goods and services, such as foreign exchange gains/losses, gains/losses arising from the sale of non-current assets, and net unrealized gains/losses from the revaluation of current or non-current assets.

Business gross operating profit is the sum of unincorporated gross operating profit and company gross operating profit.

Note: This data series refers to the Retail Trade Industry as defined by ANZSIC.

Source: Australian Bureau of Statistics, cat. no. 5676.0 Business Indicators, via [www.abs.gov.au](http://www.abs.gov.au)

In respect of trends in **profitability of individual retailers**, it seems clear that trading conditions for individual retailers have been more difficult across much of the period since January 2010 and that there has been an increase in the number of retailers recording a loss in this period. However, these trends were already evident prior to January 2010 and, as suggested above, retail trading conditions have begun to improve over recent quarters.

Two other indicators of changes in economic conditions in the Retail Trade sector are **employment** trends and conditions in **retail property markets**. The number of persons employed in the Retail Trade industry as at August 2012 was essentially the same as at February 2010. This suggests that there has been no severe deterioration in economic conditions in the retail industry over this period, for if there had been employment certainly would have fallen sharply. Similarly, recent developments in retail property markets are also not reflective of any serious decline in the retail trade sector since January 2010. For example, Jones Lang Lasalle in their most recent *Shopping Centre Investment Review and Outlook* state that the level of retail vacancy remains moderate and "... across all retail sub-categories, specialty store vacancy remains at around or below the average level of the last 15 years".

## Question 2

**By reference to available economic data, how do economic conditions between January 2010 and the present time as they impact on retailers in the national general retail industry compare to economic conditions over the previous 30 years?**

Table ES1 provides data on the average annual growth in real general retail sales across five distinct economic periods over the past 30 years.

The data of Table ES1 shows that both the average annual growth in real general retail sales and sales on a per capita basis varied significantly across these five separate periods.

**Table ES1: Average Annual Growth in Real General Retail Sales**

	Average Annual Growth in Real General Retail Sales (%)	Average Annual Growth in Real General Retail Sales per Capita (%)
1984/85 – 1989/90	2.7	0.9
1990/91 – 1991/92	2.9	2.1
1992/93 – 1996/97	3.5	2.2
1997/98 - 2007/08	4.8	3.4
2008/09 – 2011/12	1.7	0.6

Source: Australian Bureau of Statistics, cat. no. 8501.0 Retail Trade, via [www.rba.gov.au](http://www.rba.gov.au); and Fulcrum Economics Australia.

Clearly, the period recording the weakest growth has been the latest period, from 2008-09 through to 2011-12.

However, the real standout period for the retail trade industry was the period 1997-98 to 2007-08, when general retail sales grew 4.8% per annum on average, in real terms; and general retail sales per capita grew 3.4% per annum on average, in real terms. This is very strong growth and the fact that it was sustained over a period of eleven years – a historically long period of sustained growth - only serves to further indicate just how strong this growth period was.

In short, the period 1997-98 to 2007-08 was a ‘boom period’ for the Australian retail industry.

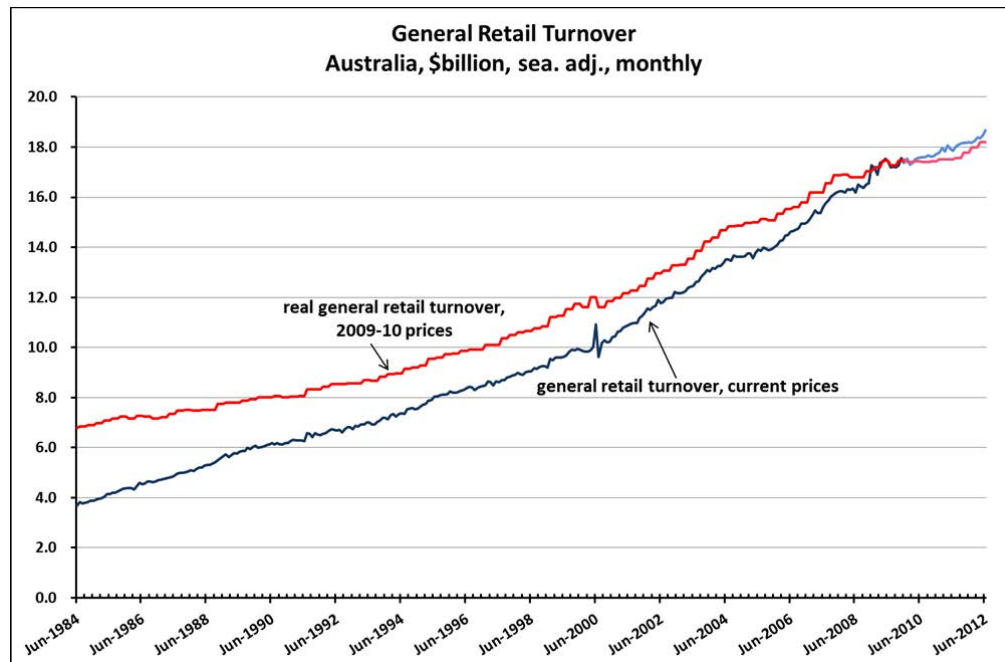
A useful way to illustrate the extent of the growth that occurred across this period and, at the same time, put another perspective on current economic conditions in the retail industry, is to note that even after four years of relatively weak growth of retail sales as at the June quarter 2012 (ie the latest period for which data is available) real general retail turnover was still 12.3% greater than in the same quarter 5 years earlier (June quarter 2007), 40% greater than in the same quarter 10 years earlier (June quarter 2002), and 79% greater than 15 years earlier (ie June quarter 1997). Graph ES4 illustrates this very strong growth.

Graph ES5 illustrates the growth in **employment** in the retail trade sector across the past 28 years. Perhaps the most notable points to observe from the graph are, firstly, the very strong growth in employment across the boom period 1997-98 to 2007-08 and, secondly, the fact that despite the weakness in retail sales growth in recent years employment levels have generally trended flat, rather than declined in this period.

Graph ES6 illustrates the trends in **profitability** of the retail sector since 1986. Despite this series being somewhat disjointed due to changes in the scope and coverage of the series over time (refer the footnotes to the graph for further information), there are nevertheless some useful points that can be taken from the data. First, we can note that aggregate profitability of the Retail Trade sector increased strongly over the period 1997/98 to 2007/08, albeit after a slow start. Second, it is

notable that despite the weaker growth in retail sales in the period since 2007/08 aggregate profitability of the Retail Trade sector has remained at a high level through to the current time, albeit with some lessening of profitability through 2010 and the first half of 2011.

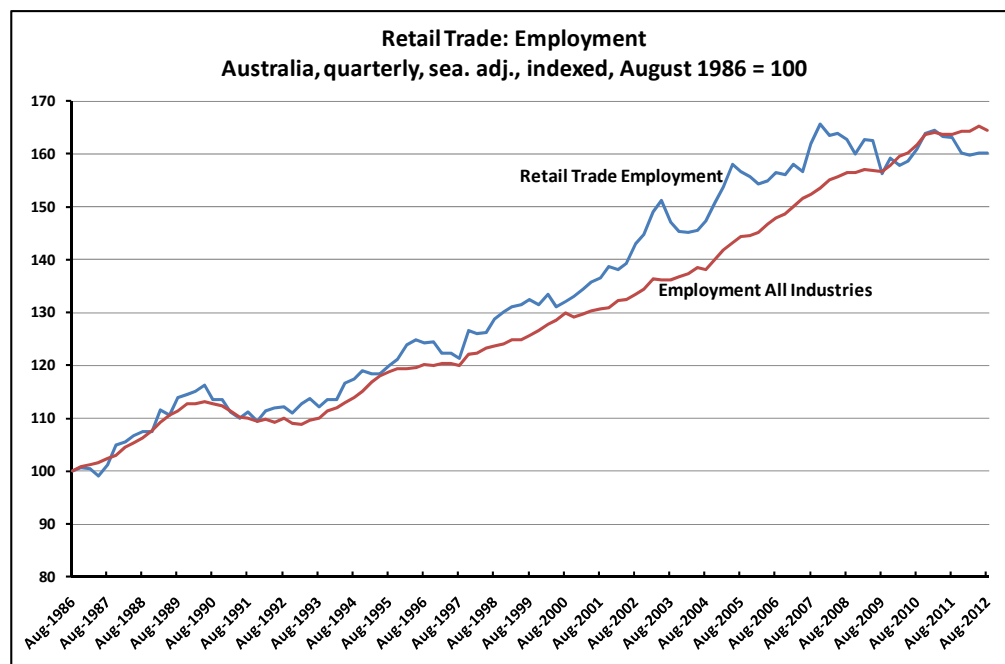
**Graph ES4**



(a) Data for retail turnover in real terms is only available on a quarterly basis. Hence, the data shown in this graph for real retail sales is simply the appropriate quarterly data divided by 3, to give an indicative monthly number. The base year for chain volume measures (ie real price data) is 2009-10.

Source: Australian Bureau of Statistics, cat. no. 8501.0 Retail Trade, via [www.rba.gov.au](http://www.rba.gov.au); and Fulcrum Economics Australia.

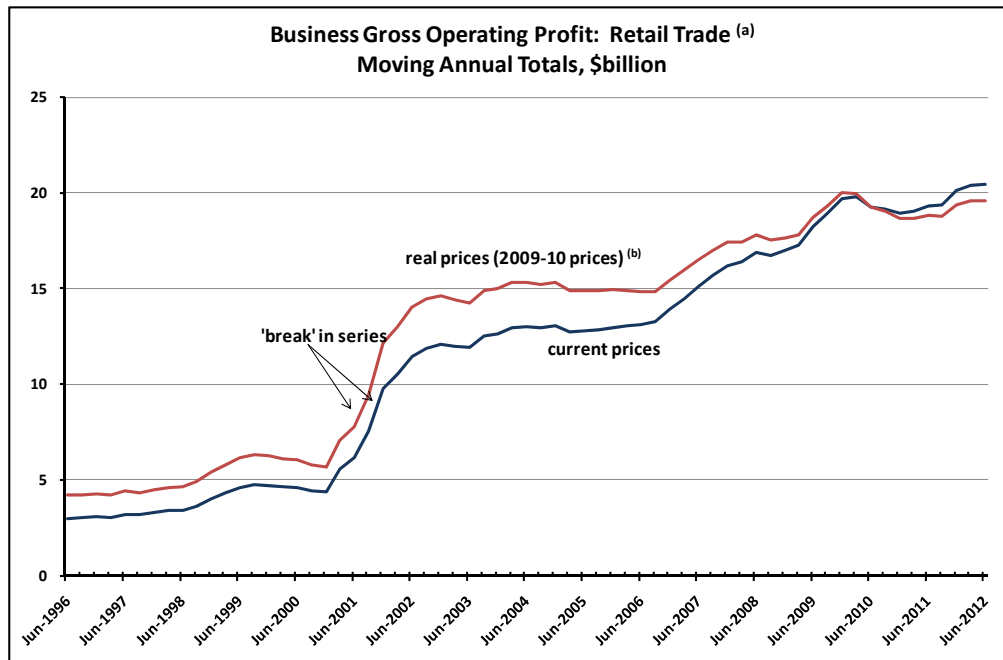
**Graph ES5**



Source: Australian Bureau of Statistics, cat. no. 6291.0 Labour Force Australia: Detailed, quarterly, via [www.abs.gov.au](http://www.abs.gov.au); Fulcrum Economics Australia

Note: These data series refer to the Retail Trade Industry as defined by ANZSIC.

Graph ES6



(a) There is a “break” in the series around 2001, reflecting a change in the scope and coverage of the survey. The main change in the coverage was the inclusion of unincorporated enterprises (ie previously only the profits of companies had been included in the survey). A second change around this time was a widening of the scope of the survey to include companies with less than 30 employees. Consequently, in interpreting the data the spike in profitability around 2001 should be discounted.

(b) The deflator used was that for household final consumption expenditure. The data therefore is an approximation of real profits in retail trade, but sufficient to indicate trends in aggregate profitability.

Note: These data series refer to the Retail Trade Industry as defined by ANZSIC.

Source: Australian Bureau of Statistics, cat. no. 5676.0 Business Indicators, cat. no. 5206.0 National Accounts, via [www.abs.gov.au](http://www.abs.gov.au); Fulcrum Economics Australia

### Question 3

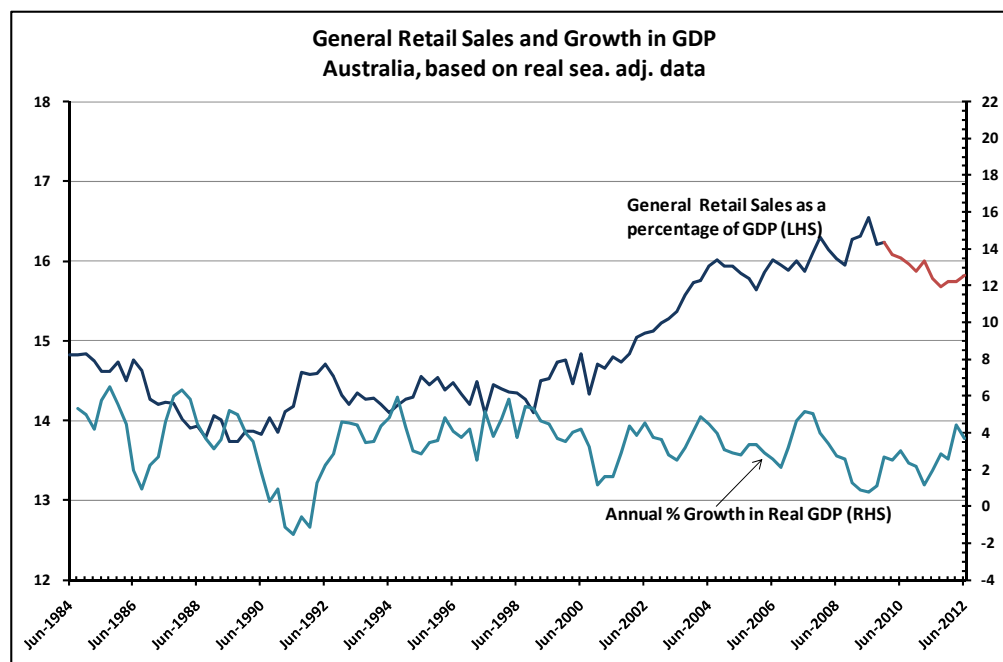
**Further to the previous question, to the extent that there has been any deterioration in economic conditions as they impact on retailers in the national general retail industry between January 2010 and the present time as compared to earlier periods, in your opinion, what were the causes of that deterioration?**

To the extent that there has been a deterioration in economic conditions of the retail trade industry in recent years (ie since 2007-08) compared to earlier years, it has occurred to a large extent as a “correction phase”, following the very strong but ultimately unsustainable growth in retail sales in the period 1997-98 to 2007-08, and during which period there was a sharp lift in investment in the retail sector and hence in retail floor space.

The description “to the extent that there has been a deterioration in economic conditions of the retail trade industry in recent years” is used in the previous sentence because the data presented in this report makes it clear that at the aggregate level the overall economic situation of the retail industry remains very strong. For example, general retail sales as a percentage of GDP remain well above their levels through the 1980s; aggregate profitability of the retail industry remains at a historically high level; as does real general retail sales per capita.

Data for most of the points mentioned in the last paragraph have already been illustrated by graphs in this Executive Summary, data on general retail sales as a percentage of GDP being the exception. This data is shown by Graph ES7.

**Graph ES7**



Source: Australian Bureau of Statistics, cat. no 5206.0 National Accounts, cat. no. 8501.0 Retail Trade, via [www.abs.gov.au](http://www.abs.gov.au); Fulcrum Economics Australia

Thus, to the extent that there has been a deterioration in economic conditions in the general retail trade industry since 2007-08, it has been limited to slower growth in aggregate general retail sales and to more difficult trading conditions at the *individual retailer* level. And even then it is not clear to what extent this deterioration has continued through to the current time since, as we noted above, retail sales have begun to exhibit stronger growth over the past 9 months.

***The main reason for the slower growth in aggregate retail sales since 2007-08 is the more cautious attitude to borrowing adopted by households since 2007-08.***

Prior to 2007-08, and particularly in the period from 1994 to 2007, the demand for credit by households grew very strongly, leading to an unprecedented increase in household debt - refer Graph ES8.

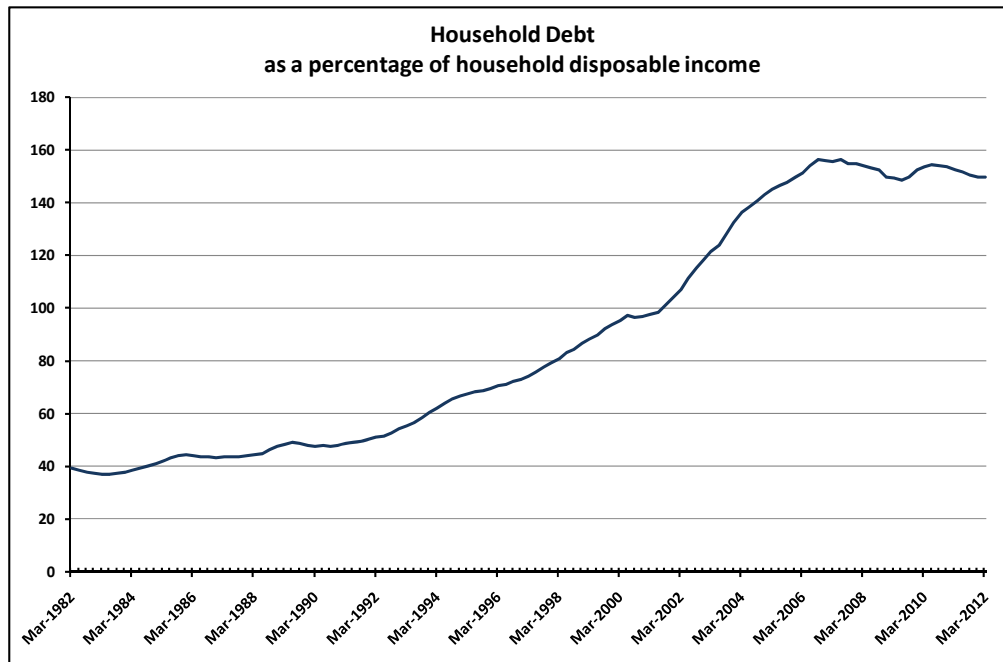
Thus, aggregate household debt grew from a level equal to 50% of aggregate household disposable income in 1991, to around 85% in 1997, and 160% in 2007.

To a very large extent it was the strong growth in household borrowing which fueled the strong growth in general retail sales through the period 1997/98 to 2007/08.

The much increased demand for borrowing by households through this period was such that it led to household consumption expenditure growing at a faster rate than household disposable income through this period – refer Graph ES9.

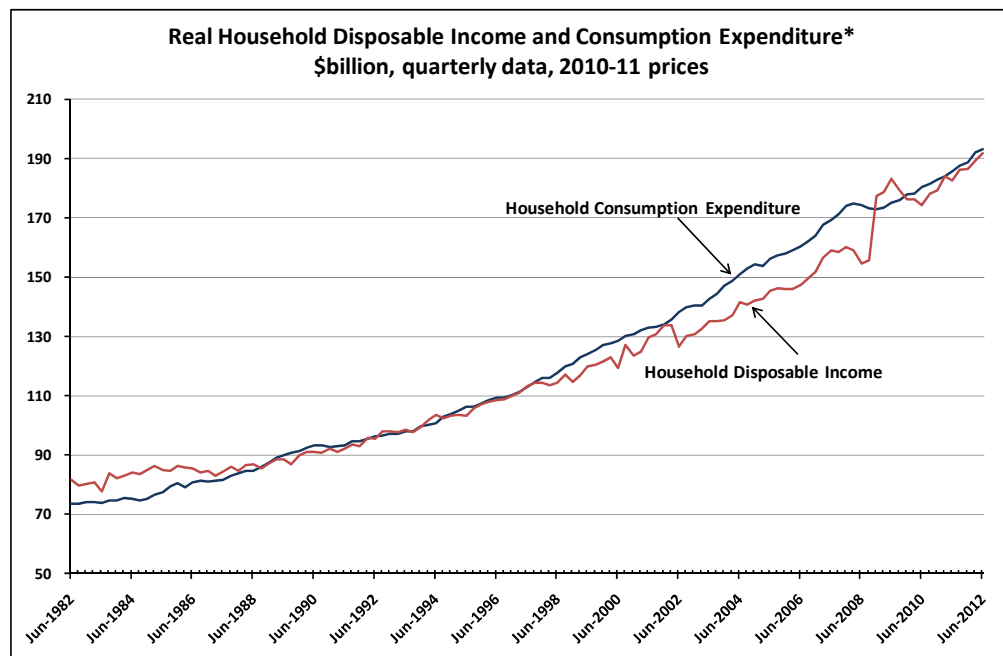
To put numbers on it, across the period 1997-98 to 2007-08, real household disposable income grew at an average annual rate of 3.3%, whereas household consumption expenditure grew at an average annual rate of 4.2%.

**Graph ES8**



Source: Reserve Bank of Australia, via [www.rba.gov.au](http://www.rba.gov.au)

**Graph ES9**



\* Household disposable income is after tax but before interest payments. Real household disposable income is household disposable income deflated by the Household Consumption deflator.

The sharp jump in household disposable income in the September quarter 2008 reflects the measures taken at that time by the Federal Government to ease the threat posed by the GFC for the Australian economy. These measures included sharp increases in social assistance payments to individuals and families.

Source: Australian Bureau of Statistics, cat. no. 5206.0 Australian National Accounts, via [www.abs.gov.au](http://www.abs.gov.au); and Fulcrum Economics Australia

Such a combination of growth rates is not sustainable. Sooner or later households would reach their capacity to service debt and the growth in borrowing would have to cease. That is, ultimately there would have to be a “correction period”, not only for households but also for the retail industry.

As it was, households continued to increase their borrowings strongly across a 14 year period, from 1993 to 2007, before the advent of the GFC and associated change in economic conditions, as well as the impact on consumer confidence, brought the surge in borrowing to a halt.

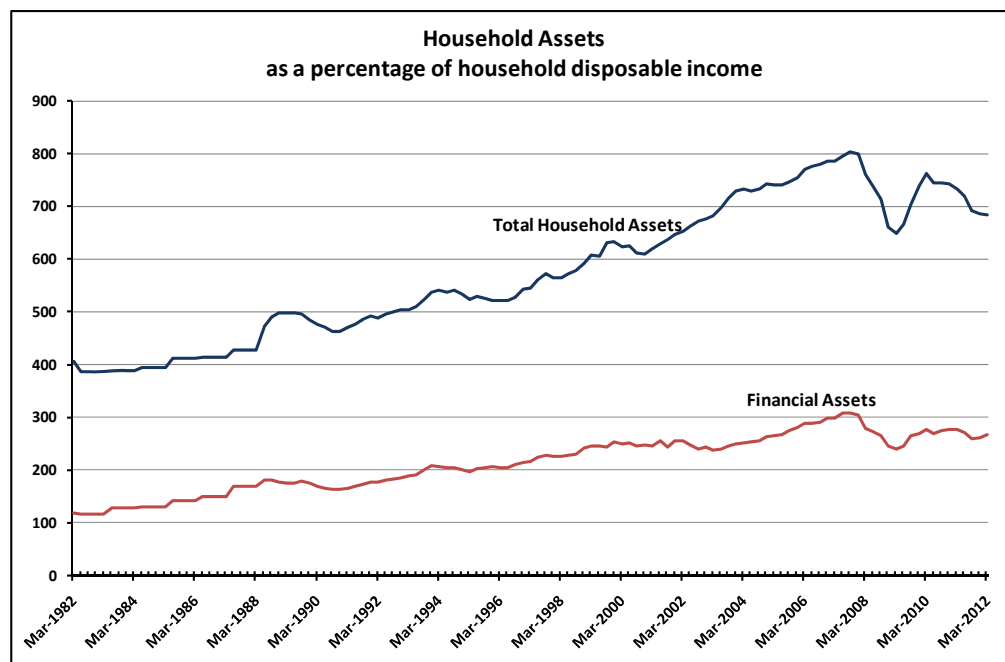
The factors that lay behind the ability of households to increase their borrowings so strongly, and to be so willing to do so, through the period 1993 to 2007 were several. First, the sustained strong growth of the Australian economy across this period created both solid employment growth and strong growth in household disposable income, thus increasing households’ capacity to borrow. Other important factors, however, were sustained low interest rates, strong growth in the value of household assets, high levels of consumer confidence, a starting point at which the household debt level was relatively low, and an increasingly accommodating financial sector that made it easier for consumers to borrow to finance consumption.

Of particular note among these factors is the strong growth in the value of household assets across the period 1993 to 2007. The increased value of household assets not only provided additional security against which households were able to increase their borrowings, but also was instrumental in boosting consumer confidence across this period, thus leading to an even greater willingness to take on more debt.

A key component of the growth in the value of household assets was strong growth in house prices.

Graph ES10 illustrates the strong growth in the value of household assets across the period 1993 to 2007.

**Graph ES10**



Source: Reserve Bank of Australia, via [www.rba.gov.au](http://www.rba.gov.au)

However, in 2007/08, with the advent of the Global Financial Crisis (GFC), Australian households became more cautious about borrowing and more concerned about their existing debt levels and, as a consequence curbed their demand for new borrowing, to the extent that the level of household debt started to decline from that time, albeit in only a very marginal fashion to date. As at March 2012 household debt is still at a level equal to 150% of household disposable income.

Other factors that have impacted on consumer confidence since 2007-08 and which have also acted to limit households' appetite for debt include slower employment growth and slower growth in the value of household assets. Indeed, from Graph ES10 it can be seen that the value of household assets has declined since 2007-08.

The second factor behind the deterioration of retailing trading conditions since 2007-08, but one which is closely related to the decrease in the appetite of households for debt, is, of course, changed economic conditions across the economy as a whole, due in the first instance to the advent of the GFC and, more recently, reflecting the impacts of the sovereign debt crisis in Europe.

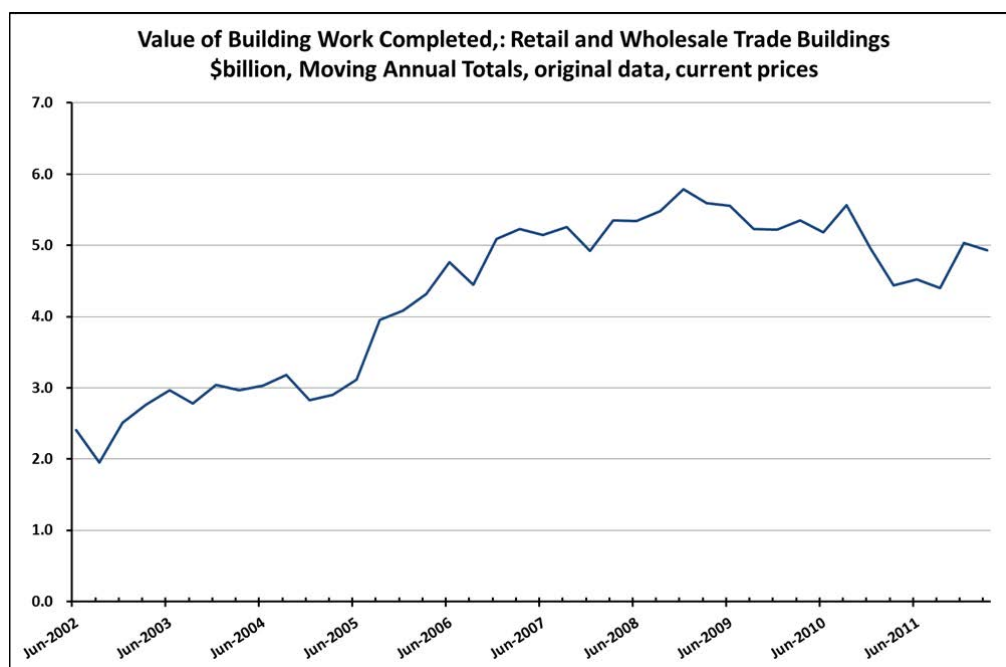
It seems highly likely that the advent of the GFC brought about a quicker and more marked slowing in retail sales growth than would have occurred otherwise; and that the slower growth in retail sales has been prolonged by the economic repercussions of the sovereign debt crisis in Europe.

The other key ingredient in understanding the reasons for the **more difficult trading conditions experienced by individual retailers** since 2007-08 and which reportedly continues to be the case, is to recognise that the retail trade sector responded to the strong growth in household spending in the period 1996/97 to 2007/08 by sharply increasing investment in retail capacity.

This is indicated by the strong rise in retail building work during this period. Graph ES11 illustrates the growth in the 'value of work completed' in respect of buildings developed for retail and wholesale trade use. The value of building work completed across these sectors in 2008-09 was 133% greater than in 2001-02, that is, more than double. And it was the case that there was growth in completions in every year between 2001-02 and 2008-09.

Clearly then there was a very substantial increase in retail space across this period. All of which, as indicated by the available data on retail vacancies, appears to have been taken up.

**Graph ES11**



Source: Australian Bureau of Statistics, cat. no. 8752.0 Building Activity Australia, via [www.abs.gov.au](http://www.abs.gov.au); calculations by Fulcrum Economics Australia

A consequence of the strong rise in retail space would have been an increased level of competition for the retail dollar. This may not have been so significant for the profitability of individual retailers when retail sales were still rising strongly, but would have become more of a factor once retail sales growth began to slow. Further, it is almost certainly still a factor that is impacting on retailers in

2012, since it is not clear that the “correction phase” has yet fully run its course. Instead, households appear to be still in the process of re-balancing their balance sheets; and retailers are still in the process of adapting to increased competition in an environment of slower retail sales growth.

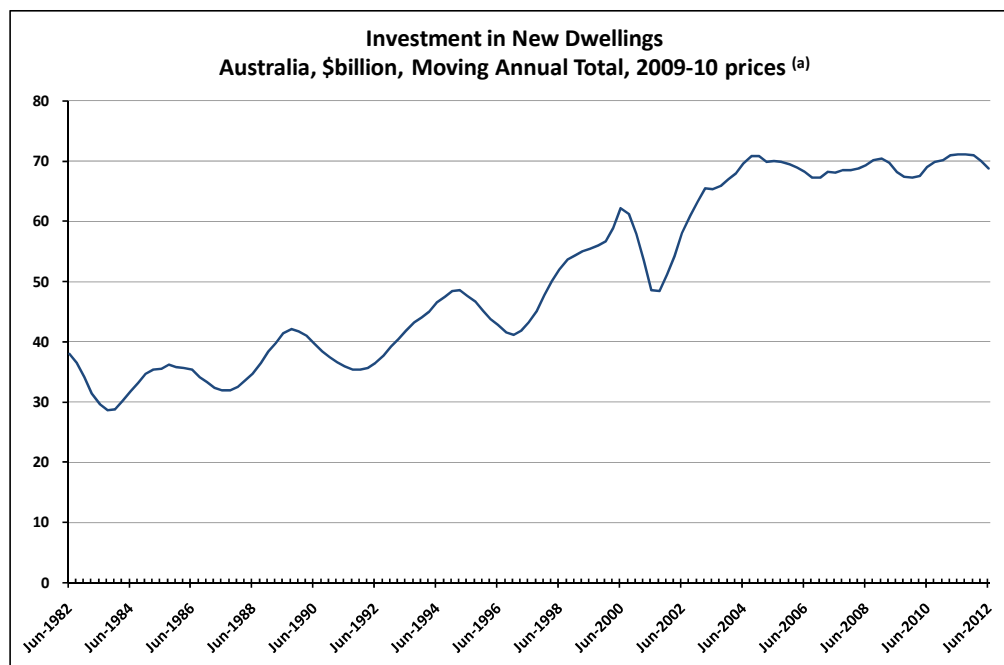
One other factor of significance in terms of the challenges currently confronting the retail industry is the degree of structural change occurring within both the retail sector and the broader Australian economy. At the current time this includes the greater prevalence of online retailing, a changing geographical pattern of retail trade due to the changing industry structure of the Australian economy, and shifts in consumer demand patterns due increased use of technology and changes in consumer “tastes” (reflecting such factors as the increased prevalence of mobile phones with internet connection, the increasing role of social media, and the greater use of the web as a search tool). There is also the not insignificant impact of a lower level of residential building activity on demand patterns.

But structural change is a characteristic of modern economies and is an important ingredient in the process of economic progress. Coping with and adapting to structural change is an on-going challenge for all industries.

**The differences in growth across the different retail sectors** reflect, of course, the pattern of household spending. One of the key drivers in the growth of household spending through the period 1996-97 to 2007-08 was the strong growth in house prices, which led to households significantly lifting their investment in housing. In turn, this provided the reason for the very strong growth in household goods retailing across this period.

The cessation of growth in new housing investment (Graph ES12), as well as a fall in residential real estate activity, are yet other reasons behind the weaker growth in general retail sales since 2007-08, especially in the area of household goods retailing.

**Graph ES12**



(a) Includes expenditure on residential alterations and additions.

Source: Australian Bureau of Statistics, cat. no. 5206.0 National Account, via [www.abs.gov.au](http://www.abs.gov.au); Fulcrum Economics Australia

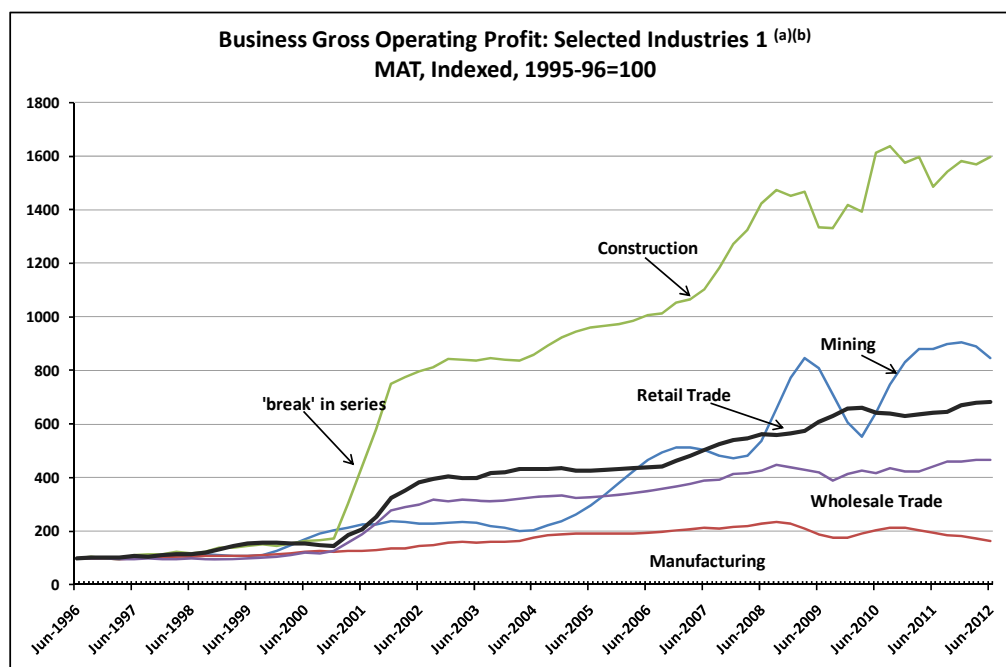
#### Question 4

**By reference to available economic data, how does the level of aggregate profitability in the national general retail industry compare with the level of aggregate profitability in other industries?**

Over the longer term aggregate profitability of the retail industry has grown at a solid rate, matching or out-performing several other industry sectors. In the period from 2001/02 through to the current time (June quarter 2012) aggregate profitability of the retail industry has increased more strongly than aggregate profitability of the manufacturing, wholesale trade, and financial and insurance services sectors, and essentially performed on a par with the accommodation and food services sector. Data is provided by Graphs ES13 and ES14.

This better profit performance than several other industry sectors has continued over the period since January 2010 – as is evident from Graphs ES13 and ES14.

**Graph ES13**



(a) There is a “break” in the series around 2001, reflecting a change in the scope and coverage of the survey. The main change in the coverage was the inclusion of unincorporated enterprises (ie previously only the profits of companies had been included in the survey). A second change around this time was a widening of the scope of the survey to include companies with less than 30 employees. Consequently, in interpreting the data the spike in profitability around 2001 should be discounted.

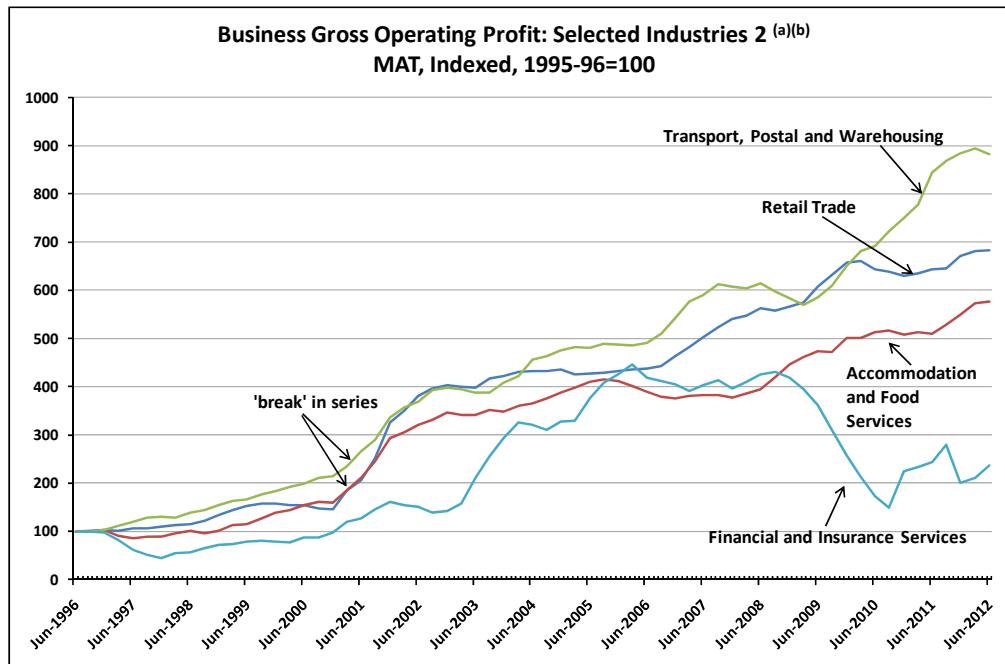
(b) Gross operating profit refers to profits before income tax and with certain other selected items also being excluded, so as to provide a better measure of underlying profits. The items excluded include interest income and expenses; depreciation and amortization; and selected items which do not involve the production of goods and services, such as foreign exchange gains/losses, gains/losses arising from the sale of non-current assets, and net unrealized gains/losses from the revaluation of current or non-current assets.

Business gross operating profit is the sum of unincorporated gross operating profit and company gross operating profit.

Note: This data series refers to the Retail Trade Industry as defined by ANZSIC.

Source: Australian Bureau of Statistics, cat. no. 5676.0 Business Indicators, via [www.abs.gov.au](http://www.abs.gov.au); Fulcrum Economics Australia

Graph ES14



(a) There is a “break” in the series around 2001, reflecting a change in the scope and coverage of the survey. The main change in the coverage was the inclusion of unincorporated enterprises (ie previously only the profits of companies had been included in the survey). A second change around this time was a widening of the scope of the survey to include companies with less than 30 employees. Consequently, in interpreting the data the upwards shift in profitability around 2001 should be discounted.

(b) Gross operating profit refers to profits before income tax and with certain other selected items also being excluded, so as to provide a better measure of underlying profits. The items excluded include interest income and expenses; depreciation and amortization; and selected items which do not involve the production of goods and services, such as foreign exchange gains/losses, gains/losses arising from the sale of non-current assets, and net unrealized gains/losses from the revaluation of current or non-current assets.

Business gross operating profit is the sum of unincorporated gross operating profit and company gross operating profit.

Note: This data series refers to the Retail Trade Industry as defined by ANZSIC.

Source: Australian Bureau of Statistics, cat. no. 5676.0 Business Indicators, via [www.abs.gov.au](http://www.abs.gov.au); Fulcrum Economics Australia

### Question 5

**By reference to available economic data, what is the proportion of total national retail sales which is attributable to:**

- a) on-line sales generally; and
- b) overseas on-line sales in particular?

**What implications, if any, does this have for retailers in the general retail industry?**

### Official Statistics

There are currently no official statistics available for domestic and overseas online retail sales in Australia. Instead there are only estimates available, with the most reliable of these (in our opinion)

being those made by the Productivity Commission in the course of its preparation of its 2011 report on the *Economic Structure and Performance of the Australian Retail Industry*.<sup>1</sup>

Based on available data at that time the Productivity Commission estimated that in 2010 online sales accounted for approximately 6 per cent of total general retail sales in Australia. Furthermore, they estimated that two-thirds of these sales were domestic online sales (ie the goods were bought from Australian retailers), while only one-third were overseas online sales (ie goods acquired from non-Australian based retailers). That is, only 2% of all general retail sales in Australia were sourced online from overseas based retailers.

### ***Implications for the General Retail Trade Industry***

There seems little doubt that continued growth of online purchases of retail products poses a significant threat for *some* sectors of the retail industry, namely those sectors that sell goods where the penetration of online *overseas* sales is highest and where this penetration is likely to increase in future. But the extent to which these retailers are impacted in the future depends upon a range of factors, not just upon the ability of consumers to purchase directly from overseas. It also depends upon the ability of local retailers to respond to this threat; and it depends upon possible changes in government policy, such as the changes recommended by the Low Value Parcel Processing Task Force.

The other point to note here is that it is likely only a small proportion of the general retail industry that is under threat from online overseas sales, since only a limited range of goods are likely suitable for direct purchase by consumers from overseas based retailers. For example, items such as perishable goods (various foods, flowers, etc) and those items where the transport cost would be high relative to the value of the good, are unlikely to be items that would be purchased to any extent in this fashion. The second category of goods would include things such as bulky furniture items and most whitegoods, a range of floor coverings, most houseware goods (eg basic glassware, plastic containers, crockery, etc), many textile goods (eg curtains), hardware goods to a significant degree, and a range of other goods.

Online retailing should be seen not just in terms of being a threat, however. Instead it seems likely that online retailing offers significant opportunities for local retailers, reflecting the opportunities offered by changing technology, by changing consumer behaviors and buying patterns, and the fact that the majority of online retail sales will likely continue to be domestic online sales.

Perhaps the real longer term challenge for local retailers is being able to respond appropriately, and successfully, to the various pressures for structural change now confronting the industry. Responding to structural change is never an easy task and invariably there are both winners and losers in the process. But, as already noted, structural change is a necessity in a modern economy and, to varying degrees, is an on-going challenge for all industries. At the current time it would seem to be a major challenge for the local retail industry.

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<sup>1</sup> Productivity Commission, report no. 56, November 2011.

## **Introduction**

### **Definition of “General Retail Industry”**

The definition of the “general retail industry” used in this report is that as defined in the General Retail Industry Award 2010. This definition is provided at Appendix A to this report.

### **Availability of Data to Analyse Economic Conditions in the General Retail Trade Industry**

A number of data series have been utilised in preparing this report and it is relevant to comment on the appropriateness of these data series before presenting the analysis.

Generally it has not been possible to identify or construct data series which exactly match the industry coverage of the General Retail Industry Award 2010. However, in the main these differences in coverage are either relatively minor or otherwise are such that they are unlikely to have had any significant impact on the broad trends identified in this report, namely those trends that define economic conditions within the General Retail Trade industry. In those instances where there is concern that the trends may be affected by differences in coverage, such that the trends indicated by the data may not be indicative of actual trends across the General Retail Trade sector, these concerns are noted in the report. For the information of readers, the differences in coverage between the main data series used and that of the General Retail Trade Award are noted below.

### ***Retail Sales Data***

The Australian Bureau of Statistics’ Retail Trade Survey (cat. no. 8501.0) reports turnover for Australian businesses classified as being part of the Retail Trade Industry. However, the coverage of the retail trade survey (ie 8501.0) is not the same as the coverage of the General Retail Trade Award 2010 or of the Australian and New Zealand Standard Industrial Classification (ANZSIC) category “Retail Trade”.

The main difference in coverage between the ABS’s Retail Trade 8501.0 series and the General Retail Industry Award 2010 is that the ABS’s Retail Trade 8501.0 series includes “cafes, restaurants and takeaway food services”, whereas workers in these industries are covered by Awards other than the General Retail Industry Award 2010. However, data on turnover by “cafes, restaurants and takeaway food services” are separately identified in the Retail Trade 8501.0 series, so that it is not difficult to exclude them when seeking to analyse economic conditions in the “General Retail Trade Industry” as defined by the Award. And this is what has been done for the analysis in this report.

The only other difference between the coverage of the ABS’s Retail Trade 8501.0 survey and the General Retail Industry Award is that the 8501.0 series includes sales data for “stand-alone butcher shops” and “stand-alone nurseries”, while the General Retail Industry Award excludes these categories. It is not possible to separate out these categories from the published Retail Trade 8501.0 data, but this is not considered significant for the accuracy of the analysis in this report since the total level of sales in these two categories is only a very small proportion of total general retail sales, probably less than 1 per cent. This means that the trends in total general retail sales, as analysed in this report, would not be affected by the inclusion of these two categories.

For readers’ information, the various industry sectors included in the Retail Trade 8501.0 survey are identified at Appendix B, with a more detailed description being given at Appendix C (being the more detailed ANZSIC definitions).

### ***Other Data Series Utilised in this Report***

The other data series utilised in this report which refer to Retail Trade are based on the Australian and New Zealand Standard industrial Classification (ANZSIC) definition of the Retail Trade Industry.

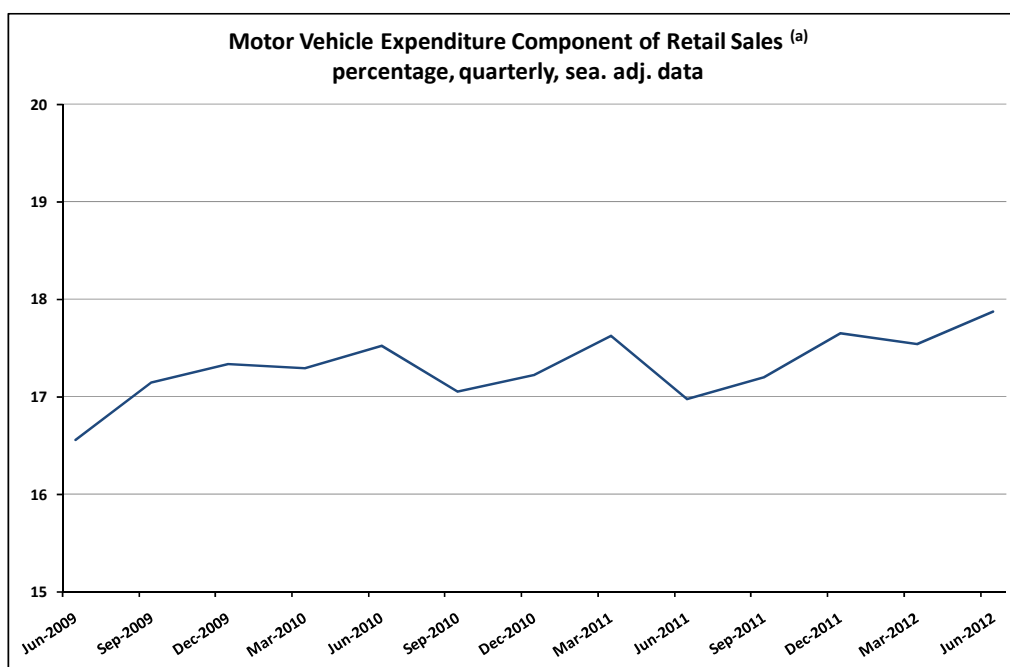
The ANZSIC Retail Trade category does not include accommodation and food services (ie cafes and restaurants, takeaway food services and catering services), but does include motor vehicle retailing and fuel retailing, so that this inclusion is the only significant difference between the ANZSIC definition of Retail Trade and the coverage of the General Retail Industry Award 2010.

Unfortunately, it is not possible to separate out motor vehicle retailing and fuel retailing from the overall data series that are based on the ANZSIC definition, and hence care needs to be taken in interpreting these data series.

The data series utilised in this report which are based on the ANZSIC definition of Retail Trade include industry profitability, employment, value added, and profit margins.

In the main, however, it is unlikely that the inclusion of motor vehicle retailing and fuel retailing will have had an impact on the data such that there is any *significant* differences between the *trends* exhibited by total retail trade as defined in ANZSIC and the actual trends in general retail trade (ie as defined in the General Retail Trade Award) for the different data series indicated above. This is not withstanding the fact that motor vehicle retailing and fuel retailing in recent periods have accounted for around 17 to 18 per cent of total Retail Trade turnover (ie 'retail trade' as defined in ANZSIC) – refer Graph 1.

**Graph 1**



(a) Calculation based on components of Household Consumption Expenditure, from ABS cat, no, 5206.0 National Accounts,

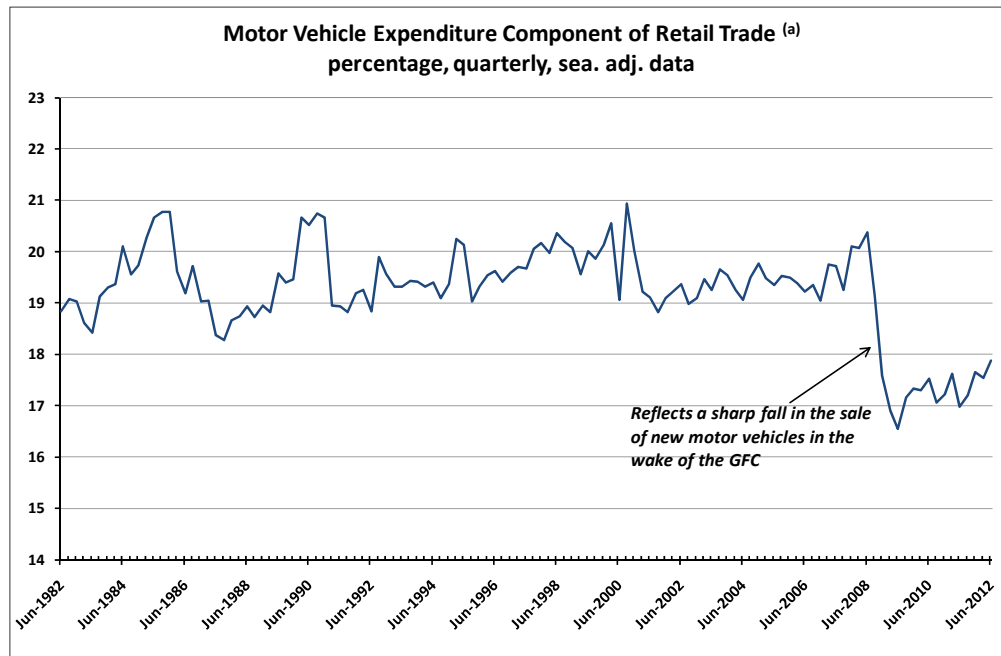
Source: Australian Bureau of Statistics, cat. no. 5206.0 National Accounts; Fulcrum Economics Australia.

One possible exception, however, occurs around 2008. Graph 2 shows the longer term trend in the contribution of motor vehicle retailing and fuel retailing to overall Retail Trade turnover (ie using the ANZSIC definition of 'retail trade'), and from this graph it can be seen that there was a sharp fall in the contribution of motor vehicle retailing and fuel retailing to overall retail trade turnover in 2008. This fall corresponded with a sharp decline in the sales of new motor vehicles at the time of the Global Financial Crisis (GFC). While not a problem for our analysis of general retail trade turnover, since we use another data series (ie ABS data series 8501.0) to analyse this, it does suggest that care needs to be taken in analysing movements in other data series as they might apply to general retail trade (eg profitability, gross value added, employment, profit margins) around this period. In particular, this sharp decline in trading conditions in the motor vehicle sector may mean that any movements around this period of time in retail trade data series based on the ANZSIC definition, especially negative movements, might represent an exaggeration of the *actual* trends that occurred within the general retail trade component of retail trade.

The other way of looking at the sharp fall in the motor vehicle component of retail trade in 2008 is to recognise that it means that in recent quarters a greater proportion of household spending on retail trade items has been directed to general retail trade items – consider Graph 2 again.

Appendix D provides a full description of the industry categories included in the ANZSIC definition of Retail Trade but which are not included in the scope of industries covered by the General Retail Trade Award 2010.

**Graph 2**



(a) Calculation based on components of Household Consumption Expenditure, from ABS cat, no, 5206.0 National Accounts,

Source: Australian Bureau of Statistics, cat. no. 5206.0 National Accounts; Fulcrum Economics Australia.



## Question 1 Addressed

### Question 1

***By reference to available economic data, to what extent, if any, have economic conditions in the national general retail industry as they impact on retailers changed between January 2010 and the present time? Please describe the nature and extent of any changes you identify.***

#### **Preamble**

There have been a number of significant developments in economic conditions in the broader economy since January 2010 which have impacted on the general retail trade industry, including in areas such as interest rates, consumer confidence, \$A exchange rates, levels of new home building activity and growth in employment, to name but a few. However, the issue at question here is not how broader economic conditions have changed, but rather how economic conditions within the general retail trade industry have changed. To answer this question we consider a number of indicators of trading conditions within the general retail trade industry, including turnover, employment, profit margins and profitability. Discussion of the factors that lie behind these changes in retail trading conditions is provided in our answers to Questions 2 and 3 of the Terms of Reference, later in this report.

#### **Trends in Total General Retail Sales**

We start our analysis by considering the trend since January 2010 in general retail sales in current prices, since this is the data most often quoted by commentators. This data is depicted by Graph 3.

Graph 3 indicates that since January 2010 the overall trend in general retail sales has been upwards. In the 3 months ended July 2012 (the latest period for which this data is available) general retail sales were 6.7 per cent higher than in the 3 months ended March 2010, in seasonally adjusted terms.

Growth of 6.7% in current price terms over a period of more than two years cannot be characterised as strong growth. But it nevertheless is growth and, as we shall see, equates to growth in real terms.

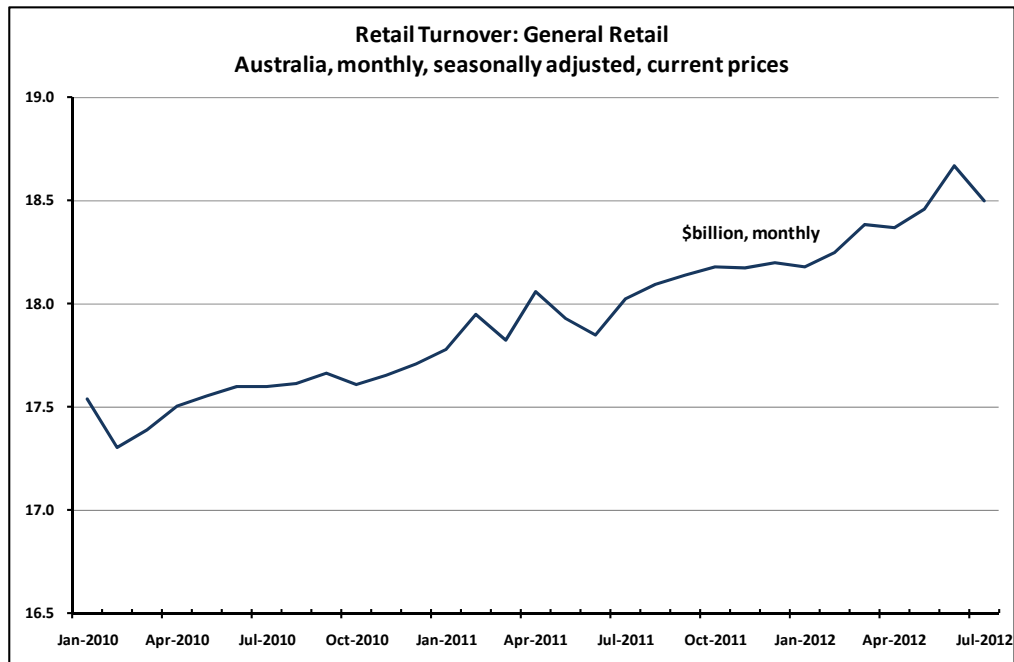
Retail sales in current prices presents only a partial picture of conditions in the retail industry and, indeed, current price data can even present a misleading picture. This will occur if the price effects – be they inflation or deflation – outweigh changes in the volume of retail sales, ie the actual physical amount of goods sold. Thus the first step in obtaining a more accurate picture of trading conditions in the general retail industry is to consider sales in real terms. This data is depicted by Graph 4.

From Graph 4 it can be seen that general retail sales in real terms after being essentially flat through 2010 and most of 2011 started to grow again in the later part of 2011. Thus, in the June quarter 2012 general retail sales were up 3.4 per cent in real terms on sales in the September quarter 2011 (ie nine months earlier).

In short, the real terms data for retail sales confirms the picture presented by the current price data, namely that retail sales have increased in only a very modest way since January 2010. At the same time, however, the real price data also confirms stronger growth in retail sales in the past nine months.

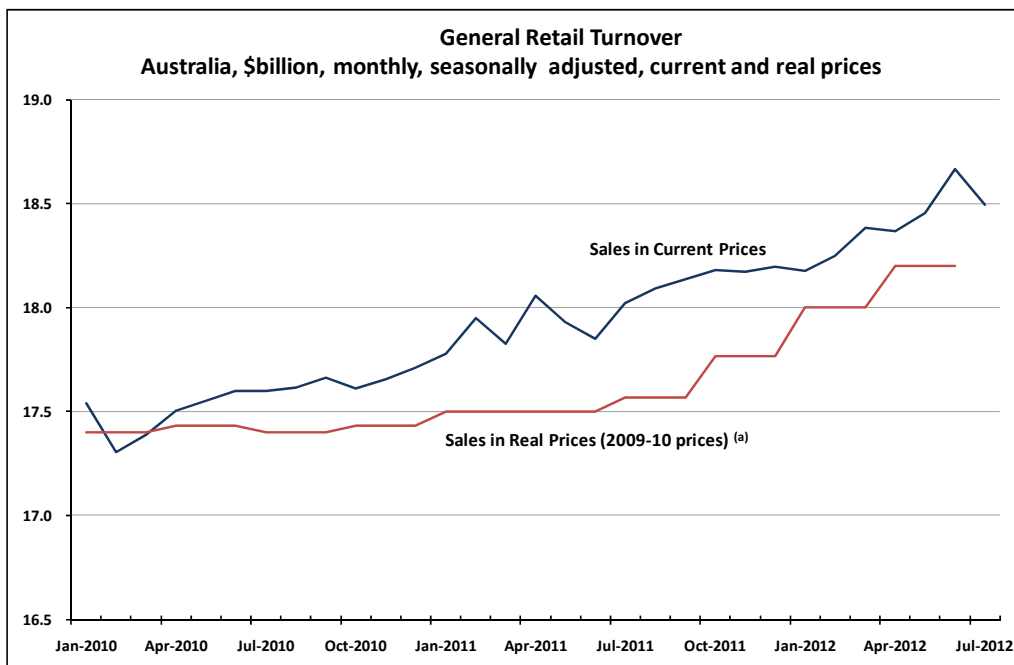
We can go one step further along this line of analysis, and that is to put the recent performance of general retail sales in historical context. The relevant data is provided at Graphs 5 and 6. Graph 5 illustrates the long-run trends in general retail sales in real terms; while Graph 6 presents the same data but on a per capita basis. Both graphs show that notwithstanding the weakness in general retail sales growth through 2010 and 2011, general retail sales have remained around *historically high levels* in the period since January 2010. Of particular significance is the fact that general retail sales *per capita* remain much higher than in earlier periods.

**Graph 3**



Source: Australian Bureau of Statistics, cat. no. 8501.0 Retail Trade, via [www.rba.gov.au](http://www.rba.gov.au)

**Graph 4**



(a) Data for retail turnover in real terms is only available on a quarterly basis. Hence, the data shown in this graph for real retail sales is simply the appropriate quarterly data divided by 3, to give an indicative monthly number. The base year for chain volume measures (ie real price data) is 2009-10.

Source: Australian Bureau of Statistics, cat. no. 8501.0 Retail Trade, via [www.rba.gov.au](http://www.rba.gov.au); and Fulcrum Economics Australia.

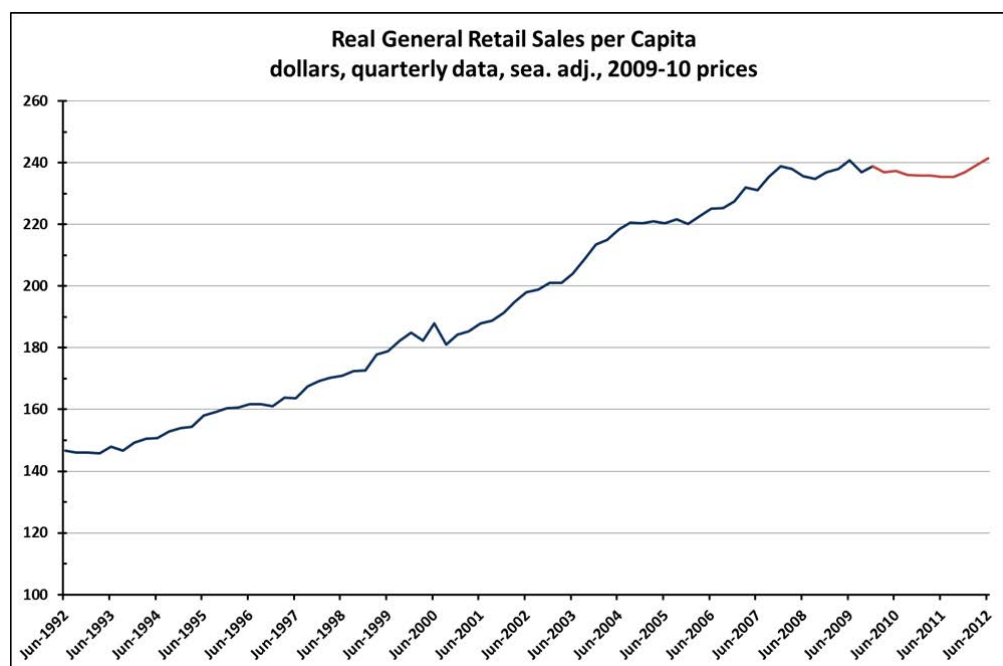
Real per capita spending on general retail goods and services in the June quarter 2012 (the latest period for which data is available) was up 1.9 per cent on real per capita spending in the March quarter 2010. More than this, however, real per capita spending on general retail items in the June quarter 2012 remained 5.4% above its level 5 years ago, and 22% above its level 10 years ago. The obvious conclusion to draw from this data is that it presents a very positive picture for the general retail trade sector, notwithstanding the recent weakness in retail sales growth.

**Graph 5**



Source: Australian Bureau of Statistics, cat. no. 8501.0 Retail Trade, via [www.abs.gov.au](http://www.abs.gov.au)

**Graph 6**



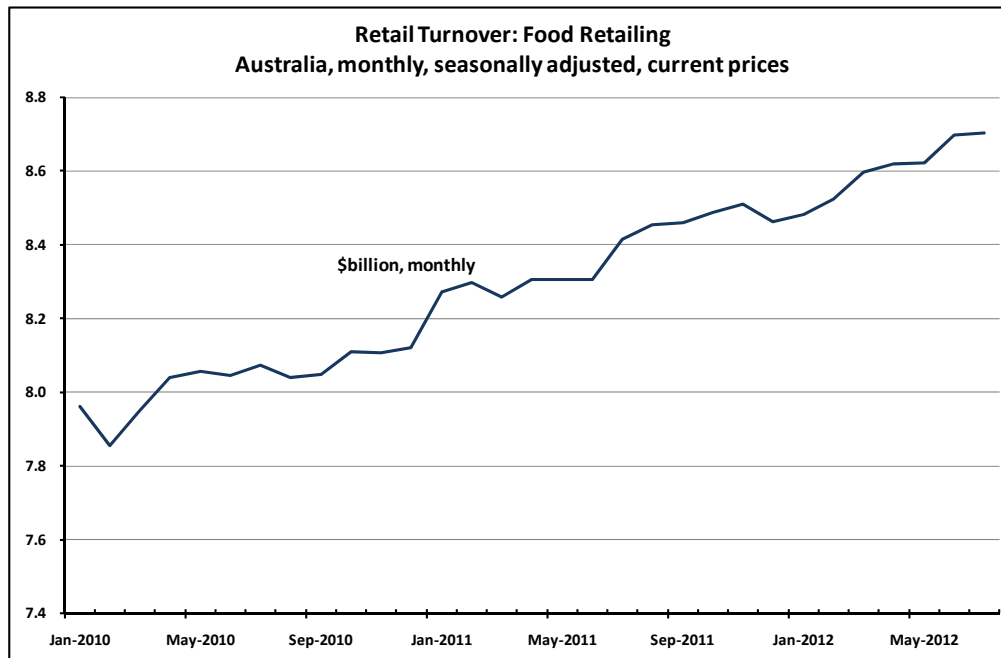
Source: Australian Bureau of Statistics, cat. no. 8501.0 Retail Trade, cat. no 3101.0 Australian Demographic Statistics, via [www.abs.gov.au](http://www.abs.gov.au); Fulcrum Economics Australia

The picture is even more positive when it is remembered that population growth needs to be added to growth in spending per capita in order to give a measure of *total* growth in real retail sales (which is the data shown by Graph 5). Australia's population growth continued to grow strongly throughout the period 1991-92 to 2008-09, varying between 1.1% per annum up to 1.7% per annum.

### ***Trends in the Different Retail Sectors***

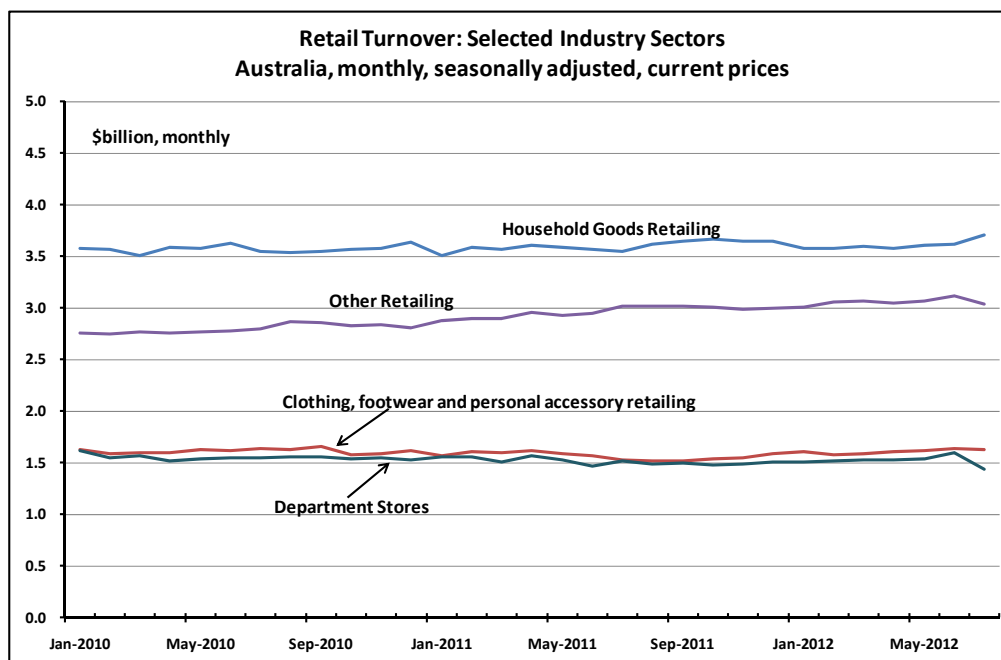
Trading conditions have varied, however, across the different sectors of general retail trade in the period since January 2010. Summary data is provided in Graphs 7 and 8, and at Table 1.

**Graph 7**



Source: Australian Bureau of Statistics, cat. no. 8501.0 Retail Trade, via [www.abs.gov.au](http://www.abs.gov.au)

**Graph 8**



Source: Australian Bureau of Statistics, cat. no. 8501.0 Retail Trade, via [www.abs.gov.au](http://www.abs.gov.au)

**Table 1: Retail Sales**  
percentage change, 3 months on same 3 months year earlier

	Food Retailing	Household Goods Retailing	Clothing, Footwear & Personal Accessories	Department Stores	Other Retailing	Total General Retailing
3 months to:	Percentage change in Current Prices					
March 2010	1.6	1.2	0.0	1.1	2.7	1.5
June 2010	2.2	0.1	-3.4	-3.4	1.1	0.6
Sept 2010	2.6	0.9	2.0	0.5	5.2	2.4
Dec 2010	1.9	1.6	-1.2	-2.2	3.4	1.4
March 2011	4.5	0.1	-0.9	-2.4	4.9	2.5
June 2011	3.2	-0.2	-1.3	-0.9	6.5	2.2
Sept 2011	4.8	1.7	-7.2	-3.2	6.3	2.6
Dec 2011	4.6	1.6	-2.2	-2.9	6.1	3.0
March 2012	3.1	0.8	0.0	-1.4	4.8	2.3
June 2012	4.1	0.3	1.8	2.3	4.7	3.1
July 2012	4.0	2.1	4.4	1.5	3.8	3.4
3 months to:	Percentage change in Real Terms					
March 2010	1.0	2.2	-1.1	0.6	1.2	1.0
June 2010	0.4	2.2	-4.4	-2.6	-0.7	-0.1
Sept 2010	-0.6	3.2	-0.9	1.3	2.5	0.8
Dec 2010	-1.2	3.3	-3.2	-0.6	0.8	-0.1
March 2011	0.2	2.3	-1.5	-1.5	2.5	0.7
June 2011	-0.7	0.7	-2.1	-0.5	4.9	0.4
Sept 2011	1.6	3.3	-10.0	-3.0	4.9	1.0
Dec 2011	2.7	2.9	-6.0	-3.2	4.9	1.8
March 2012	4.4	2.0	-2.5	-0.7	3.9	2.8
June 2012	5.1	2.1	0.8	3.2	5.3	3.9
July 2012	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

Source: Australian Bureau of Statistics, cat. no. 8501.0 Retail Trade, via [www.abs.gov.au](http://www.abs.gov.au), and Fulcrum Economics Australia

Graphs 7 and 8 illustrate the trends in turnover across the different sectors of general retail trade in current prices. Close inspection of these graphs (and of the associated data) indicates that sales growth has been solid in food retailing and in 'other retailing' in most of the period since January 2010, but that sales have been essentially flat in all of the other general retail trade categories.

Again, however, it is informative to consider the trend in sales *in real terms*. This information is provided at Table 1.

The picture presented by the real price data is different in some respects from that presented by the current price data. Most notably, retail sales in the household goods sector grew more strongly over the period since January 2010 in real terms than in current price terms. That is, the volume of household goods sold increased at a faster rate than did the dollar value of household goods sold over this period, thus reflecting a decline in prices over this period.

The specific quarters and sectors in which real growth in sales was greater than nominal growth are shown as shaded areas in Table 1.

Stronger growth in real terms indicates that actual growth in demand by consumers for these items has been stronger than that suggested by current price data. Whether or not this is a positive outcome for retailers, however, is unclear from this data alone. It may be that the stronger growth in sales in real terms indicates a progressive squeezing of profit margins. Alternatively, it may be that the cost of stock has been falling – because, for example, a stronger \$A means a lower cost of imported items – so that profit margins in fact were maintained and hence so was the overall level of profitability. We need to consider data on profitability to determine which of these explanations is the more correct.

The second key piece of information to take from Table 1 is that real retail sales growth has strengthened in recent quarters and that this has occurred across all sectors of general retail trade. Indeed, the data indicates that real retail sales are now growing strongly in some sectors, most notably food retail (up 5.1% in the June quarter 2012 compared to sales in the June quarter 2011), in ‘other retailing’ (up 5.3% across the same period) and, to a lesser extent, in department stores (up 3.2%). Overall, total general retail sales in the June quarter 2012 were 3.9% greater in real terms than in the same quarter a year earlier. And even in those sectors where growth is not yet strong – namely, household goods retailing and clothing, footwear and personal accessories retailing – it is at least now positive in real terms.

### ***Profitability of the General Retail Sector***

Profitability in the general retail trade industry, as in any industry, can be considered at two levels, namely:

- iii. aggregate profitability across the industry as a whole; and
- iv. profitability of individual businesses.

We start by considering trends in the ‘Gross Value Added’ of the Retail Trade Industry.

‘Gross value added’ (GVA) is a measure of the contribution made by an industry sector to Gross Domestic Product (GDP) and is an indicator of the overall growth of the industry sector. Gross value added consists of the value of wage and salaries paid within an industry and the gross profit of the industry.

From Graph 9 it can be seen that on this measure the Retail Trade industry sector recorded little growth in the period March quarter 2010 to the June quarter 2011, but since the June quarter 2011 has recorded steady growth. Thus, gross value added generated by the Retail Trade sector in the June quarter 2012 was 4.5% greater in real terms than that generated in the June quarter 2011 (seasonally adjusted data). This represents solid to strong growth.

One question which arises in relation to the GVA data is to what extent has the recent growth in GVA been driven by an increase in the wages component and to what extent by an increase in profitability?

Up to date data on the profitability of the Retail Trade sector is only available in current price terms and only on an ANZSIC industry definition basis (refer to the Introduction to this report for further explanation). This data is illustrated by Graph 10 and indicates that the profitability of the Retail Trade sector (in aggregate) showed little growth through 2010 but did record growth in 2011 and in the first half of 2012.

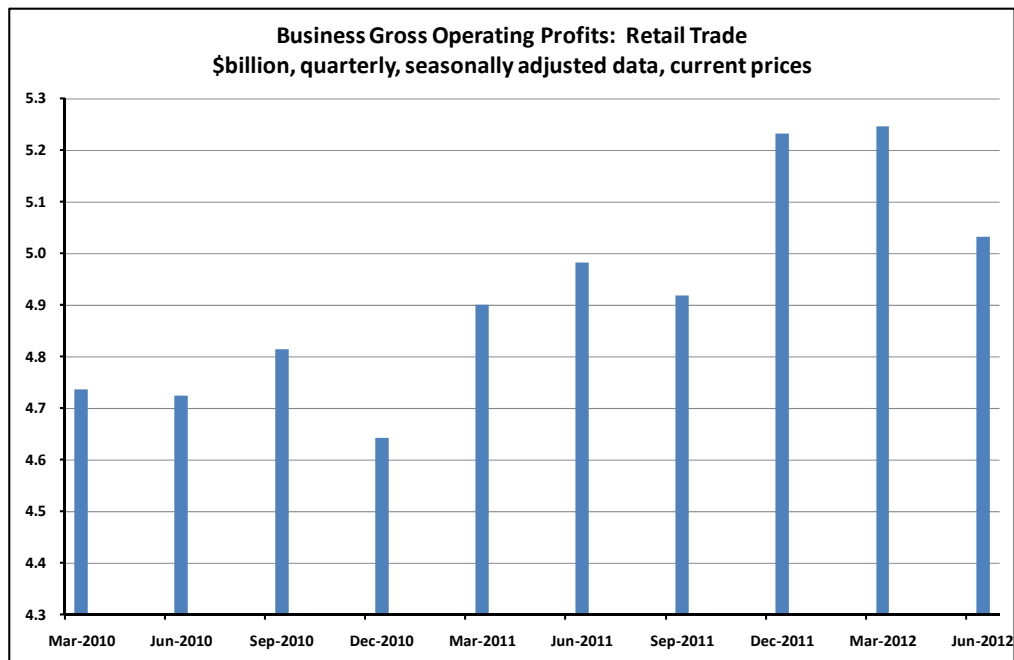
**Graph 9**



Source: Australian Bureau of Statistics, cat. no. 5206.0 National Accounts, via [www.abs.gov.au](http://www.abs.gov.au)

Note: This data series refers to the Retail Trade Industry as defined by ANZSIC.

**Graph 10**



(a) Gross operating profit refers to profits before income tax and with certain other selected items also being excluded, so as to provide a better measure of underlying profits. The items excluded include interest income and expenses; depreciation and amortization; and selected items which do not involve the production of goods and services, such as foreign exchange gains/losses, gains/losses arising from the sale of non-current assets, and net unrealized gains/losses from the revaluation of current or non-current assets.

Business gross operating profit is the sum of unincorporated gross operating profit and company gross operating profit.

Note: This data series refers to the Retail Trade Industry as defined by ANZSIC.

Source: Australian Bureau of Statistics, cat. no. 5676.0 Business Indicators, via [www.abs.gov.au](http://www.abs.gov.au)

It is not clear why profitability fell in the June quarter 2012, but this may simply reflect the variability of this data series, which is evident even across the short timeframe of Graph 10.

Putting some numbers on these outcomes, Gross Operating Profit of the Retail Trade sector in the December quarter 2011 was 12.7% greater than in the previous December quarter, with profit in March quarter 2012 being 7.0% greater than in the previous March quarter (in current prices). Profit in the June quarter 2012 was only 1.0% greater than in the previous June quarter. Nevertheless, if we add all this up and consider it on an annual basis we note that total profitability of the retail trade sector in 2011-12 was \$20.5 billion, an increase of 6.2% on profitability in 2010-11.

To answer our previous question then, it is clear that growth in GVA of the retail industry in 2011-12 was in part at least driven by growth in profitability.

A further factor to bear in mind in understanding profit trends in the Retail Trade industry is that gross operating profit is calculated *exclusive of interest payments*. Consequently, the trends in profitability indicated by Graph 9 are, to a small extent at least, probably an under-indication of the extent to which profitability in retail trade has improved over the past twelve months given the decline in interest rates in this period. To put it in context, the RBA has reduced the target cash rate from 4.75% last October, in a number of steps, so that currently it is 3.25%.

The profit data presented in Graph 9 perhaps also suggests that both factors identified earlier – namely, smaller profit margins because of more intense competition, and lower cost of stock, because of the stronger \$A – might have impacted at various times and to various extents on the profitability of the industry. This may be another reason why there is such variability in the profit data shown by Graph 9.

Beyond considerations of the *aggregate* profitability of the Retail Trade sector it is appropriate to consider what might have been happening with profitability at the *individual retail trader* level in the period since January 2010. Data to gauge this is limited, but some relevant data is provided at Tables 2 and 3.

The first point to note from Table 2 is that profit margins in the Retail Trade sector *increased* in the period 2007-08 to 2010-11. At the same time, however, the percentage of retail businesses recording a profit over this period *declined*, from around 73.6% in 2008-09 to 68.8% in 2010-11. This suggests a mixed picture of profitability in the Retail Trade sector. It suggests that while many retail businesses experienced an increase in profitability over the period at the same time an increasing number of retailers were experiencing greater difficulty in realising a profit. In large part, this would reflect different trading conditions across different sectors of the Retail Trade industry.

Unfortunately, later data for these two series (ie profit margins and percentage of businesses making a profit) is not yet available. However, in light of the stronger level of aggregate profitability through 2011-12 (Graph 10) it seems reasonable to presume that average profit margins, if anything, lifted further in recent quarters and that the number of businesses making a loss declined.

Table 3 shows business entries and exits for the Retail Trade sector. The data illustrates two main points. First, it illustrates that the Retail Trade industry sector remains a dynamic industry sector, with there being both a large number of entries and exits on an annual basis. In many respects this is a good thing. It suggests an ability to facilitate structural change within the industry and to bring about a “more efficient allocation of resources” (to use the economic jargon), both significant factors in progressing the overall well-being of society.

The continued large number of entries also indicates that many investors and business people continue to see opportunities in the Retail Trade sector.

On the other hand, the high number of “exits” does not necessarily indicate a level of business “failure” (however that might be defined) of the same extent. For example, it does not indicate that 20,921 retail businesses failed in 2010-11, or 14.6% of all retail businesses operating at the start of the year. This is because businesses *exit* an industry for many reasons, including retirement of the principal, merger with another business, re-constituting the business as a new business, because the

**Table 2: Retail Trade Industry Performance, Selected Indicators**

		2007-08	2008-09	2009-10	2010-11
		<b>Retail Trade</b>			
Employment at end of June	'000	1,252	1,260	1,297	1,351
Operating profit before tax	\$m	15,751	17,503	18,946	20,869
Profit margin	%	5.0	5.1	5.3	5.7
Percentage of businesses that:					
Made a profit	%	72.6	73.6	70.3	68.6
Broke even	%	1.2	1.6	1.3	0.5
Made a loss	%	26.2	24.9	28.4	30.9
		<b>Total Selected Industries <sup>(a)</sup></b>			
Percentage of businesses that:					
Made a profit	%	74.7	73.7	73.2	73.0
Broke even	%	1.6	1.6	1.4	1.6
Made a loss	%	23.7	24.8	25.4	25.4

(a) Excludes Division K Financial and Insurance Services

Note: These data series refer to the Retail Trade Industry as defined by ANZSIC.

Source: Australian Bureau of Statistics, cat. no. 8155.0 Australian Industry

**Table 3: Number of Businesses, Retail Trade and All Industries, Australia<sup>(a)</sup>**

	Number operating at start of financial year	Number of Entries	Number of Exits <sup>(b)</sup>	Number operating at end of financial Year
	<b>Retail Trade</b>			
2007-08	145,669	20,367	23,427	142,609
2008-09	142,609	19,592	22,522	139,679
2009-10	139,679	23,669	19,667	143,681
2010-11	143,681	20,919	20,921	143,679
	<b>All industries</b>			
2007-08	2,073,793	316,850	319,286	2,071,360
2008-09	2,071,360	299,123	319,841	2,050,642
2009-10	2,050,642	342,753	268,745	2,124,650
2010-11	2,124,650	294,210	286,448	2,132,412

(a) An upwards spike in 'entries' is evident across all industry categories in 2009-10. This is due mainly to an administrative change by the ABS which affected the scope of coverage of the series; and as such any interpretation of this data should include a discount for this spike.

(b) It is important to recognise that businesses "exit" an industry for many reasons, not only because they "fail". Possible reasons for exit include retirement of the principal, merger with another business, re-constituting the business as a new business and, of course, because of financial difficulties.

Note: These data series refer to the Retail Trade Industry as defined by ANZSIC.

Source: Australian Bureau of Statistics, cat. no. 8165.0 Counts of Australian Businesses, Including Entries and Exits

business was only ever intended to be a short-term business, and, of course, because of financial difficulties.

Notwithstanding this understanding of ‘business exits’ it is nevertheless relevant to note from Table 3 that the level of exits fell in 2008-09 and again in 2009-10, before increasing in 2010-11.

It is not altogether clear why the level of exits did not increase until 2010-11, since the number of retail businesses recording a loss had already jumped sharply in 2009-10 (refer Table 2) in the wake of the slower growth of the Australian economy (and of retail sales) at that time, reflecting the advent of the Global Financial Crisis (GFC). It may be that the economic stimulus provided by the Government in the early part of the GFC sheltered many retail businesses from the full impact of the economic slowdown for some period of time. Alternatively, it may simply reflect the fact that it is common for businesses even when they are recording a loss to continue to trade as long as they can afford it, in the hope that trading conditions will pick up; or to continue to trade for as long as they are covering their variable costs and thus making a contribution to covering their fixed costs.

Again, the data of Table 3 is currently only available through to 2010-11, so that we do not know what has happened in respect of entries and exits since then. But in light of the growth in the profitability of the industry in 2011-12 there is limited reason to think that the level of exits would have increased in 2011-12, other than perhaps for the reasons identified in the previous paragraph, which might not yet have completely run their course.

The bottom line here, however, is that while there is some evidence that a greater percentage of retailers experienced more difficult trading conditions in 2009-10 and 2010-11 leading to a poorer financial performance, the fact that industry profitability in aggregate improved in 2011-12 suggests that *on average* the profitability of individual retailers also improved in this period – especially if there continued to be more exits than entries in 2011-12.<sup>2</sup>

There are several possible reasons why a greater percentage of retailers recorded a loss in 2009-10 and 2010-11 despite the small lift in aggregate profitability across the industry as a whole in this period (refer Table 2). For example, it may have reflected more adverse trading conditions in *particular* sectors of the retail trade industry in this period. Equally, it may have reflected more intense competition across the retail trade industry as a whole, as retailers were forced to compete more aggressively to grow their businesses in the face of slowing growth in demand for retail goods. To properly put these trends in context, however, and hence to properly appreciate to what extent they indicate an on-going deterioration in trading conditions in the retail industry or whether they are more symptomatic of a ‘correction period’ following a period of very strong growth, it is necessary to consider the history of the retail trade sector leading up to 2010. We do this in answering Questions 2 and 3 of the Terms of Reference – refer later sections of this report. But one of the main conclusions from the analysis is that the second of these explanations is clearly the correct explanation.

### ***Other Indicators of Recent Economic Conditions in the Retail Trade Sector***

Two other indicators of economic conditions in the Retail Trade sector are employment trends and conditions in retail property markets. Each is discussed briefly.

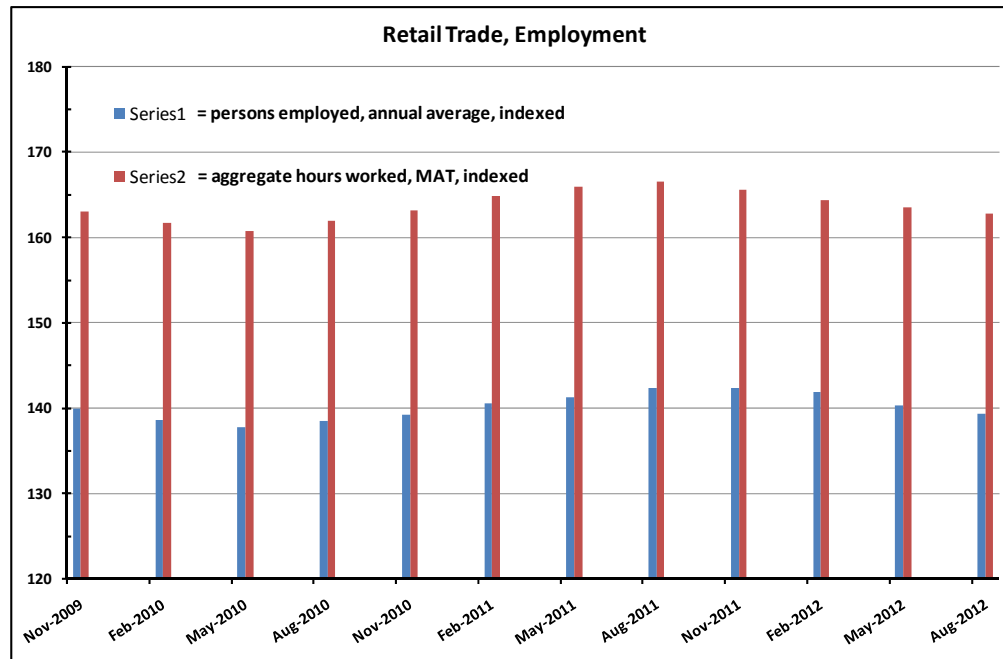
Graph 11 shows trends in employment in the retail industry in Australia. Perhaps the main point to take from Graph 11 is that employment in the Retail Trade industry as at August 2012 was essentially the same as at February 2010, which suggests that there has been no severe deterioration in economic conditions in the retail industry over this period, for if there had been employment certainly would have fallen sharply. Beyond this broad conclusion, however, there is

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<sup>2</sup> Clearly we are referring to profitability measured in dollar terms. Data on profitability measured in terms of Return on Equity (or similar) is not available. Whether or not ROE for various individual retailers has moved in line with the overall growth in industry profitability depends upon whether the amount of equity invested in the retail trade sector changed across this period.

little else that can be concluded about changes in overall economic conditions in the retail industry from the employment data, since there is not necessarily a strong correlation between employment growth in an industry and the profitability of the industry. For example, slow employment growth but markedly improved productivity would be a recipe for significantly higher profitability.

**Graph 11**



Source: Australian Bureau of Statistics, cat. no. 6291.0, Labour Force, Australia, Detailed, Quarterly, via [www.abs.gov.au](http://www.abs.gov.au); Fulcrum Economics Australia

MAT = Moving Annual Totals

Note: These data series refer to the Retail Trade Industry as defined by ANZSIC.

Recent developments in retail property markets are also not reflective of any serious decline in the retail trade sector since January 2010. Instead, they generally tend to suggest that trading conditions have remained reasonably solid, at least in a broad, overall sense. For example, the latest edition of Jones Lang Lasalle's *Shopping Centre Investment Review and Outlook* (February 2012) states, inter alia:

*"Retail vacancy remain moderate ... Across all retail sub-categories, specialty store vacancy remains at around or below the average level of the last 15 years. The average regional centre vacancy rate has risen from a low of just 0.6% at the end of 2010 to be 1.5% at the end of 2011, but the average is skewed by high vacancy in Canberra and the average excluding Canberra is 0.9%. Similarly, CBD vacancy has risen from 3.0% to 3.9%, but is skewed by the impact of significant new supply on Perth's vacancy rate and is 2.5% excluding Perth. Sub-regional vacancy fell in all markets except South East Queensland over the second half of 2011, and the average vacancy rate [across Australia as a whole] has fallen to 2.8% from 3.3% in mid-2011. While the average neighbourhood centre vacancy rate, at 4.8%, is a little higher than other sub-sectors, it is well below its 15-year average of 6.1% ..."*<sup>3</sup>

Such continued low vacancy rates indicate still solid demand for retail space which, in turn, suggests, at the very least, still reasonable trading conditions within the retail trade sector. Exactly how

<sup>3</sup> Jones Lang Lasalle, *Shopping Centre Investment Review and Outlook*, February 2012, accessed via [www.joneslanglasalle.com.au](http://www.joneslanglasalle.com.au)

“reasonable” trading conditions remain is a matter of perspective. As we have already indicated in this chapter, and which we indicate further in answering questions 2 and 3, in the aggregate, conditions in the retail industry remain at historically strong levels. For example, as already seen, per capita spending on general retail sales remain around a historically high level (refer Graph 6)

However, this does not necessarily mean that trading conditions remain strong at the individual retailer level. Further discussion on this is provided later in this report.

Consistent with a slowing in growth in retail sales, a still solid aggregate performance of the retail industry, and more difficult trading conditions for individual retailers retail property markets, while still solid, have not been as strong as they were prior to the advent of the Global Financial Crisis (GFC) (ie 2008-09). Since the advent of the GFC and the subsequent slowing in retail sales growth in Australia, there has been a decline in leasing enquiries and, in recent quarters reportedly an increasing use of incentives to attract or retain retailers (Jones Lang Lasalle *op. cit.*).

## Question 2 Addressed

### Question 2

*By reference to available economic data, how do economic conditions between January 2010 and the present time as they impact on retailers in the national general retail industry compare to economic conditions over the previous 30 years?*

#### Longer Term Trends in Aggregate General Retail Turnover

As for question 1, we commence our answer by presenting data on trends in general retail turnover measured in current price terms (ie nominal data). Graph 12 illustrates this series over a near-30 year period, being the longest period for which a consistent time series is available.

**Graph 12**



Source: Australian Bureau of Statistics, cat. no. 8501.0 Retail Trade, via [www.rba.gov.au](http://www.rba.gov.au).

Note: The unusual spikes (up and then down) in the data around June 2000 corresponds with the introduction of the GST, as consumers brought forward their purchases of items which were to increase in price with the introduction of the GST.

The most striking fact illustrated by Graph 12 is the strong upward trend in retail sales across nearly all of the 30 year period since the early 1980s, with the only extended period of flatness being around 2008-09 to 2009-10. Even the recession period of 1991-92 does not show up as an extended period of flatness on this graph. In a very broad sense then, the period 2008-09 to 2009-10 was clearly a difficult period for the retail industry, but at the same time the degree to which it can be considered to be a difficult period is clearly significantly mitigated by the fact that it follows an extended period of very strong growth.

Putting some numbers on it, average annual growth in nominal retail sales varied from around 9.0% per annum through most of the 1980s (ie 1983 to 1989), to only around 2.0% per annum in the latest period, namely 2009 to mid-2012.

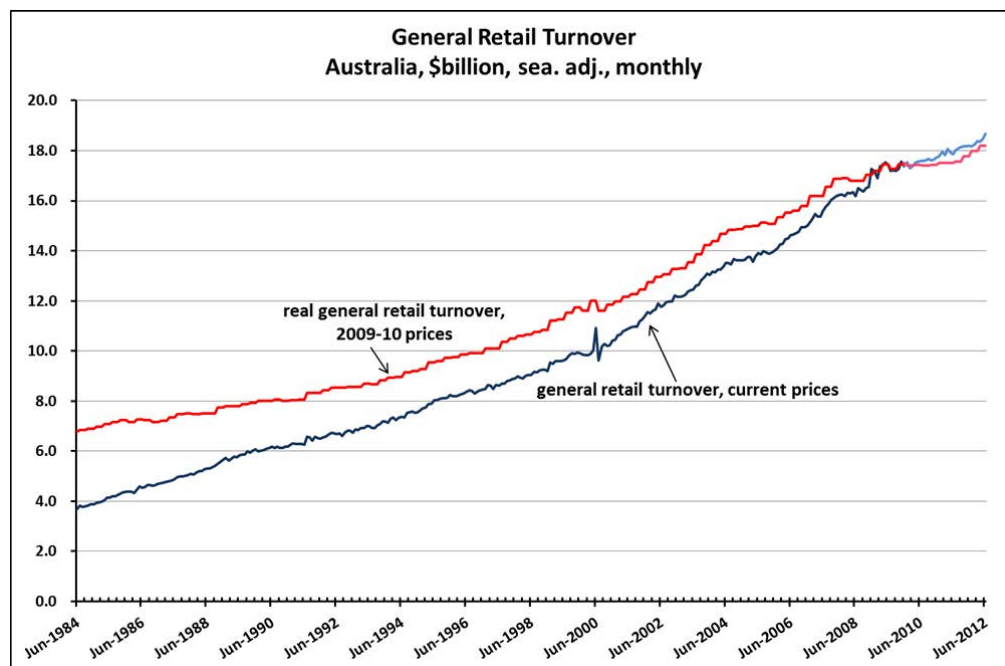
However, this is not necessarily a good basis on which to reach conclusions about possible changes in the profitability (or overall economic conditions) of the retail trade sector. This is for two reasons. First, movements in nominal retail sales data reflect not only changes in the volume of retail sales (ie

the actual number of goods sold), but also changes in prices. As a general rule, changes in volumes are more likely to be indicative of changes in overall trading conditions since changes in prices may reflect nothing more than general inflation (which would also normally be reflected in retailers' costs).

The second reason why nominal retail turnover is not a good guide to changes in retail trading conditions, at least over a longer period of time, is because profitability is determined not only by revenue but is also dependent upon the costs of operation; and is also dependent upon a variety of associated factors, including the intensity of competition in the industry and taxation arrangements.

Hence, to get a better handle on how economic conditions within the retail trade industry may have changed during the past 30 years we start by considering trends in *real* retail sales. This data is presented in Graph 13.

**Graph 13**



(a) Data for retail turnover in real terms is only available on a quarterly basis. Hence, the data shown in this graph for real retail sales is simply the appropriate quarterly data divided by 3, to give an indicative monthly number. The base year for chain volume measures (ie real price data) is 2009-10.

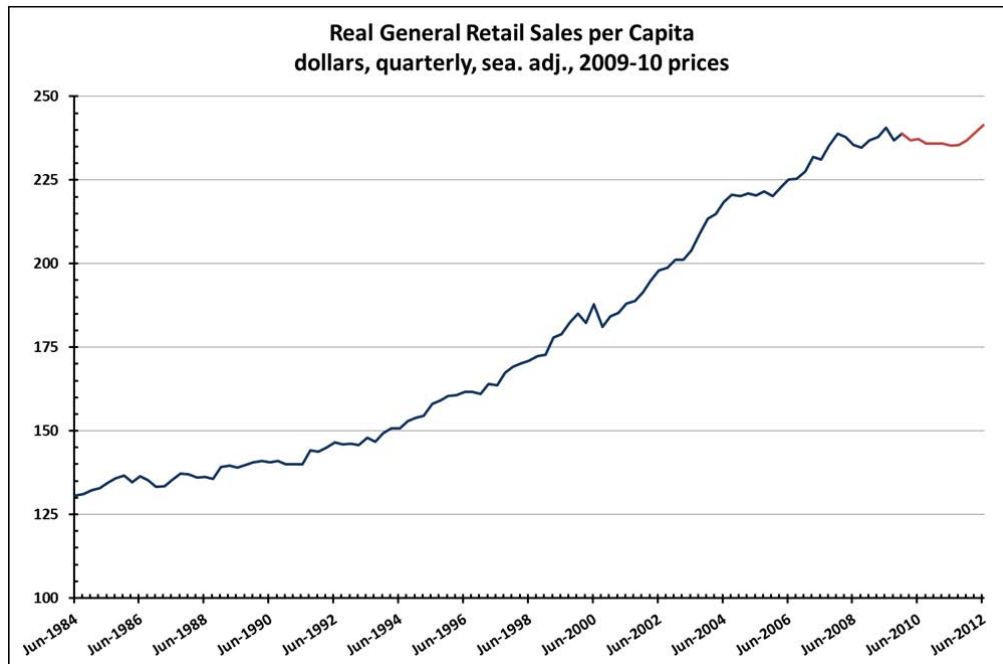
Source: Australian Bureau of Statistics, cat. no. 8501.0 Retail Trade, via [www.rba.gov.au](http://www.rba.gov.au); and Fulcrum Economics Australia.

From Graph 13 it is immediately evident that growth in real retail sales over most of the past 30 years has been almost as strong as growth in nominal terms. This paints a very positive picture of retail trade trading conditions over the longer term.

Graph 13 also shows, albeit not very clearly, that growth in real general retail sales was strongest in the period 1997-98 to 2007-08. This is depicted more clearly by Graph 14, which shows real general retail sales on a per capita basis.

The rate of growth of real general retail sales per capita in the period 1997-98 to 2007-08 was very strong. To illustrate this we note that even after four years of relatively weak growth of retail sales, from 2008-09 to 2011-12, as at the June quarter 2012 (ie the latest period for which data is available) real general retail turnover per capita was still 4.5% greater than in the same quarter 5 years earlier (June quarter 2007), 22% greater than in the same quarter 10 years earlier (June quarter 2002), and 48% greater than 15 years earlier (ie June quarter 1997).

**Graph 14**



Source: Australian Bureau of Statistics, cat. no. 8501.0 Retail Trade, cat. no 3101.0 Australian Demographic Statistics, via [www.abs.gov.au](http://www.abs.gov.au); Fulcrum Economics Australia

On top of the strong growth in spending per capita we must add the growth in spending due to growth in population over this period, to give a measure of the total growth in retail sales over this period. Population growth in the period 1997-98 to 2007-08 averaged around 1.4% per annum.

The end result of the very strong growth in retail spending per capita, combined with the solid growth on Australia's population, was the very strong growth in general retail sales in the period 1997-98 to 2007-08 illustrated by Graph 13.

Table 4 presents data on real general retail sales growth across five distinct periods during the past 30 years, namely:

- the pre-1991-92 recession period;
- the period covering the 1991-92 recession;
- the period immediately after the 1991-92 recession (through to 1996-97);
- the strong growth period of 1997-98 to 2007-08; and
- the period since 2007-08, during which the world economy has been impacted by the Global Financial Crisis (GFC) and, more recently, by the sovereign debt crisis in Europe.

Of these, the standout period for the retail trade industry is the period 1997-98 to 2007-08, when general retail sales grew 4.8% *per annum* on average, in real terms; and general retail sales per capita grew 3.4% per annum on average, in real terms. On any measure these are very strong rates of growth. The fact that they apply to a period stretching over eleven years is all the more striking. ABS data suggests that the only other period since World War 2 in which the Australian retail sector might have experienced such an extended period of sustained growth in sales was from around the early 1960s through to the mid 1970's.

In short, the period 1997-98 to 2007-08 was a 'boom period' for the Australian retail industry.

**Table 4: Average Annual Growth in Real General Retail Sales**

	Average Annual Growth in Real General Retail Sales (%)	Average Annual Growth in Real General Retail Sales per Capita (%)
1984/85 – 1989/90	2.7	0.9
1990/91 – 1991/92	2.9	2.1
1992/93 – 1996/97	3.5	2.2
1997/98 - 2007/08	4.8	3.4
2008/09 – 2011/12	1.7	0.6

Source: Australian Bureau of Statistics, cat. no. 8501.0 Retail Trade, via [www.rba.gov.au](http://www.rba.gov.au); and Fulcrum Economics Australia.

Other than the fact that 1997-98 to 2007-08 was a boom period for retail sales in Australia, the other thing to note about this long period of strong retail sales growth, in the context of this report, is that it occurred in circumstances which meant that ultimately there would need to be a “correction period”. To a large extent the strong growth in retail sales in this period was being driven by sustained strong growth in household borrowing, which was enabling household spending to grow at a faster rate than growth in household disposable income. Clearly, this is not a sustainable situation. Eventually households would have to curb their borrowing and, subsequently, their spending, as they reached their capacity to service debt. Depending upon the circumstances in which this occurred, the end result would be either a correction period of a significant slowing in retail sales or, if it coincided with a significant deterioration in broader economic conditions, a period of much more marked slowing in retail sales growth, or even decline. As it was, the GFC proved to be the catalyst for the correction and general retail sales *growth* slowed significantly post 2008-09. Thus, general retail sales grew only 1.5% in real terms in 2009-10, and only 0.4 in real terms in 2010-11. (With growth in 2011-12 being 2.6%.)

The factors behind the strong growth in general retail sales in the period 1997-98 to 2007-08 and the reasons that this strong growth eventually had to lead to a slowdown are identified and discussed in more detail in our answer to Question 3 of the Terms of Reference.

One other important aspect of the data shown by Table 4 to note, is that it makes it perfectly clear that the period 1997-98 to 2007-08 is *not* a representative period by which to benchmark the performance of the retail trade industry. To the contrary, it is a historically extraordinary period.

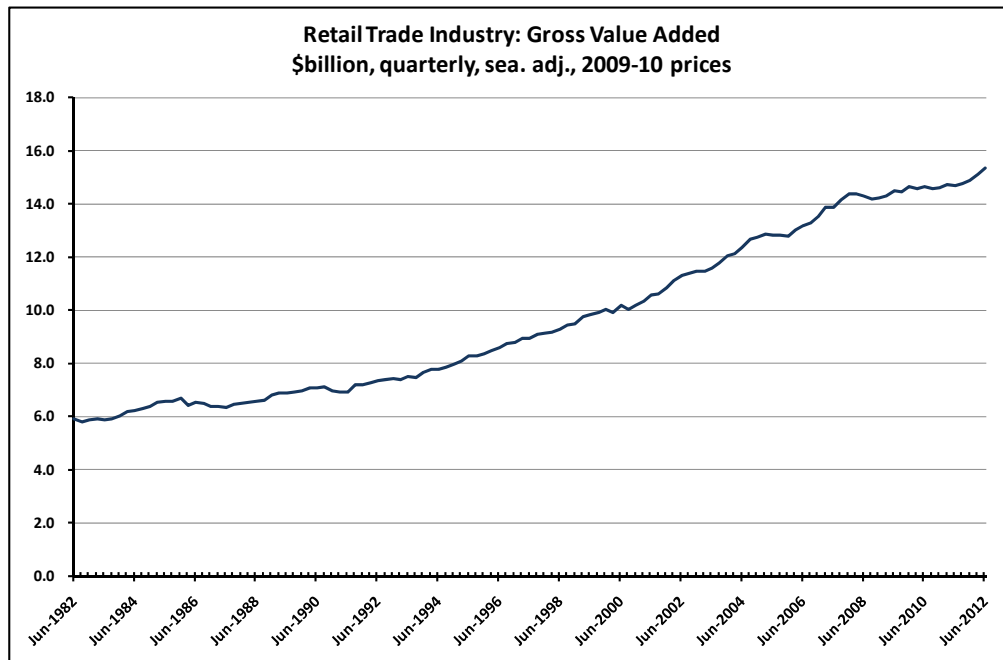
#### **Longer Term Trends in Gross Value Added and Employment**

Other data which indicates the strong growth of the general retail trade industry sector in the period 1997-98 to 2007-08 includes growth in real gross value added. This data is shown at Graph 15 and in Table 5. In the period 1997-98 to 2007-08 real GVA of the Retail Trade sector grew at an average annual rate of 4.5%, well up on growth in most earlier periods (refer Table 5).

Interestingly, employment growth in the retail trade sector has progressively slowed over the years and was certainly not as strong in the boom period 1997-98 to 2007-08 as might have been expected. Employment in Retail Trade in the period 1997-98 to 2007-08 grew at an average annual rate of only 2.1%, a slower rate of growth than in the years immediately following the 1991-92 recession (refer Table 5). Clearly retailers in this later period were finding ways to boost labour productivity. A key component here would likely have been greater use of technology.

The longer term trends in employment in Retail Trade are illustrated by Graphs 16 and 17 and by the data given in Table 5.

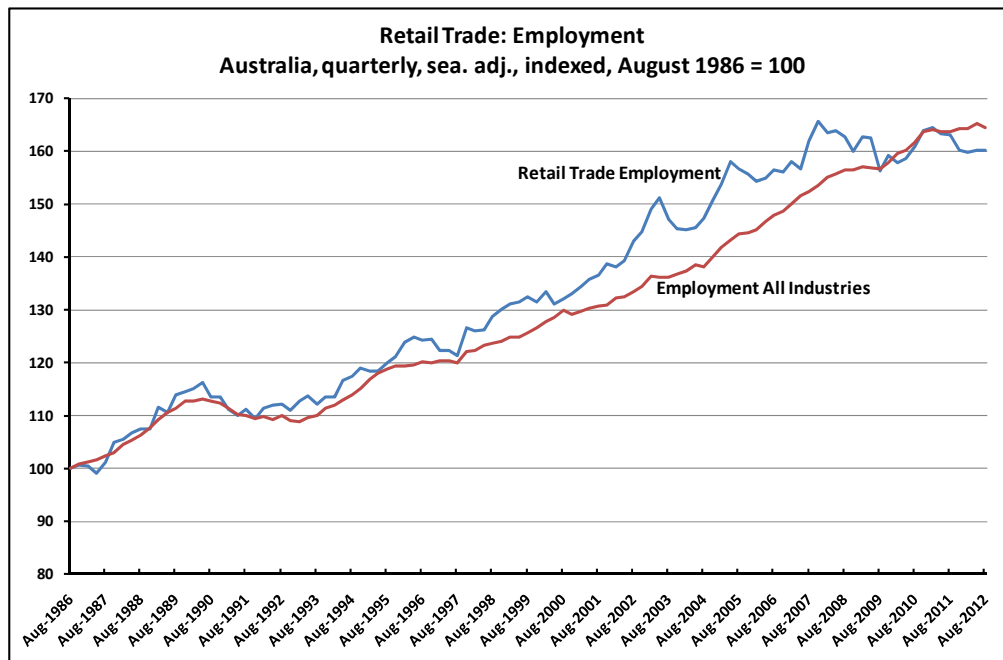
**Graph 15**



Source: Australian Bureau of Statistics, cat. no. 5206.0 National Accounts, via [www.abs.gov.au](http://www.abs.gov.au)

Note: These data series refer to the Retail Trade Industry as defined by ANZSIC.

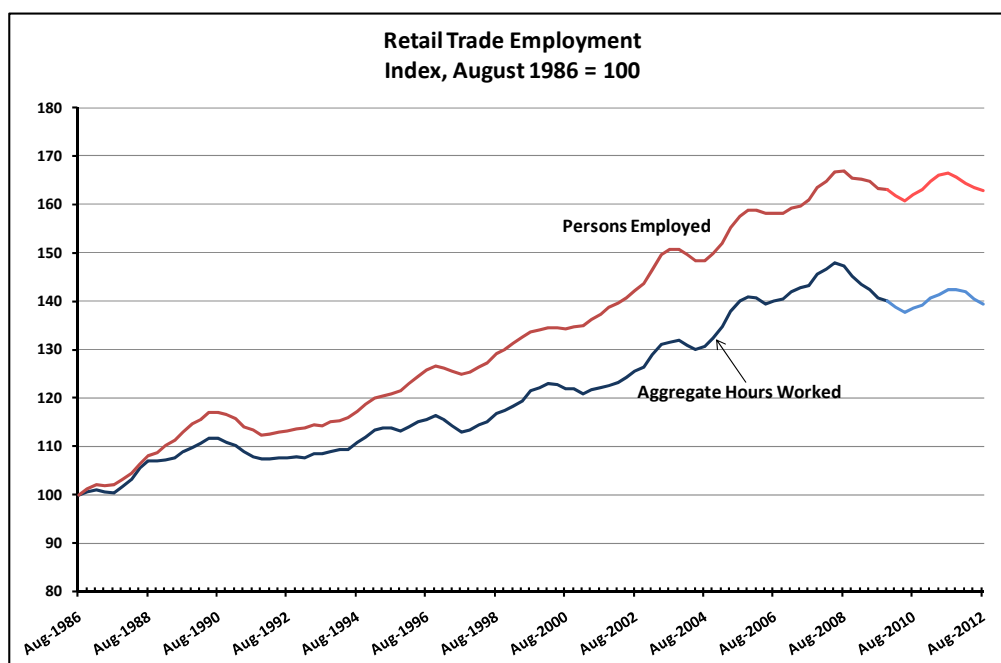
**Graph 16**



Source: Australian Bureau of Statistics, cat. no. 6291.0 Labour Force Australia: Detailed, quarterly, via [www.abs.gov.au](http://www.abs.gov.au); Fulcrum Economics Australia

Note: These data series refer to the Retail Trade Industry as defined by ANZSIC.

**Graph 17**



Source: Australian Bureau of Statistics, cat. no. 6291.0 Labour Force Australia: Detailed, quarterly, via [www.abs.gov.au](http://www.abs.gov.au); Fulcrum Economics Australia

Note: These data series refer to the Retail Trade Industry as defined by ANZSIC.

**Table 5: Retail Trade – Growth in Real Gross Value Added and Employment**

	Average Annual Growth in Retail Trade Gross Value Added (%)		Average Annual Growth in Retail Trade Employment (%)	Average Annual Growth in Aggregate Hours Worked in the Retail Trade Sector (%)
1984/85 – 1989/90	1.7	Nov'85 – Nov'90	3.5	3.2
1990/90 – 1991/92	1.7	Nov'90 – Nov'92	1.1	-1.2
1992/93 – 1996/97	4.1	Nov'92 – Nov'97	2.7	2.8
1997/98 -2007/08	4.5	Nov'97 – Nov'08	2.1	2.1
2008/09 – 2001/12	1.3	Aug'08 – Aug'12	-0.4	-0.4

Source: Australian Bureau of Statistics, cat. no. 5206.0 National Accounts, cat. no. 6291.0 Labour Force Australia: Detailed, quarterly, via [www.abs.gov.au](http://www.abs.gov.au) , Fulcrum Economics Australia

Note: These data series refer to the Retail Trade Industry as defined by ANZSIC.

### **Longer Term Trends in Retail Turnover by Sector**

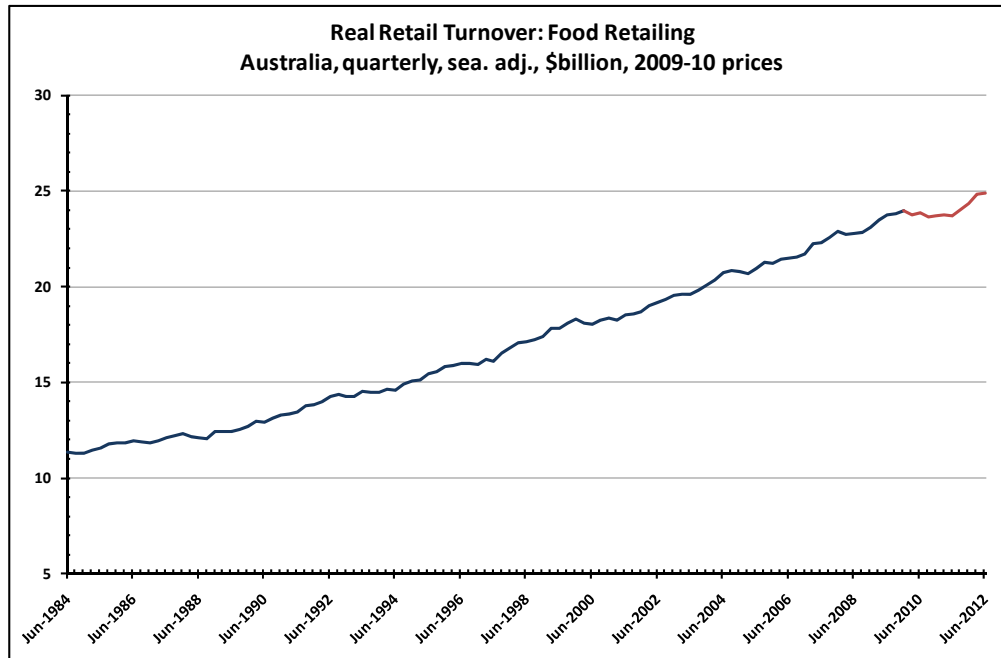
All sectors of the retail trade industry experienced exceptional growth in sales in the period 1997-98 to 2007-08. This is illustrated by Graphs 18 and 19 and Table 6.

However, the sector which experienced the strongest growth in sales in this period was household goods retailing. Sales in this sector grew at an average annual rate of 10.1%, *in real terms*. In any perspective this is a very strong rate of growth.

The comparable growth rates for the other sectors of the general retail trade industry in the period 1997-98 to 2007-08 were:

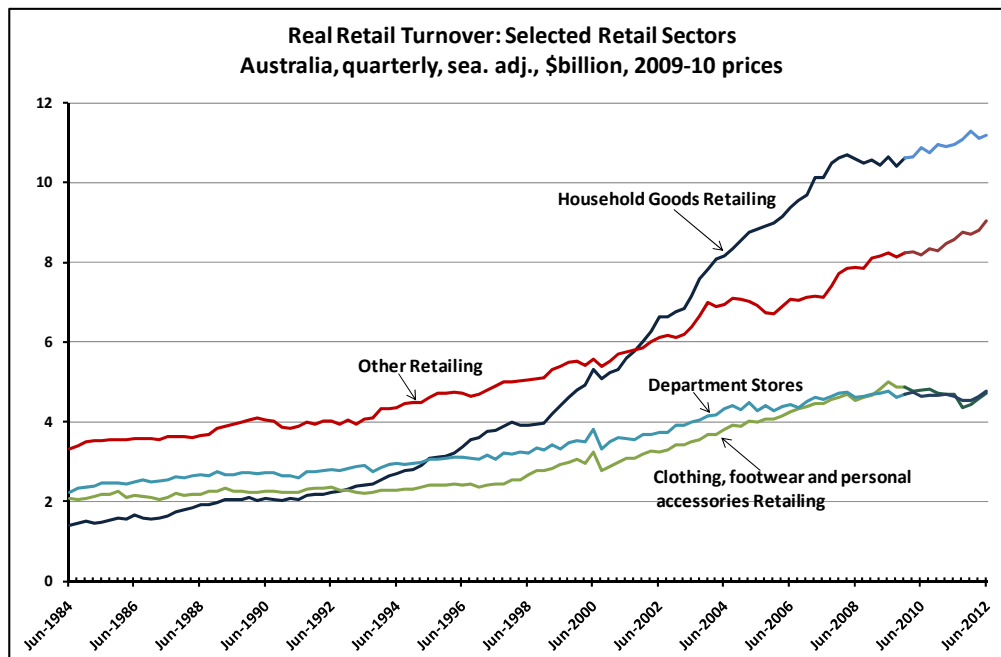
- department stores 3.8%
- clothing, footwear and personal accessory retailing 6.1%
- other retailing 4.5%
- food retailing 3.2%

**Graph 18**



Source: Australian Bureau of Statistics, cat. no. 8501.0 Retail Trade, via [www.abs.gov.au](http://www.abs.gov.au)

**Graph 19**



Source: Australian Bureau of Statistics, cat. no. 8501.0 Retail Trade, via [www.abs.gov.au](http://www.abs.gov.au)

Table 6 shows average annual growth for the different sectors of general retail trade across the same five time periods considered earlier in the analysis at Tables 4 and 5.

**Table 6: Average Annual Growth in Real Retail Sales by Industry Sector**

	Food Retailing	Household Goods Retailing	Clothing, Footwear and Personal Accessory Retailing	Department stores	Other Retailing
1984/85 – 1989/90	2.3	6.8	1.2	2.8	3.1
1990/91 – 1991/92	4.5	3.0	2.2	0.9	-0.6
1992/93 – 1996/97	2.9	11.1	0.6	2.2	3.5
1997/98 – 2007/08	3.2	10.1	6.1	3.8	4.5
2008/09 – 2011/12	1.9	1.4	-0.4	-0.3	3.5

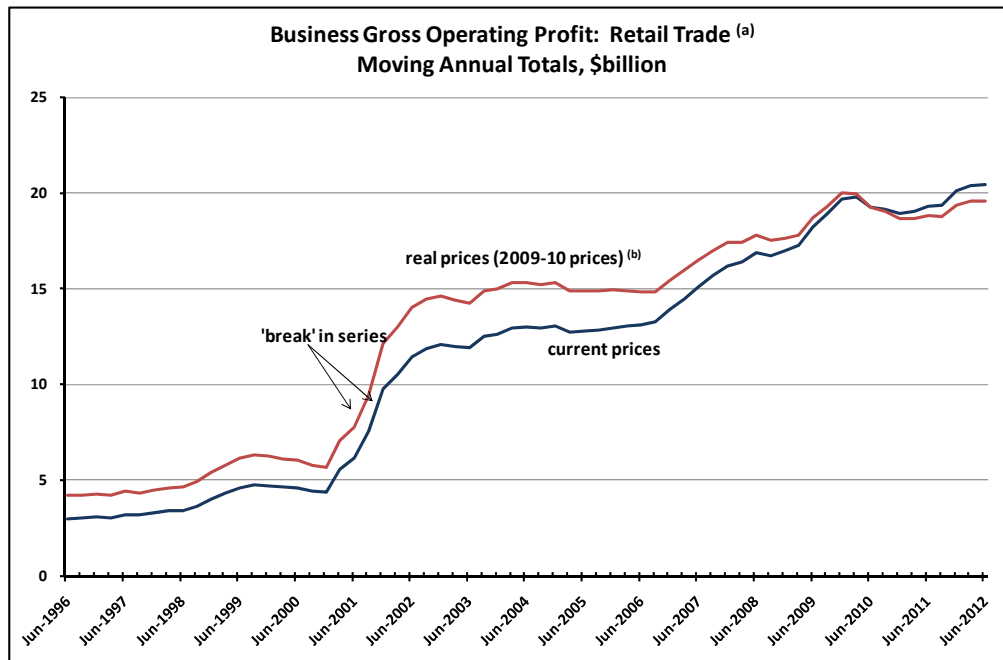
Source: Australian Bureau of Statistics, cat. no. 8501.0 Retail Trade, via [www.rba.gov.au](http://www.rba.gov.au); and Fulcrum Economics Australia.

### ***Longer Term Trends in the Profitability of the Retail Trade Industry***

Somewhat surprisingly, the boom in retail sales in the period 1997-98 to 2007-08 only slowly gave rise to a significant increase in profitability of the retail trade sector. This is a bit difficult to understand given the strong growth in the GVA of the retail trade industry in this period and the fact that overall employment in retail trade only grew slowly through this period. It may be that there was more intense competition in this period, which initially at least led to lower profit margins. It has not been possible, however, within the timeframe of preparing this report to determine fully the reasons for the profitability pattern shown by Graph 20. Besides the time constraint, the other factor that made it difficult to investigate this conundrum in more detail is the absence for this earlier time period of much of the data earlier considered in answering Question 1 of this report, notably data on profit margins, entries and exits, and other data which might indicate trends in profitability at the individual business level in the retail trade sector.

Clearly though, there are nevertheless some useful conclusions that can be drawn from the profitability data series. In particular, we note that aggregate profitability of the Retail Trade sector eventually did increase strongly over the period 1997/98 to 2007/08. Second, it is notable that despite the weaker growth in retail sales in the period since 2007/08 aggregate profitability of the Retail Trade sector has remained at a high level through to the current time, albeit with some lessening of profitability through 2010 and the first half of 2011.

**Graph 20**



(a) There is a “break” in the series around 2001, reflecting a change in the scope and coverage of the survey. The main change in the coverage was the inclusion of unincorporated enterprises (ie previously only the profits of companies had been included in the survey). A second change around this time was a widening of the scope of the survey to include companies with less than 30 employees. Consequently, in interpreting the data the spike in profitability around 2001 should be discounted.

(b) The deflator used was that for household final consumption expenditure. The data therefore is an approximation of real profits in retail trade, but sufficient to indicate trends in aggregate profitability.

Note: These data series refer to the Retail Trade Industry as defined by ANZSIC.

Source: Australian Bureau of Statistics, cat. no. 5676.0 Business Indicators, cat. no. 5206.0 National Accounts, via [www.abs.gov.au](http://www.abs.gov.au); Fulcrum Economics Australia



## Question 3 Addressed

### Question 3

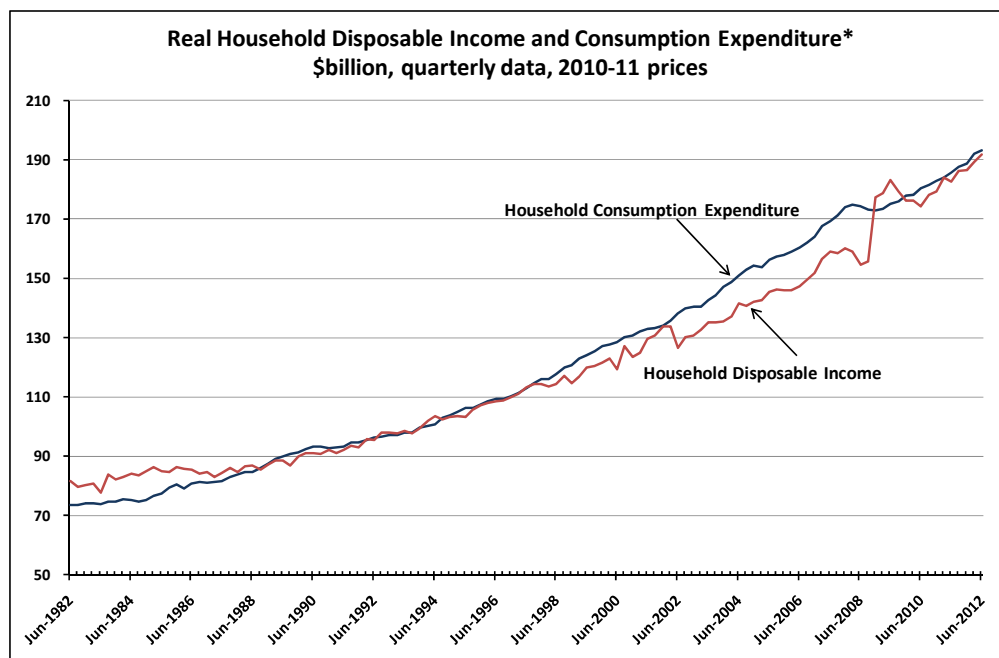
***Further to the previous question, to the extent that there has been any deterioration in economic conditions as they impact on retailers in the national general retail industry between January 2010 and the present time as compared to earlier periods, in your opinion, what were the causes of that deterioration?***

#### ***A Surge in Household Spending 1997/98 to 2007/08***

As already noted, general retail sales grew at a very strong rate in the period 1997/98 to 2007/08. This strong growth was enabled by a combination of factors, including strong growth in household disposable income and, much more so, by a willingness of households through this period to substantially increase their borrowings. Data on each is presented below.

Graph 21 and Table 7 illustrate the strong growth in household disposable income through the period 1997/98 to 2007/08.

**Graph 21**



\* Household disposable income is after tax but before interest payments. Real household disposable income is household disposable income deflated by the Household Consumption deflator.

The sharp jump in household disposable income in the September quarter 2008 reflects the measures taken at that time by the Federal Government to ease the threat posed by the GFC for the Australian economy. These measures included sharp increases in social assistance payments to individuals and families.

Source: Australian Bureau of Statistics, cat. no. 5206.0 Australian National Accounts, via [www.abs.gov.au](http://www.abs.gov.au); and Fulcrum Economics Australia

Real household disposable income grew at an average annual rate of 3.3% over the period 1997/98 to 2007/08, compared to 3.2% in the period 1992/93 to 1996/97, 2.6% in the period 1990/91 to 1991/92, and only 1.1% in the period 1984/85 to 1989/90.

**Table 7: Household Disposable Income and Household Expenditure**

**Average Annual Growth (%), In Real Terms**

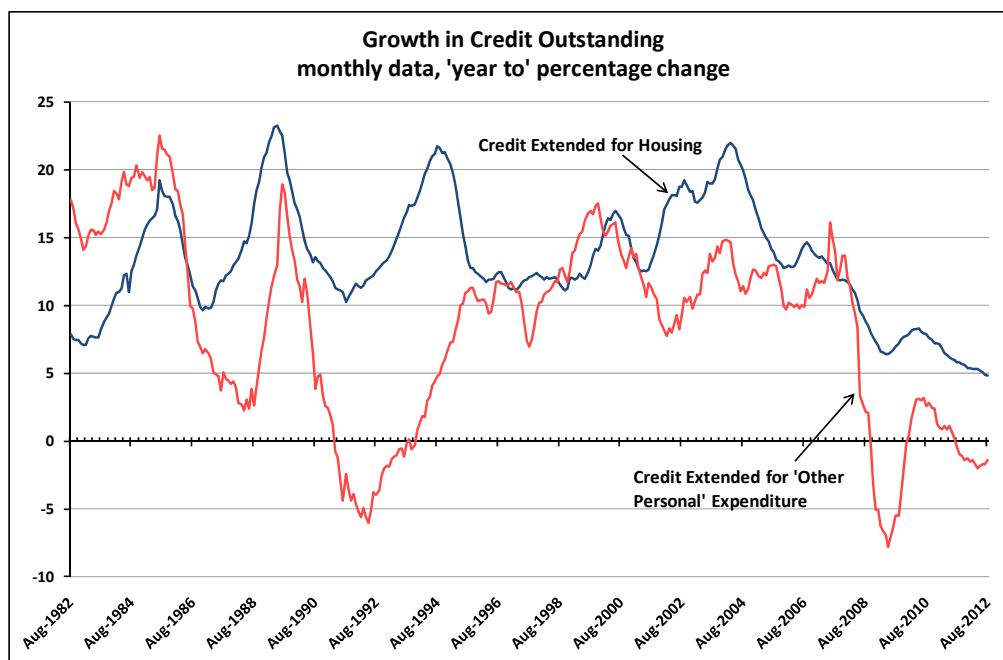
	Average Annual Growth in Real Household Disposable Income (%)	Average Annual Growth in Real Household Consumption Expenditure (%)	Average Annual Growth in Real General Retail Sales (%)
1984/85 – 1989/90	1.1	3.9	2.7
1990/91 – 1991/92	2.6	1.2	2.9
1992/93 – 1996/97	3.2	3.1	3.5
1997/98 – 2007/08	3.3	4.2	4.8
2008/09 – 2011/12	4.5	2.3	1.7

Source: Australian Bureau of Statistics, cat. no 5206.0 National Accounts, cat. no. 8501.0 Retail Trade, via [www.rba.gov.au](http://www.rba.gov.au); and Fulcrum Economics Australia.

Graphs 22 and 23 illustrate the strong level of demand from households for credit (ie borrowings) through the period 1997/98 to 2007/08, and the subsequent strong increase in household debt levels.

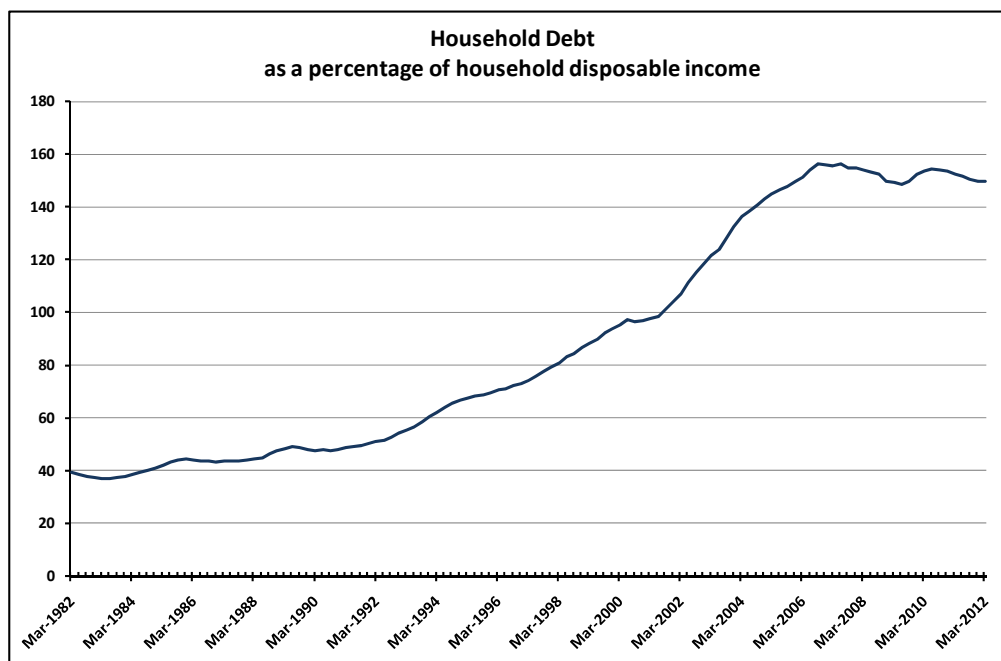
In the period 1997/98 to 2007/08, the level of credit outstanding for housing grew at an annual rate in excess of 10%, approaching 20% for much of the period. Similarly, credit outstanding which had been advanced to finance 'other personal' expenditures also grew very strongly over this period, also around the 10%+ per annum level.

**Graph 22**



Source: Reserve Bank of Australia, via [www.rba.gov.au](http://www.rba.gov.au).

**Graph 23**



Source: Reserve Bank of Australia, via [www.rba.gov.au](http://www.rba.gov.au)

The net outcome was that throughout the 1990s and most of the 2000s there was unprecedented growth in the debt levels of Australian households – as illustrated by Graph 23. Across this period, aggregate household debt outstanding grew from a level equal to 50% of aggregate household disposable income in 1991, to around 85% in 1997, and 160% in 2007.

However, in 2007/08, with the advent of the GFC, Australian households became more cautious about borrowing and more concerned about their existing debt levels and, as a consequence curbed their demand for new borrowing, to the extent that the level of household debt outstanding started to decline from that time, albeit in only a very marginal fashion to date. As at March 2012 household debt outstanding is still at a level equal to 150% of household disposable income.

To a very large extent it was the strong growth in household borrowing which fueled the strong growth in general retail sales through the period 1997/98 to 2007/08.

It should also be noted that the extent to which the strong growth in borrowing fueled growth in spending on general retail items is not indicated solely by growth in credit outstanding for 'other personal' purposes. Instead, it should be remembered that increasingly across the 1990s and 2000s a higher proportion of credit extended as 'housing loans' was instead being directed to fund spending in areas other than housing. The nature of the loan, being secured against housing, was the reason for it being classified in this manner. Thus, across this period there was a high level of refinancing of home loans and an increase in non-traditional forms of lending for households, such as lines of credit facilities, which provided households with additional finance to fund spending in areas other than housing.

It also should be noted that the level of household borrowing through this period was such that it resulted in household consumption expenditure growing at a faster rate than household disposable income – refer Graph 21 and Table 7. To put numbers on it, across this period real household disposable income grew at an average annual rate of 3.3%, whereas household consumption expenditure grew at an average annual rate of 4.2%.

As we noted earlier in this report, such a combination of growth rates is not sustainable. Sooner or later households would reach their capacity to service debt and the growth in borrowing would have to cease. Depending upon economic conditions this could happen quickly or slowly. As it was, households continued to increase their borrowings strongly across a 14 year period, from 1993 to

2007, before the advent of the GFC and associated change in economic conditions, as well as the impact on consumer confidence, brought the surge in borrowing to a halt.

### ***Further Consideration of the Factors behind the Surge in Household Spending in the Period 1997/98 to 2007/08***

To explain what lay behind the surge in household spending in the period 1997/98 to 2007/08 we need to explain two factors:

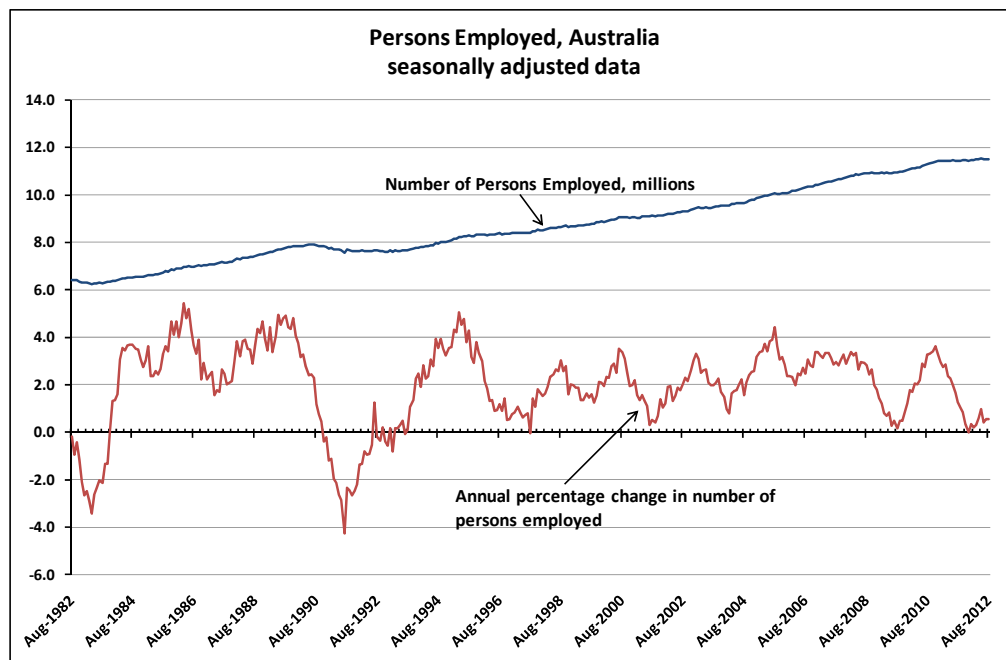
- i. the reasons for the strong growth in household disposable income across this period; and
- ii. why households were so willing, and so able, to increase their debt levels to such an extent across this period.

We first identify the reasons behind the ***strong growth in household disposable income*** across this period.

The main determinates of real growth in household disposable income are, of course, normally growth in employment, supplemented by growth in real wages.

Employment growth in Australia recovered quite quickly after the 1991/92 recession (refer Graph 24) and subsequently continued to record strong positive growth right through to 2007/08. Thus, average annual growth in persons employed over the period August 1994 to August 2008 (to pick two representative months) was 2.3%; while over the same time period aggregate hours worked grew at an average annual rate of 1.9% (refer Graph 25).

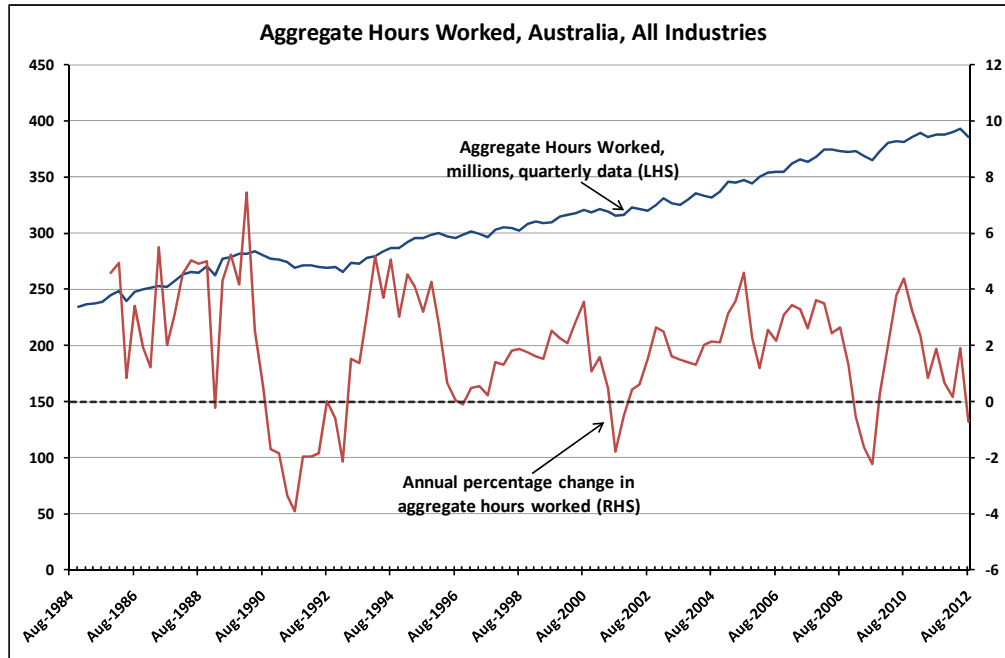
**Graph 24**



Source: Australian Bureau of Statistics, cat. no 6202.0 Labour Force, Australia,, via [www.rba.gov.au](http://www.rba.gov.au); and Fulcrum Economics Australia.

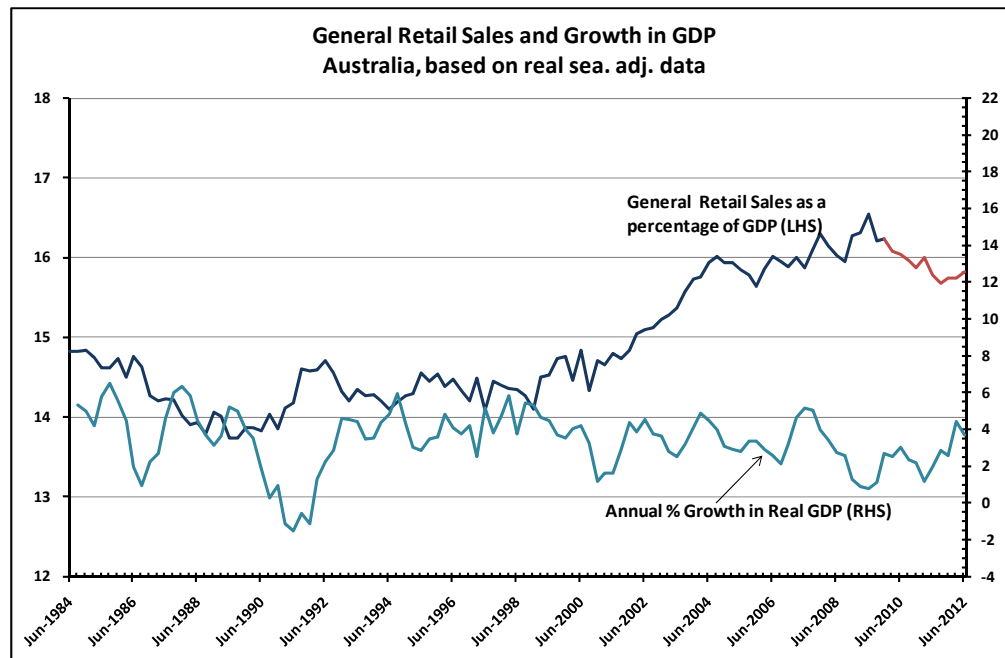
As household disposable income in this period was growing at an annual rate of around 3.3 % this suggests that real wages were growing at an annual average rate approaching 1.4%. In reality, the average annual growth in wages would have been somewhat less than this though, since through this period there were some significant cuts in income tax rates and increases in government payments to families, which also served to significantly supplement growth in household disposable income. For the sake of brevity we have not attempted to detail these income tax cuts or increases in family payments in this report.

Graph 25



Source: Australian Bureau of Statistics, cat. no 6291.0 Labour Force, Australia, Detailed, Quarterly, via [www.rba.gov.au](http://www.rba.gov.au); and Fulcrum Economics Australia.

Graph 26



Source: Australian Bureau of Statistics, cat. no 5206.0 National Accounts, cat. no. 8501.0 Retail Trade, via [www.abs.gov.au](http://www.abs.gov.au); and Fulcrum Economics Australia

Graph 26 illustrates the growth in GDP from 1984 to the current time and, for reason of comparison, also illustrates the trend in general retail sales, expressed as a percentage of GDP. The key points to note from this graph are:

- the sustained strong growth in GDP in the period after the 1991-92 recession, right through to 2007-08, a record period of sustained growth;
- the strong rise in general retail sales as a percentage of GDP from around 1998 through to 2008, a clear indication of the strength in retail sales through this period; and
- that notwithstanding the decline in general retail sales as a percentage of GDP after 2008 sales have remained at historically high levels as a percentage of GDP (and also in absolute terms – refer earlier graphs).

The sustained strong growth in real GDP from 1993 through to 2008 is, of course, consistent with the sustained growth in employment across this period.

We now turn to explain the reasons underlying the **strong growth in household borrowing** in the period 1994 through to 2008. Following on from our previous discussion, the first point to note, of course, is that the economy was growing strongly across this period, creating both solid employment growth and strong growth in household disposable income, thus increasing households' capacity to borrow.

But clearly there is considerably more than this to the explanation for the very strong growth in household borrowing across this period. The other factors in the explanation are sustained low interest rates, strong growth in the value of household assets, high levels of consumer confidence, a starting point at which household debt levels were relatively low, and an increasingly accommodating financial sector that made it easier for consumers to borrow to finance consumption.

Graph 27 illustrates the long term trend in Australian interest rates, using the 90 day bank bill rate as a proxy for interest rates in general.<sup>4</sup> The graph shows that interest rates remained low in nominal terms throughout the period 1991 to 2008 (and beyond); and that they were lowest in the period 1997 to 2007. In large part this reflected sustained low inflation.

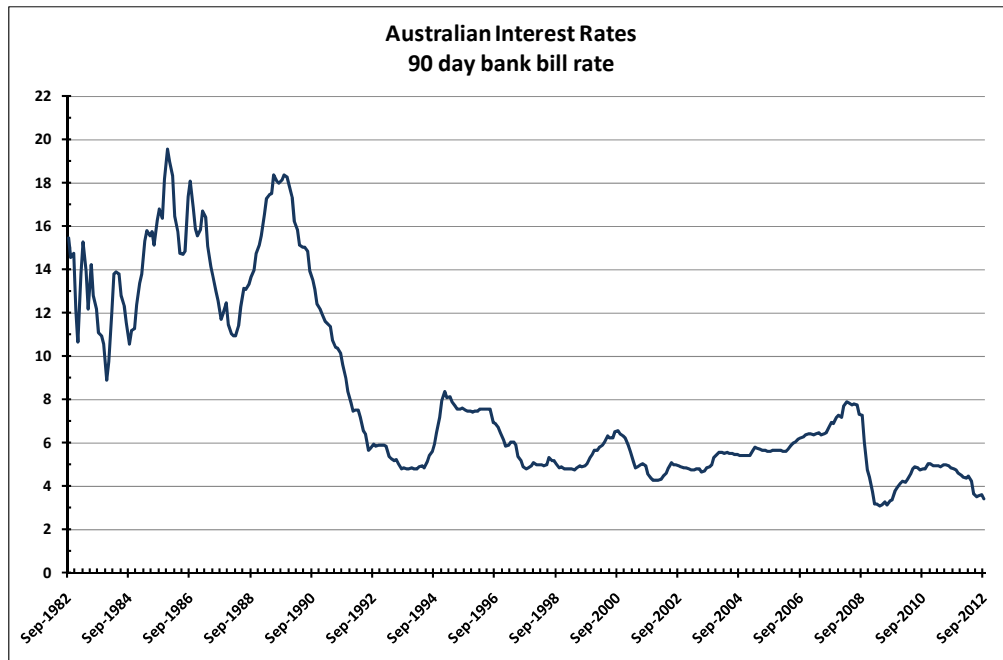
The lower level of interest rates from 1991 onwards meant that households were able to service a substantially higher level of debt than had been possible in earlier periods. And, of course, the fact that interest rates remained low over such an extended time period was an important factor in influencing the expectations of households, in that they would have become increasingly confident that interest rates would remain low, thus giving them increasing confidence to continue to expand their borrowings – as indeed they did.

As we saw earlier (Graph 23), household debt levels began to rise strongly from around 1992, with a second, even stronger, period of growth from around 2002. Graph 28 makes clear one reason why household debt was able to continue to rise so strongly across such a lengthy period, and that is because low interest rates combined with growth in household disposable income meant that the financing burden on households did not begin to lift in any substantial fashion until around 2002, when interest were starting to edge up. In the period 1992 to 2001 interest payments on household debt stayed within a range of 6% to 8% of household disposable income.

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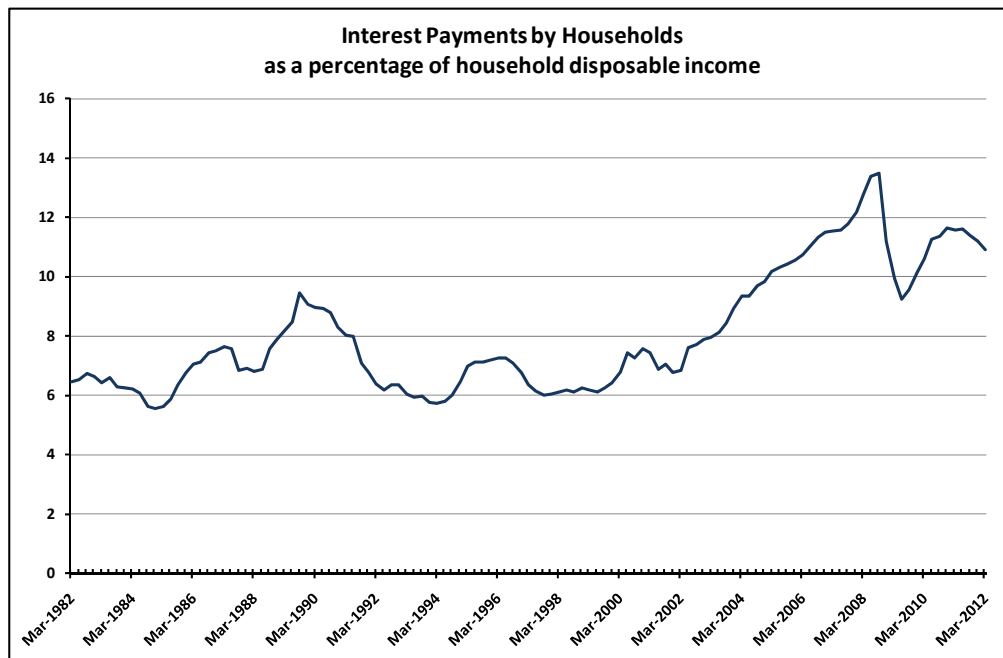
<sup>4</sup> The interest rate on variable interest rate loans, such as variable home loans, are typically closely correlated with the 90 day bank bill rate. For example, over the last couple of decades home loan rates have generally been set at levels around two percentage points above the 90 day bank bill rate.

**Graph 27**



Source: Reserve Bank of Australia, via [www.rba.gov.au](http://www.rba.gov.au).

**Graph 28**



Source: Reserve Bank of Australia, via [www.rba.gov.au](http://www.rba.gov.au)

Graph 29 illustrates the strong growth in the value of household assets across the period 1993 to 2007, which is yet another reason why household debt was able to continue to rise so strongly across such a lengthy period. The increased value of household assets provided additional security against which households were able to increase their borrowings. Thus, in the period from 1993 to 2007 the value of household assets increased from a value equivalent to around five times household disposable income, to a value equivalent to around eight times household disposable income. And it should also be remembered that household disposable income itself was increasing across this period.

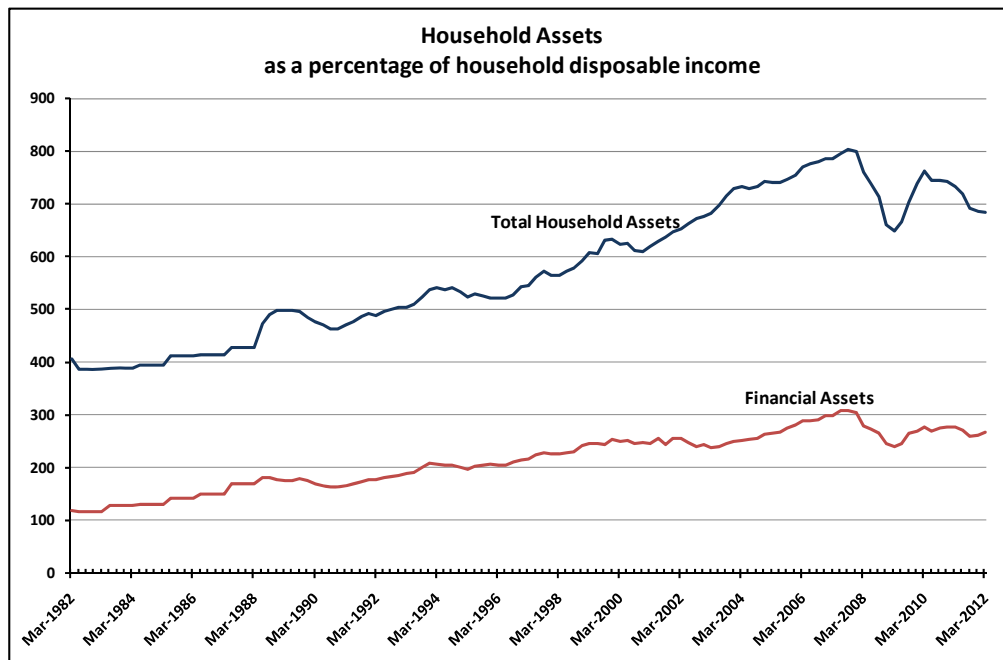
The strong growth in household assets in this period reflected both strong growth in the value of financial assets of households (refer Graph 29) and, to a greater extent, strong growth in the value of established houses (refer Graph 30).

In the period from June 1996 to June 2007 established house prices across the different capital cities increased as follows:

Perth	247.6%
Melbourne	204.7%
Brisbane	166.9%
Adelaide	158.8%
Sydney	118.2%

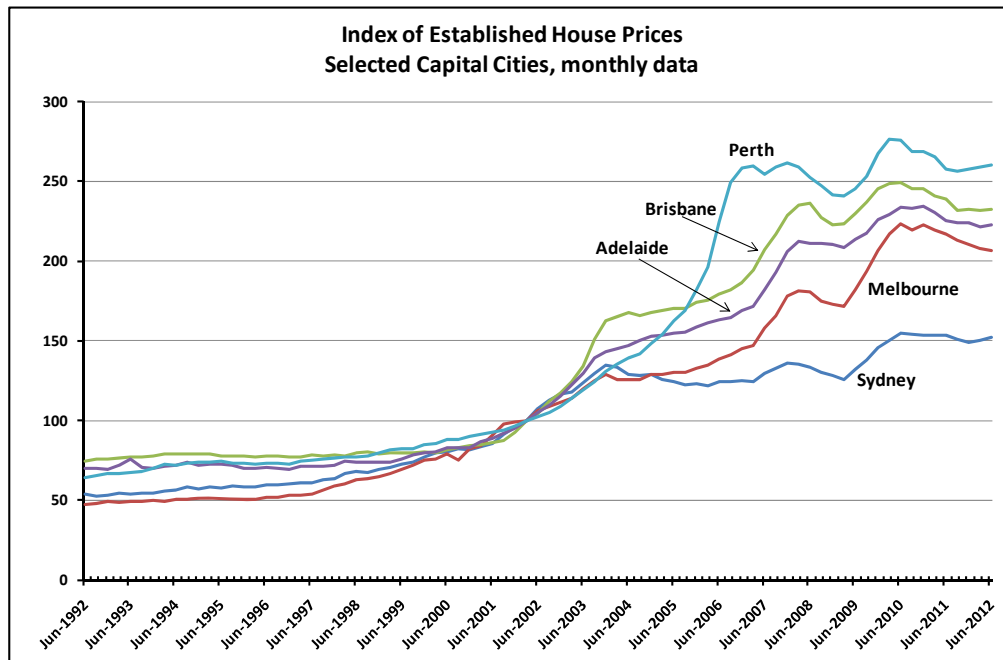
That is, house prices across this time period in the main Australian capital cities (ie the most populous ones) at least doubled, and in two cities, namely Perth and Melbourne, more than trebled.

**Graph 29**



Source: Reserve Bank of Australia, via [www.rba.gov.au](http://www.rba.gov.au)

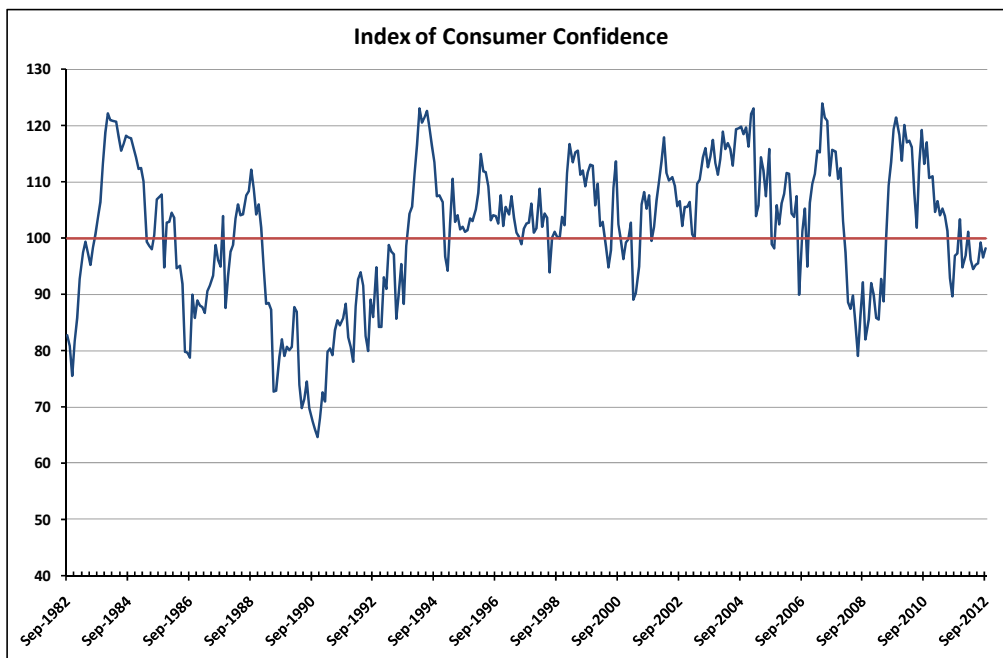
**Graph 30**



Source: Australian Bureau of Statistics, cat. no. 6416.0 House Price Indexes, via [www.abs.gov.au](http://www.abs.gov.au).

The sustained strong growth in GDP, in employment, and in the value of household assets all contributed to bringing about and sustaining a high level of consumer confidence across the period from 1993 to 2007 – refer Graph 31. This, of course, is yet another factor which contributed to the willingness of households to continue to grow their borrowings to the extent that they did.

**Graph 31**



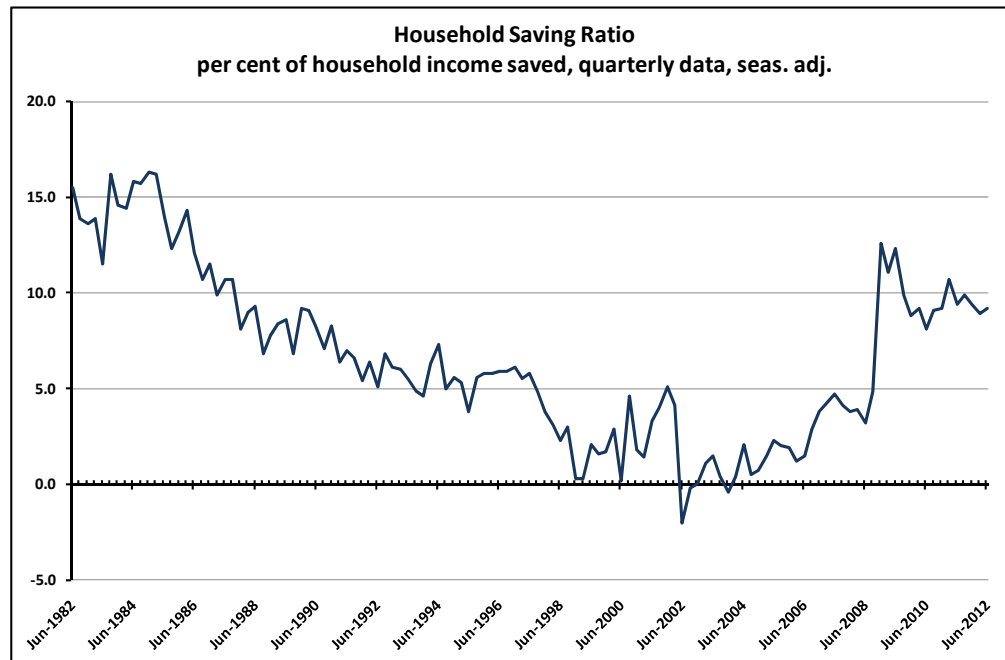
The 'Westpac-Melbourne Institute consumer sentiment index' has a base of 100, at which the optimistic and pessimistic responses to the five questions in the survey are balanced.

Source: Reserve Bank of Australia, via [www.rba.gov.au](http://www.rba.gov.au).

In line with the strong growth in household borrowing and household spending in the period 1993 to 2007 there were sharp declines in the household savings ratio, so that it reached historically low levels in the period 1998 to 2006 (Graph 32).

It is notable that since 2008 the situation in respect of household savings has reversed, so that the household savings ratio has returned to levels equal to around 10% of household disposable income. This is an important factor in explaining the weaker growth in general retail sales since 2008.

**Graph 32**



Source: Australian Bureau of Statistics, cat. no.5206.0, via [www.abs.gov.au](http://www.abs.gov.au)

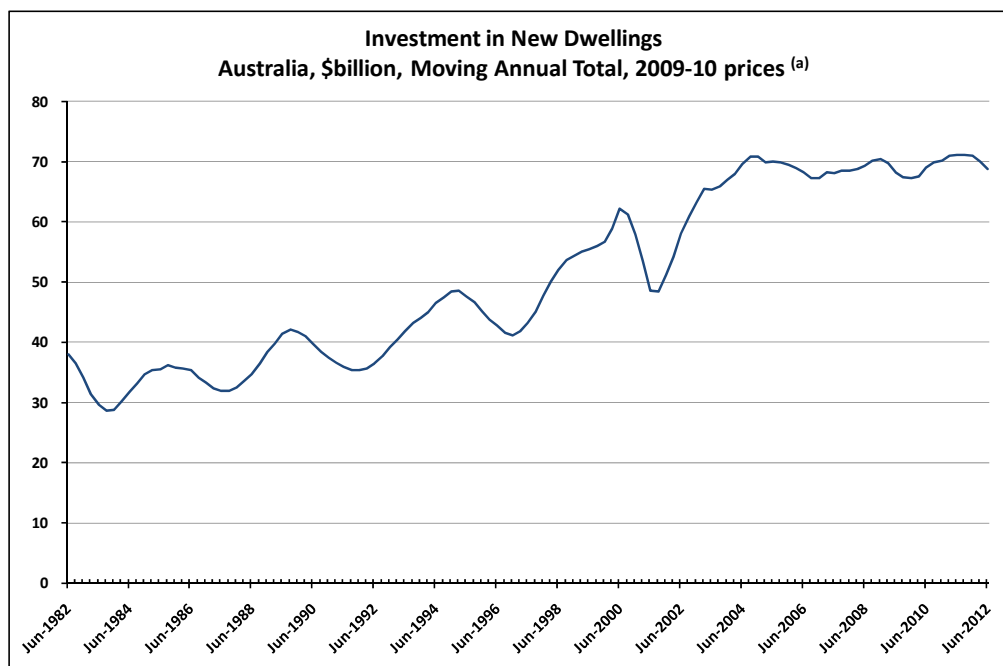
As we saw earlier in this report, the pattern of growth across the different sectors of retail trade has varied over time, most notably in the period since the 1991-92 recession – recall Graphs 18 and 19.

The differences in growth across the different retail sectors reflect, of course, the pattern of household spending. One of the key drivers in the growth of household spending through the period 1996-97 to 2007-08 was the strong growth in house prices, which led to households significantly lifting their investment in housing. In turn, this provided the reason for the very strong growth in household goods retailing across this period.

Graph 33 illustrates the strong growth in investment in new housing across this period. On top of this, of course, there was also strong growth in residential real estate activity (ie people moving between established houses), which also would have generated increased demand for household goods. (For the sake of brevity data on residential real estate activity is not provided in this report.)

The cessation of growth in new housing investment, as well as a fall in residential real estate activity, are yet other reasons behind the weaker growth in general retail sales since 2007-08.

Graph 33



(a) Includes expenditure on residential alterations and additions.

Source: Australian Bureau of Statistics, cat. no. 5206.0 National Account, via [www.abs.gov.au](http://www.abs.gov.au); Fulcrum Economics Australia

### ***The Response of the Retail Industry to the Strong Growth in Household Expenditure in the Period 1996-97 to 2007-08***

A key ingredient in understanding the reasons for the current more difficult trading conditions reportedly being experienced by *individual* retailers is to recognise the response of the retail trade sector to the strong growth in household spending in the period 1996/97 to 2007/08. Not surprisingly, this response was a marked increase in investment in retail capacity.

One indicator of this is provided by the strong rise in retail building work during this period. Data is provided at Graphs 34 and 35. (Although, unfortunately, these time series are only available for the period since 2002.)

The growth in both the value of 'work done' and the value of 'work completed' on retail and wholesale trade buildings in the period 2002 through to 2008 was dramatic. For example, the value of work done in this sector increased at an average annual rate of 17.2% across this period; while the value of 'work completed' increased at an average annual rate of 14.3%.

An alternative way to view the growth in new retail building is to note that in 2007/08 the value of work done on new retail and wholesale trade buildings was 159% greater than that done in 2001/02; while the value of work completed in 2007/08 was 122% greater.

Clearly there was a very substantial increase in retail space across this period. All of which, as indicated by the available data on retail vacancies, appears to have been taken up.

There is only limited historical data available on trends in total retail floor space, but the Productivity Commission in its 2011 report in the retail industry noted that "... the growth in Australian retail floor space has outpaced the growth in population". The Productivity Commission estimated that retail floor space in Australia on a per capita basis increased from around 2.4m<sup>2</sup> in the early 1990s to

nearly 3.0m<sup>2</sup> in 2005-06.<sup>5</sup> This equates to a 25% increase in retail floor space over a 15 year period. Australia's population in the same period grew around 17%, a not too significant a difference. However, the fact that there continued to be strong growth in retail building activity beyond 2005-06 indicates that per capita retail space would have continued to increase post 2005-06 and, given the high level of building activity, would have done so to a significant extent. The value of retail and wholesale building work completed in 2007-08 was 6.3% greater than in 2005-06; it rose again, by 3.9%, in 2007-08; and by a further 5.7% in 2008-09. Since then it has remained around a high level, suggesting that the net volume of retail floor space may still be increasing in Australia at the current time.

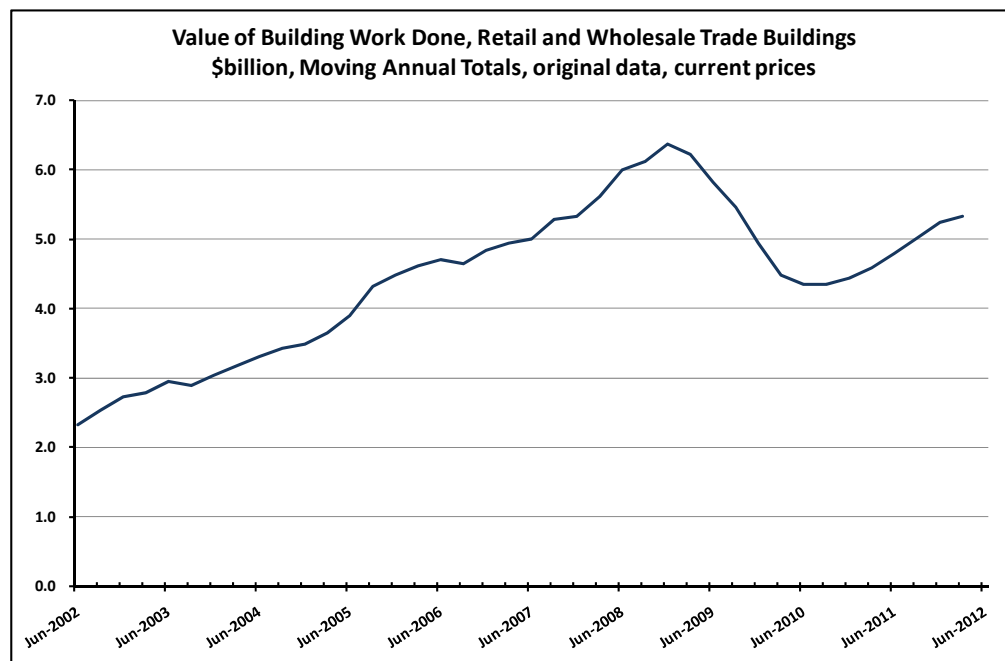
Further evidence of the strong growth in investment by the retail industry in the period 1997-98 to 2007-08 is provided by the strong growth in bank lending to this sector in this period.

Graph 36 shows growth in total credit outstanding to businesses in the retail trade, wholesale trade, and transport and storage sectors in the period 1993 to 2012. Separate data for lending to each of retail trade, wholesale trade, and transport and storage sectors is, unfortunately, not available. However, in light of the other data presented in this report, including the strong growth in retail sales and the strong growth in retail and wholesale building activity, it seems very unlikely that the growth in credit outstanding to the retail sector in the period 1996-97 to 2007-08 would have been less than growth in credit outstanding to either of the wholesale trade or transport and storage sectors.

In the period from 1996-97 to 2007-08 the level of credit outstanding to retail trade, wholesale trade and transport and storage businesses increased 209%. That is, it more than trebled over this period.

It is also interesting to note from Graph 36 that in the most recent period, from around the middle of 2011 to currently, the demand for credit by retail businesses has again begun to increase.

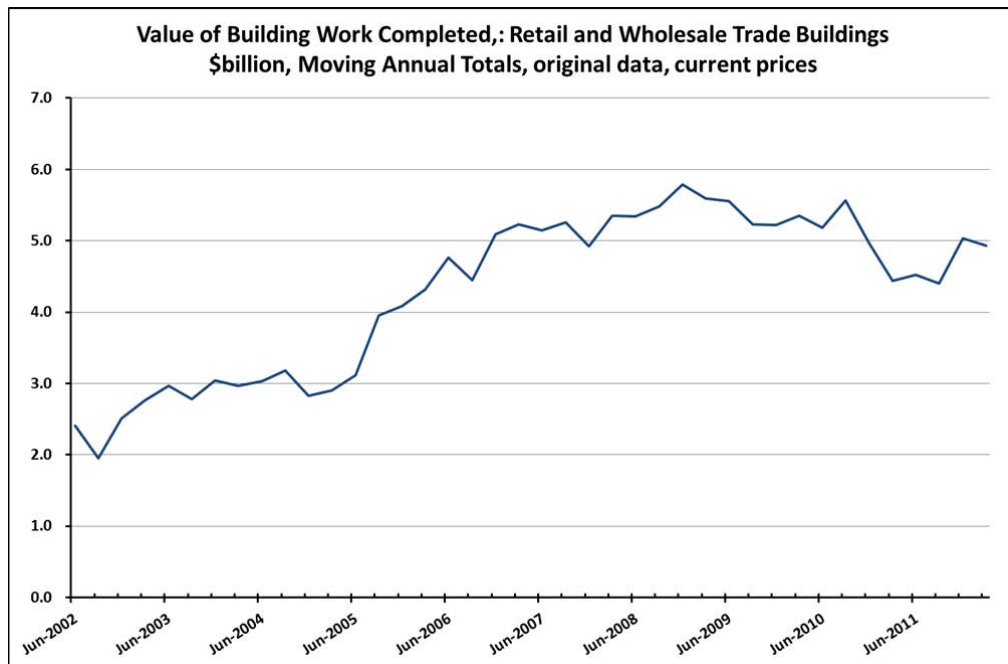
**Graph 34**



Source: Australian Bureau of Statistics, cat. no. 8752.0 Building Activity Australia, via [www.abs.gov.au](http://www.abs.gov.au); calculations by Fulcrum Economics Australia

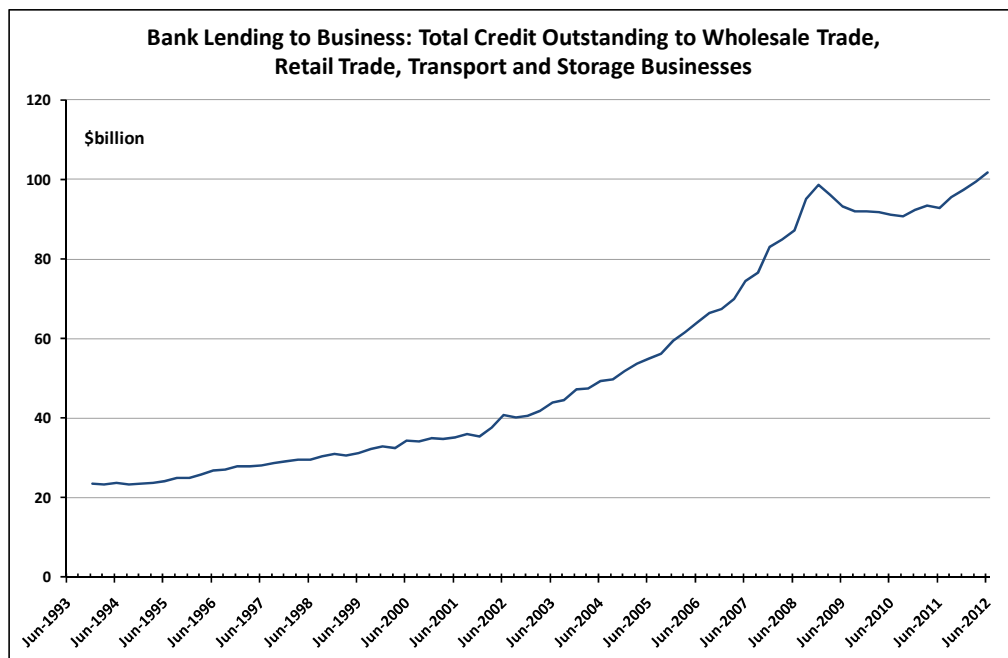
<sup>5</sup> Productivity Commission 2011, *Economic Structure and Performance of the Australian Retail Industry*, report no. 56 November 2011, pp219-221, Canberra, Commonwealth of Australia

**Graph 35**



Source: Australian Bureau of Statistics, cat. no. 8752.0 Building Activity Australia, via [www.abs.gov.au](http://www.abs.gov.au); calculations by Fulcrum Economics Australia

**Graph 36**



Source: Reserve Bank of Australia, via [www.rba.gov.au](http://www.rba.gov.au).

### ***Causes of the Deterioration in Retail Trade Economic Conditions in the Period Since 2007-08***

A holistic consideration of the data and analysis presented above makes it relatively easy to understand the causes of the deterioration in retail industry economic conditions since 2007-8, to the extent at least that there has been deterioration.

This last comment is necessary because the data presented in this report makes it clear that at the aggregate level the overall economic situation of the retail industry is still very strong. For example, Graph 26 in this chapter makes it clear that despite some decline in the period 2009-10 to 2010-11 general retail sales as a percentage of GDP still remain well above its level through the 1980s; and Graph 26 further shows that this ratio has again lifted in the last couple of quarters. Similarly, Graph 20 made it clear that the aggregate profitability of the retail industry remains at what appears to be a historically high level; as do real general retail sales per capita (Graph 14).

Thus, to the extent that there has been a deterioration in economic conditions in the general retail trade industry it is limited to slower growth in general retail sales and to more difficult trading conditions at the *individual retailer* level.

Focusing first on the reasons for the slower growth in retail sales since 2007-08, it is clear that the main reason concerns the decision by households to adopt a more cautious attitude to borrowing. In the period since 2007-08 the level of household debt has declined, albeit marginally, as a percentage of household disposable income (Graph 23), in stark contrast with the very strong growth in household debt between 1992 and 1996.

In actual fact, household demand for borrowings began to ease a little before 2007-08, in response to the actions taken by the Reserve Bank to gradually increase interest rates through 2006 and 2007. However, with the advent of the Global Financial Crisis in 2007/08 consumer confidence fell sharply (Graph 31), as did the value of household assets (Graph 29). Indeed, the fall in consumer confidence and the falls in both stock prices and in house prices each feed off one another. With less wealth and less confidence about the future it was no surprise that household demand for credit slowed substantially (Graph 22). Concurrent with the decline in demand for debt the household savings ratio began to lift and has since moved back to levels not seen since the mid-1980s (Graph 32).

To the extent that there has been a deterioration in business conditions for individual retailers since 2007-08 it would be reflective not only of slower growth in retail sales since 2007-8, but also reflective of the very strong growth in retail space both before and after 2007-08. A consequence undoubtedly of the strong rise in retail space would have been an increased level of competition for the retail dollar. This may not have been so significant when retail sales were still rising strongly, but undoubtedly would have become a more significant factor once retail sales growth began to slow.

In effect then, the “deterioration” in retail trading conditions since 2007-08 is to a large extent a “correction phase”, following the very strong, but ultimately unsustainable, growth in retail sales in the period prior to 2007-8 and which also led to a sharp lift in investment in the retail sector and hence in retail floor space. This is not, of course, to make light of the extent to which trading conditions may have become more difficult for individual retailers. Rather, it is simply to put the correct perspective on the current business circumstances of the retail industry.

The second key factor behind the deterioration of retailing trading conditions since 2007-08 is, of course, changed economic conditions across the economy as a whole, due in the first instance to the advent of the GFC and, more recently, reflecting the impacts of the sovereign debt crisis in Europe.

It seems highly likely that the advent of the GFC brought about a quicker and more marked slowdown in retail sales growth than would have occurred otherwise; and that the slower growth in retail sales has been prolonged by the economic repercussions of the sovereign debt crisis in Europe.

Although, having said this it is the case that if not the GFC then something else would have been the trigger for the slowdown in household spending and hence in retail sales growth. As previously noted, the circumstances were such that some kind of ‘correction period’ in retail sales growth was inevitable.

To complete this story, it should probably be noted that the possible negative impacts of the fallout from the GFC and, more recently, from the fallout of the (continuing) sovereign debt crisis in Europe, both on the retail trade sector and on other sectors of the economy, have been significantly mitigated by policy actions by the Federal Government and the Reserve Bank. These policy actions included the fiscal stimulus provided by the Federal Government in the wake of the GFC and the declines in interest rates by the RBA at that time and again over the past twelve months.

One other factor not yet mentioned in this report but of significance in terms of the challenges currently confronting the retail industry is the degree of structural change occurring within both the retail sector and the broader Australian economy. At the current time this includes the greater prevalence of online retailing, a changing geographical pattern of retail trade due to the changing industry structure of the Australian economy, and shifts in consumer demand patterns due to increased use of technology and changes in consumer “tastes” (reflecting such factors as the increased prevalence of mobile phones with internet connection, the increasing role of social media, and the greater use of the web as a search tool). There is also the not insignificant impact of a lower level of residential building activity on demand patterns.

But structural change is a characteristic of modern economies and is an important ingredient in the process of economic progress. Coping with and adapting to structural change is an on-going challenge for all industries.

The final point to make in answering Question 4 is to note that there is some evidence that economic conditions in the retail trade sector are beginning to lift again, at least in an overall sense. The level of general retail sales has increased over the past nine months, so that general retail sales in the June quarter 2012 were up 3.4 % in real seasonally adjusted terms on sales in the September quarter 2011 (refer Graph 4). And aggregate profitability of the retail sector was 6.2% greater in 2011-12 compared to profitability in 2010-11 (refer discussion at the answer to Question 2).



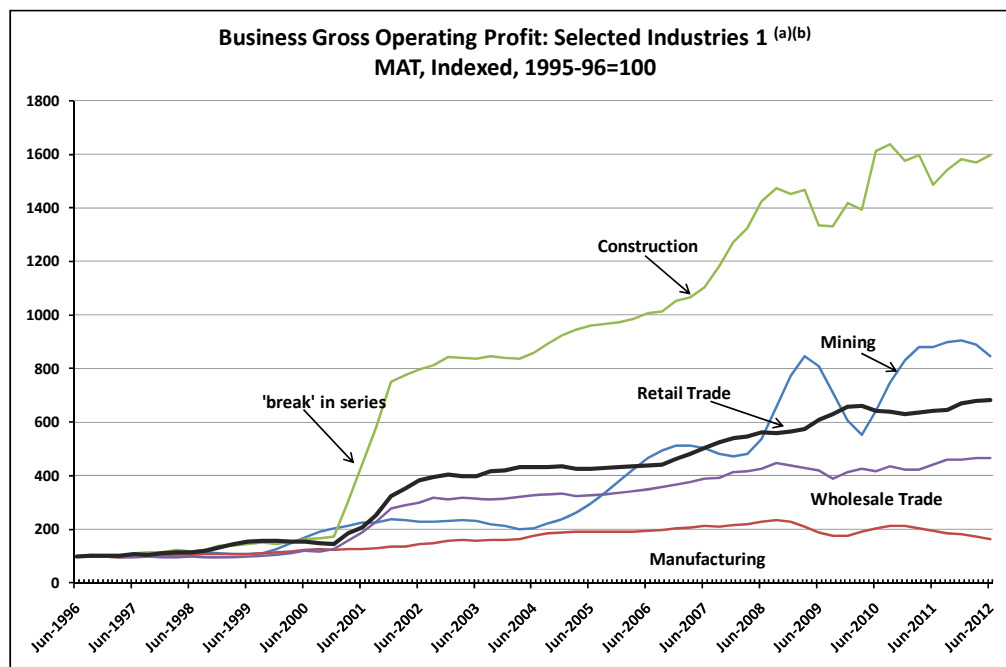
## Question 4 Addressed

### Question 4

**By reference to available economic data, how does the level of aggregate profitability in the national general retail industry compare with the level of aggregate profitability in other industries?**

A comprehensive answer to question 4 requires that we consider aggregate profitability from both long term and short term perspectives. Data showing trends in profitability for selected industry sectors from a long term perspective is provided by Graphs 37 and 38 and by Table 8; while data which focuses on the recent profitability of these selected industry sectors is given at Table 9.<sup>6</sup>

**Graph 37**



(a) There is a “break” in the series around 2001, reflecting a change in the scope and coverage of the survey. The main change in the coverage was the inclusion of unincorporated enterprises (ie previously only the profits of companies had been included in the survey). A second change around this time was a widening of the scope of the survey to include companies with less than 30 employees. Consequently, in interpreting the data the spike in profitability around 2001 should be discounted.

(b) Gross operating profit refers to profits before income tax and with certain other selected items also being excluded, so as to provide a better measure of underlying profits. The items excluded include interest income and expenses; depreciation and amortization; and selected items which do not involve the production of goods and services, such as foreign exchange gains/losses, gains/losses arising from the sale of non-current assets, and net unrealized gains/losses from the revaluation of current or non-current assets.

Business gross operating profit is the sum of unincorporated gross operating profit and company gross operating profit.

Note: This data series refers to the Retail Trade Industry as defined by ANZSIC.

Source: Australian Bureau of Statistics, cat. no. 5676.0 Business Indicators, via [www.abs.gov.au](http://www.abs.gov.au); Fulcrum Economics Australia

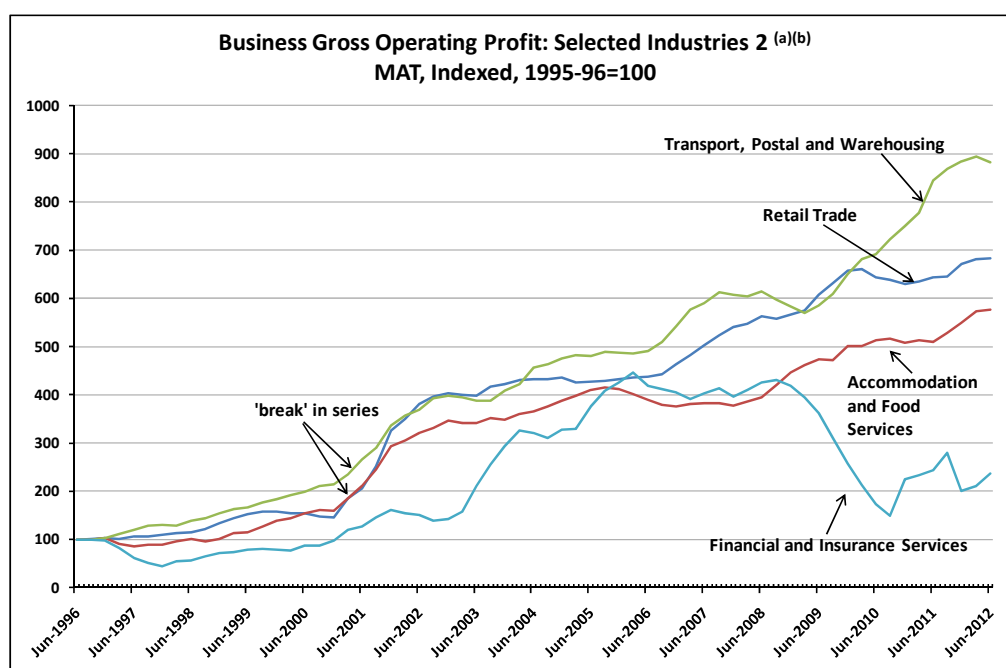
<sup>6</sup> The industry sectors chosen are the major industry sectors of the economy for which consistent data series are available. A similar graph to Graphs 37 and 38 showing profitability across an additional two industry sectors is provided in Appendix E (Graph E8), but there are significant ‘breaks’ in the data for these two sectors.

From Graphs 37 and 38 it is clear that over the longer term aggregate profitability of the retail industry has grown at a solid rate, matching or out-performing several other industry sectors. The data of Table 8 shows that in the period from 2001/02 through to the current time (June quarter 2012) aggregate profitability of the retail industry increased more strongly than aggregate profitability of the manufacturing, wholesale trade, and financial and insurance services sectors, and essentially performed on a par with the accommodation and food services sector.

It is also notable from these graphs that there has not been any sharp decline in aggregate profitability of the retail industry in recent quarters, unlike in some other industry sectors.

Moving on to consider trends in profitability in recent years it can be seen from Table 9 that the aggregate profitability of the retail sector has increased in each of the past two years, by 5.5% in the year to the June quarter 2011 and up a further 1.0% in the year to the June quarter 2012. Notably this is stronger growth than that recorded for all industries combined (for which profitability was up 0.6% and then down 5.8% over the two same periods – refer Table 8).

**Graph 38**



(a) There is a “break” in the series around 2001, reflecting a change in the scope and coverage of the survey. The main change in the coverage was the inclusion of unincorporated enterprises (ie previously only the profits of companies had been included in the survey). A second change around this time was a widening of the scope of the survey to include companies with less than 30 employees. Consequently, in interpreting the data the upwards shift in profitability around 2001 should be discounted.

(b) Gross operating profit refers to profits before income tax and with certain other selected items also being excluded, so as to provide a better measure of underlying profits. The items excluded include interest income and expenses; depreciation and amortization; and selected items which do not involve the production of goods and services, such as foreign exchange gains/losses, gains/losses arising from the sale of non-current assets, and net unrealized gains/losses from the revaluation of current or non-current assets.

Business gross operating profit is the sum of unincorporated gross operating profit and company gross operating profit.

Note: This data series refers to the Retail Trade Industry as defined by ANZSIC.

Source: Australian Bureau of Statistics, cat. no. 5676.0 Business Indicators, via [www.abs.gov.au](http://www.abs.gov.au); Fulcrum Economics Australia

**Table 8: Profitability in 2011/12 Compared with Profitability in 2001/02,**  
**Percentage difference, Selected Industry Sectors**

	Percentage change in current price terms	Percentage change in real terms
<b>Retail Trade</b>	<b>78.9</b>	<b>41.4</b>
Manufacturing	14.3	-9.7
Wholesale Trade	55.0	22.6
Financial and Insurance Services	56.3	23.6
Accommodation and Food Services	79.3	41.7
Construction	100.7	58.6
Transport, Postal and Warehousing	139.2	89.1
Mining	272.4	194.4
All Industries	115.6	70.4

Note: Industry sectors are defined according to ANZSIC. the deflator used to calculate real profit was the GNE deflator.

Source: Australian Bureau of Statistics, cat. no. 5676.0 Business Indicators, via [www.abs.gov.au](http://www.abs.gov.au); Fulcrum Economics Australia

**Table 9: Growth in Profitability in Selected Industry Sectors, Recent Quarters**

**Seasonally adjusted data**

	percentage change on same quarter year earlier				% change June qtr 2009 to June qtr 2012
	June'09	June'10	June'11	June'12	
<b>Retail Trade</b>	23.0	-11.8	5.5	1.0	-6.0
Manufacturing	-33.1	30.8	-16.2	-19.7	-12.0
Wholesale Trade	-7.4	-7.8	22.5	-1.3	11.4
Financial and Insurance Services	-31.3	-53.9	29.0	55.9	-7.2
Accommodation and Food Services	11.7	13.5	-3.1	2.4	12.6
Construction	-33.3	80.3	-22.8	7.6	49.8
Transport, Postal and Warehousing	8.2	5.3	39.7	-5.6	39.0
Mining	-21.8	63.8	0.6	-19.3	32.9
All Industries	-13.4	27.5	0.6	-5.8	20.8

Note: Industry sectors are defined according to ANZSIC.

Source: Australian Bureau of Statistics, cat. no. 5676.0 Business Indicators, via [www.abs.gov.au](http://www.abs.gov.au); Fulcrum Economics Australia



## Question 5 Addressed

### Question 5

***By reference to available economic data, what is the proportion of total national retail sales which is attributable to:***

- a) on-line sales generally; and***
- b) overseas on-line sales in particular?***

***What implications, if any, does this have for retailers in the general retail industry?***

### ***Official Data for Online Retail Sales***

There are currently no official statistics available for domestic and overseas online retail sales in Australia. Instead there are only estimates available, with the most reliable of these (in our opinion) being those made by the Productivity Commission in the course of its preparation of its 2011 report on the *Economic Structure and Performance of the Australian Retail Industry*.<sup>7</sup>

Based on available data at that time the Productivity Commission estimated that in 2010 online sales accounted for approximately 6 per cent of total general retail sales in Australia. Furthermore, they estimated that two-thirds of these sales were domestic online sales (ie the goods were bought from Australian retailers), while only one-third were overseas online sales (ie goods acquired from non-Australian based retailers). That is, only 2% of all general retail sales in Australia were sourced online from overseas based retailers.

We are not aware of any official update of these estimates.

We can, however, note the following points, all of which were sourced from the previously mentioned Productivity Commission report:

- official estimates indicate that in the United States online sales accounted for around 5% of total retail sales in the fourth quarter 2010
  - growth in online sales has been slow in the US, having increased only 1.2 percentage points over the previous 4 years
- official estimates indicate that in the United Kingdom online sales accounted for around 9.9% of total retail sales as at June 2011
  - the online share of total retail sales in the UK almost tripled in the 4 years to June 2011 (from 3.4% to 9.9%)
- at the time of preparation of the Productivity Commission report (ie in 2011) some market analysts were predicting that online retail sales in Australia would grow between 10% and 15% per annum in the period through to 2013.
  - while not endorsing such forecasts the Productivity Commission did note that the advance of technology in areas such as mobile phones with internet capability will likely lead to further growth in the market share of online sales.
- as a whole, Australian retailers have been slow to invest in online facilities; and to the extent that they have done so their websites typically have been designed more to provide information than to be an aggressive point of sale.

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<sup>7</sup> Productivity Commission, report no. 56, November 2011.

On balance, taking all of these points into account it is highly likely that there has continued to be growth in online retail sales since 2010, although it is far from clear how strong this growth might have been. Given the complete absence of solid data, we are not in a position to hazard a guess at what the continued pace of growth of online sales might be (or has been).

### ***Possible Implications of the Growth in Online Sales for the General Retail Industry***

In an attempt to gain a better understanding of the possible implications for retailers of continued growth in online sales we suggest that the following are important points to consider.

- i. Perhaps the most important point to bear in mind is that already mentioned, namely that the majority of online sales are domestic sales, with online overseas sales perhaps representing as little as 2% of total general retail sales (ie using the Productivity Commission's estimate).
- ii. The penetration of online sales, however, varies considerably across merchandise categories, with the Productivity Commission concluding that online penetration is highest in categories such as electrical and electronic goods, recreational goods, and clothing footwear and personal accessories. More specifically, specific general retail products where online purchase is highest include books, CDs and DVDs, sporting goods, cosmetics and toys.
- iii. Many general retail items are unsuitable for online overseas purchase, so that retailers of these items would be protected from competition from this source. Such items would include perishable items (eg a large range of food and items such as flowers and garden plants) and those items where the transport cost would be high relative to the value of the good. This last category likely includes a very large number of goods, representing a quite high percentage of the general retail industry. For example, it probably includes bulky furniture items and most whitegoods, a range of floor coverings, most houseware goods (eg glassware, plastic containers, crockery, etc), many textile goods (eg curtains), hardware goods to a significant degree, and a range of other goods.
- iv. The Productivity Commission presented data which indicated that the vast majority (nearly 90%) of online retail purchases from overseas websites were valued at less than \$200 in the period June 2008 to February 2011. This conclusion was based on an analysis of credit card payments for online overseas purchases, not on the declared value of overseas purchases.<sup>8</sup>
- v. The Final Report of the Low Value Parcel Processing Task Force was submitted to the Government in July 2012. The Report recommended reforms which would enable collection of GST on low value imports, which, of course, includes low value (ie <\$1,000) online purchases of retail goods. If these recommended reforms are implemented this would remove part of the attraction for purchasing retail goods online from overseas websites as opposed to purchasing them locally.

These points suggest a number of possible implications of continued growth in online sales for the future of the Australian retailing industry – recognizing that it is highly likely that there will be continued growth in online retail sales, although it is far from clear how strong this growth might become.

There seems little doubt that continued growth of online purchases of retail products poses a significant threat for *some* sectors of the retail industry, namely those sectors that sell goods where the penetration of online *overseas* sales is highest and where this penetration is likely to increase in future. But the extent to which these retailers are impacted in the future depends upon a range of factors, not just upon the ability of consumers to purchase directly from overseas. It also will depend upon the ability of local retailers to respond to this threat; as well as upon possible changes

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<sup>8</sup> There have been reports that some customers have been understating the value of goods they have purchased from overseas web sites so as to avoid GST on these purchases. Some discussion of this is provided in the recently released Final Report of the Low Value Parcel Processing Taskforce, Commonwealth of Australia, July 2012.

in government policy, such as the changes recommended by the Low Value Parcel Processing Task Force.

At the same time, however, the above points also make it clear that online retailing offers significant opportunities for local retailers, reflecting the opportunities offered by changing technology, is association with changing consumer behaviors and buying patterns, and the fact that the majority of online retail sales will likely continue to be domestic online sales.

Perhaps the real longer term challenge for local retailers is being able to respond appropriately, and successfully, to the various pressures for structural change now confronting the industry. Responding to structural change is never an easy task and invariably there are both winners and losers in the process. But, as already noted, structural change is a necessity in a modern economy and, to varying degrees, is an on-going challenge for all industries. At the current time it is fast becoming a major challenge for the retail industry.

### ***Some Unofficial Data on Online Retail Sales***

The National Australia Bank (NAB) launched an 'Online Retail Sales Index' in February 2012. We briefly comment on it here, not because it offers any insights of value, but simply because it may be mentioned at the Fair Work Australia hearings and as such warrants a comment for that purpose.

It seems to us that there are serious problems with the NAB index, although it is not clear whether these are due to methodological shortcomings, data shortcomings, or simply very poor use of the data. Certainly we do not view the index as being reliable.

The most recent release of the Index information was in July 2012, at which time NAB reported that in 2011-12 online retail sales, according to its measure, represented 5.3% of "traditional" retail sales.<sup>9</sup> NAB's concept of "traditional" retail sales appears to correspond closely with what we have labeled "general retail sales" in this report.

We do not have a major issue with the 5.3% number, since it is at least in the same ballpark as the earlier findings on online retail trade by the Productivity Commission.<sup>10</sup>

However, we do have an issue with the other data and conclusions within the NAB July report on online retail sales. In particular, we find it difficult to accept the NAB claims about the current growth rates in online retail sales. NAB claims that on an 'year on year' basis domestic online sales increased 24% to July 2012, while over the same time period international online sales increased 29%. Not to put it too crudely, these results are beyond belief and completely at odds with any rational consideration.

A short discussion was had with the senior economist at NAB responsible for this publication, but that conversation only heightened our concerns over the accuracy of the data. For a starter –and as we suspected – the claimed 'year on year' growth has not been calculated on a 'year on year' basis at all, but rather was calculated on what is more commonly referred to as a 'year to' basis, meaning, for example, simply comparing the current July number with the previous July number. This will likely lead to much greater fluctuations than would a 'year on year' calculation. This is true even for solid data, but there is little reason to believe that NAB has constructed a solid and consistent database. To the contrary, both the extent of the fluctuations from month to month and the sheer size of the percentage changes indicate that the NAB database is either solid or consistent. As a final piece of evidence to support this conclusion, we note that through 2011 the NAB series showed domestic online sales growing at an annual rate between 20% and 30%; and, in the same period, international online sales growing at rates between 40% and 60%. These growth rates do not fit with any other available data or with logic.

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<sup>9</sup> NAB Online retail Sales Index, Indepth report, July 2012, accessed via [www.nab.com.au](http://www.nab.com.au)

<sup>10</sup> Productivity Commission, 2011, *op. cit.*

## Appendix A

### Definition of General Retail Industry, as per the General Retail Industry Award 2010

**General Retail industry** means the sale or hire of goods or services to final consumers for personal or household consumption including:

- food retailing, supermarkets, grocery stores;
- department stores, clothing and soft goods retailing;
- furniture, houseware and appliance retailing;
- recreational goods retailing;
- personal and household goods retailing;
- household equipment repair services;
- bakery shops;

and includes:

- customer information and assistance provided by shopping centres or retail complexes;
- labour hire employees engaged to perform work otherwise covered by this award; and
- newspaper delivery drivers employed by a newsagent,

but does not include:

- community pharmacies;
- pharmacies in hospitals and institutions providing an in-patient service;
- hair and beauty establishments;
- hair and beauty work undertaken in the theatrical, amusement and entertainment industries;
- stand-alone butcher shops;
- stand-alone nurseries;
- retail activities conducted from a manufacturing or processing establishment other than seafood processing establishment;
- clerical functions performed away from the retail establishment;
- warehousing and distribution;
- motor vehicle retailing and motor vehicle fuel and parts retailing;
- fast food operations;
- restaurants, cafes, hotels and motels; or
- building, construction, installation, repair and maintenance contractors engaged to perform work at a retail establishment

## Appendix B

### Coverage of Data Included in the Australian Bureau of Statistics' Retail Trade Series (Cat. No. 8501.0)

The ABS Retail Trade publication (catalogue no. 8501.0) presents estimates of the value of turnover of "retail trade" for Australian businesses classified by industry, as well as by State and Territory. The "Retail Trade" data series includes those industries identified below (being paragraphs 5 and 6 of the Explanatory Notes of catalogue 8501.0.):

5 The industries included in the survey are as defined in the *Australian and New Zealand Standard Industrial Classification (ANZSIC) 2006* (cat. no. 1292.0). Industry statistics in this publication are presented at two levels of detail:

- Industry group - the broadest industry level comprising 6 industry groups. This level is used to present monthly current price and quarterly chain volume measure estimates in this publication.
- Industry subgroup - the most detailed industry level comprising 15 industry subgroups. This level is used to present monthly current price estimates in time series spreadsheets.

6 The following shows the level at which retail trade statistics are released and defines each industry group and subgroup in terms of ANZSIC 2006 classes:

- Food retailing
  - Supermarket and grocery stores and non-petrol sales (convenience stores) of selected fuel retailing
    - Supermarket and grocery stores (4110)
    - non-petrol sales (convenience stores) of selected Fuel retailing (4000)
  - Liquor retailing
    - Liquor retailing (4123)
  - Other specialised food retailing
    - Fresh meat, fish and poultry retailing (4121)
    - Fruit & vegetable retailing (4122)
    - Other specialised food retailing (4129)
- Household goods retailing
  - Furniture, floor coverings, houseware and textile goods retailing
    - Furniture retailing (4211)
    - Floor coverings retailing (4212)
    - Houseware retailing (4213)
    - Manchester and other textile goods retailing (4214)
  - Electrical and electronic goods retailing
    - Electrical, electronic and gas appliance retailing (4221)
    - Computer and computer peripheral retailing (4222)
    - Other electrical and electronic goods retailing (4229)
  - Hardware, building & garden supplies retailing

- Hardware and building supplies retailing (4231)
  - Garden supplies retailing (4232)
- Clothing, footwear and personal accessory retailing
  - Clothing retailing
    - Clothing retailing (4251)
  - Footwear and other personal accessory retailing
    - Footwear retailing (4252)
    - Watch and jewellery retailing (4253)
    - Other personal accessory retailing (4259)
- Department stores (4260)
- Other retailing
  - Newspaper and book retailing
    - Newspaper and book retailing (4244)
  - Other recreational goods retailing
    - Sport and camping equipment retailing (4241)
    - Entertainment media retailing (4242)
    - Toy and game retailing (4243)
  - Pharmaceutical, cosmetic and toiletry goods retailing
    - Pharmaceutical, cosmetic and toiletry goods retailing (4271)
  - Other retailing n.e.c
    - Stationery goods retailing (4272)
    - Antique and used goods retailing (4273)
    - Flower retailing (4274)
    - Other-store based retailing n.e.c (4279)
    - Non-store retailing (4310)
    - Retail commission-based buying and/or selling (4320)
- Cafes, restaurants and takeaway food services
  - Cafes, restaurants and catering services
    - Cafes and restaurants (4511)
    - Catering services (4513)
  - Takeaway food services
    - Takeaway food services (4512)

A more detailed description and definition of the industry sectors covered by the Retail Trade series is provided at Appendix C, which shows the detailed descriptions as defined by the *Australian and New Zealand Standard Industrial Classification (ANZSIC) 2006* (cat. no. 1292.0).

In respect of the industry sectors covered by the Retail Trade series, “turnover” includes:

- retail sales
- wholesale sales (albeit only to a very small extent – see industry descriptions)
- takings from repairs, meals and hiring of goods (except for rent, leasing and hiring of land and buildings)
- commission from agency activity (eg commissions received from collecting dry cleaning, selling lottery tickets, etc.); and
- from July 2000, the goods and services tax.

## **Appendix C**

### **Detailed Description of the Industries Covered by the ABS's Retail Trade Series as Defined in the Australian and New Zealand Standard Industrial Classification (ANZSIC) 2006 (cat. no. 1292.0)**

#### **Division G – Retail Trade**

The Retail Trade Division includes units mainly engaged in the purchase and onselling, commission based buying, and commission based selling of goods, without significant transformation, to the general public. The Retail Trade Division also includes units that purchase and onsell goods to the general public using non-traditional means, including the internet. Units are classified to the Retail Trade Division in the first instance if they buy goods and then onsell them (including on a commission basis) to the general public.

Retail units generally operate from premises located and designed to attract a high volume of walk-in customers, have an extensive display of goods, and/or use mass media advertising designed to attract customers. The display and advertising of goods may be physical or electronic.

Physical display and advertising includes shops, printed catalogues, billboards and print advertisements. Electronic display and advertising includes catalogues, internet websites, television and radio advertisements and infomercials. While non-store retailers, by definition, do not possess the physical characteristics of traditional retail units with a physical shop-front location, these units share the requisite function of the purchasing and onselling of goods to the general public, and are therefore included in this division.

A unit which sells to both businesses and the general public will be classified to the Retail Trade Division if it operates from shop-front premises, arranges and displays stock to attract a high proportion of walk-in customers and utilises mass media advertising to attract customers.

The buying of goods for resale to the general public is a characteristic of Retail Trade units that distinguishes them from units in the Agriculture, Forestry and Fishing; Manufacturing; and Construction industries. For example, farms that sell their products, at or from, the point of production are not classified in Retail Trade, but rather in Agriculture as the production of agricultural output are these units primary activity. Units in all these industries provide their output to the market for sale. Similarly, units that both manufacture and sell their products to the general public are not classified in Retail Trade, but rather in Manufacturing.

Wholesale units also engage in the buying of goods for resale, but typically operate from a warehouse or office and neither the design nor the location of these premises is intended to solicit a high volume of walk-in traffic. In general, wholesale units have large storage facilities and small display area, while the reverse is true for retail units.

Units in Retail often undertake non-retail secondary activities, such as watch and jewellery stores, that undertake repairs of these goods as well as retailing new items. However, units whose primary activity is the provision of repair and maintenance services are excluded from this division, and are classified to the Other Services Division.

## **Subdivision 41 - Food Retailing**

### **411 Supermarket and Grocery Stores**

#### **4120 Supermarket and Grocery Stores**

This class consists of units mainly engaged in retailing groceries or non-specialised food lines (including convenience stores), whether or not the selling is organised on a self-service basis.

##### *Primary activities*

- Convenience store operation
- Grocery retailing
- Grocery supermarket operation

##### *Exclusions/References*

Units mainly engaged in retailing specialised food lines are included in the appropriate classes of Group 412 Specialised Food Retailing.

### **412 Specialised Food Retailing**

#### **4121 Fresh Meat, Fish and Poultry Retailing**

This class consists of units mainly engaged in retailing fresh meat, fish or poultry.

##### *Primary Activities*

- Butcher's shop operation (retail)
- Fish, fresh, retailing
- Meat, fresh, retailing
- Poultry, fresh, retailing
- Seafood, fresh, retailing

#### **4122 Fruit and Vegetable Retailing**

This class consists of units mainly engaged in retailing fresh fruit or vegetables.

##### *Primary activities*

- Fruit, fresh, retailing
- Greengrocery operation (retail)
- Vegetable, fresh, retailing

#### **4123 Liquor Retailing**

This class consists of units mainly engaged in retailing beer, wine or spirits for consumption off the premises only.

##### *Primary activities*

- Alcoholic beverage retailing (for consumption off the premises only)

##### *Exclusions/References*

Units mainly engaged in selling alcoholic beverages for consumption on the premises, such as hotels, bars and similar units (except hospitality clubs), are included in Class 4520 Pubs, Taverns and Bars.

#### **4129 Other Specialised Food Retailing**

This class consists of units mainly engaged in retailing specialised food lines, such as confectionery or smallgoods or bread and cakes (not manufactured on the same premises).

##### *Primary activities*

- Biscuit retailing (not manufactured on the same premises)
- Bread retailing (not manufactured on the same premises)
- Bread vendor (not manufactured on the same premises)
- Cake retailing (not manufactured on the same premises)
- Confectionery retailing
- Non-alcoholic drinks retailing
- Pastry retailing (not manufactured on the same premises)
- Smallgoods retailing
- Specialised food retailing n.e.c.

##### *Exclusions/References*

Units mainly engaged in:

- retailing a wide range of food lines are included in Class 4110 Supermarket and Grocery Stores;
- providing food services for immediate consumption for taking away or consumption in limited seating areas are included in Class 4512 Takeaway Food Services;
- manufacturing bakery products and selling those products from the same premises are included in Class 1174 Bakery Product Manufacturing (Non-factory based); and
- retailing food through vending machines or other non-store means (except mobile vans) are included in Class 4310 Non-Store Retailing.

### **Subdivision 42 – Other Store-Based Retailing**

#### **421 Furniture, Floor Coverings, Houseware and Textile Goods Retailing**

##### **4211 Furniture Retailing**

This class consists of units mainly engaged in retailing furniture, blinds or awnings.

##### *Primary activities*

- Antique reproduction furniture retailing
- Awning retailing
- Blind retailing
- Furniture retailing
- Mattress retailing

##### *Exclusions/References*

Units mainly engaged in:

- the installation of household blinds or awnings are included in Class 3239 Other Building Installation Services;

- manufacturing blinds or awnings are included in the appropriate classes of Division C Manufacturing, according to the materials used in the manufacturing process;
- retailing second-hand or antique furniture are included in Class 4273 Antique and Used Goods Retailing; and
- retailing curtains are included in Class 4214 Manchester and Other Textile Goods Retailing.

#### **4212 Floor Coverings Retailing**

This class consists of units mainly engaged in retailing floor coverings (except ceramic floor tiles).

##### *Primary activities*

- Carpet retailing
- Floor coverings retailing (except ceramic floor tiles)
- Floor rug retailing
- Floor tile retailing (lino, vinyl, cork, carpet or rubber)
- Parquetry retailing

##### *Exclusions/References*

Units mainly engaged in:

- laying floor coverings are included in the appropriate classes of Division E Construction; and
- retailing ceramic floor tiles are included in Class 4231 Hardware and Building Supplies Retailing.

#### **4213 Houseware Retailing**

This class consists of units mainly engaged in retailing kitchenware, china, glassware, silverware or other houseware goods.

##### *Primary activities*

- Brushware retailing
- Chinaware retailing
- Cooking utensil retailing (except electric)
- Crockery retailing
- Cutlery retailing
- Enamelware retailing
- Glassware retailing
- Kitchenware retailing
- Picnicware retailing
- Plastic container retailing
- Silverware retailing

##### *Exclusions/References*

Units mainly engaged in retailing electric cooking utensils are included in Class 4221 Electrical, Electronic and Gas Appliance Retailing.

#### **4214 Manchester and Other Textile Goods Retailing**

This class consists of units mainly engaged in retailing fabrics, curtains or household textiles.

##### *Primary activities*

- Blanket retailing
- Curtain retailing
- Dressmaking requisites retailing
- Fabric, textile, retailing
- Household textile retailing
- Linen retailing
- Piece-goods retailing
- Soft furnishing retailing
- Yarn retailing

##### *Exclusions/References*

Units mainly engaged in

- installing awnings, blinds, shutters or curtains are included in Class 3239 Other Building Installation Services; and
- manufacturing curtains or cushions are included in Class 1333 Cut and Sewn Textile Product Manufacturing.

#### **422 Electrical and Electronic Goods Retailing**

##### **4221 Electrical, Electronic and Gas Appliance Retailing**

This class consists of units mainly engaged in retailing electrical, electronic or gas appliances (except computers and computer peripherals).

##### *Primary activities*

- Air conditioner retailing
- Appliance, electric, retailing
- Barbecue retailing
- Camera retailing
- Compact disc player retailing
- Cooking utensil, electric, retailing
- Digital versatile disc (DVD) player retailing
- Electronic beeper retailing
- Fan, electric, retailing
- Floor polisher, electric, retailing
- Gas appliance retailing
- Heating equipment, electric or gas, retailing
- Mobile phone retailing

- Modem retailing
- Pager retailing
- Pocket calculator, electronic, retailing
- Projector retailing
- Radio receiving set retailing (except car radios)
- Refrigerator, retailing
- Shaver, electric, retailing
- Sound reproducing equipment retailing
- Stereo retailing
- Stove, retailing
- Television antennae retailing
- Television set retailing
- Two-way radio equipment retailing
- Vacuum cleaner retailing
- Video cassette recorder (VCR) retailing
- Washing machine retailing

#### *Exclusions/References*

Units mainly engaged in:

- retailing computer or computer peripheral equipment are included in Class 4222 Computer and Computer Peripheral Retailing;
- retailing CDs, DVDs or other entertainment media are included in Class 4242 Entertainment Media Retailing;
- retailing car radios are included in Class 3921 Motor Vehicle Parts Retailing;
- installing heating, refrigeration or air conditioning equipment are included in Class 3233 Air Conditioning and Heating Services;
- hiring household appliances are included in Class 6639 Other Goods and Equipment Rental and Hiring n.e.c.; and
- repairing and maintaining electrical, electronic and gas domestic appliances are included in Class 9421 Domestic Appliance Repair and Maintenance.

#### **4222 Computer and Computer Peripheral Retailing**

This class consists of units mainly engaged in retailing computers or computer peripheral equipment.

##### *Primary activities*

- Compact disc burner retailing
- Computer equipment retailing
- Computer game console retailing
- Computer hardware retailing
- Computer software retailing (except computer games)
- Printer retailing

- Visual display unit (VDU) retailing

*Exclusions/References*

Units mainly engaged in retailing computer games are included in Class 4242 Entertainment Media Retailing.

**4229 Other Electrical and Electronic Goods Retailing**

This class consists of units mainly engaged in retailing electrical and electronic goods not elsewhere classified.

*Primary activities*

- Dry cell battery retailing
- Electric light fittings retailing
- Electrical goods retailing n.e.c.
- Electronic goods retailing n.e.c.

**423 Hardware, Building and Garden Supplies Retailing**

**4231 Hardware and Building Supplies Retailing**

This class consists of units mainly engaged in retailing hardware or building supplies.

*Primary activities*

- Carpenters' tool retailing
- Cement retailing
- Ceramic floor tile retailing
- Garden tool retailing
- Hardware retailing
- Lacquer retailing
- Lawn mower retailing
- Lock retailing
- Mineral turpentine retailing
- Nail retailing
- Paint retailing
- Plumbers' fittings retailing
- Plumbers' tools retailing
- Timber retailing
- Tool retailing
- Wallpaper retailing
- Woodworking tool retailing

*Exclusions/References*

Units mainly engaged in:

- wholesaling builders' hardware or supplies (except plumbing supplies) are included in Class 3339 Other Hardware Goods Wholesaling; and
- wholesaling timber are included in Class 3331 Timber Wholesaling.

#### **4232 Garden Supplies Retailing**

This class consists of units mainly engaged in retailing garden supplies or nursery goods.

##### *Primary activities*

- Bulb, flower, retailing
- Fertiliser retailing
- Garden ornament retailing
- Garden supplies retailing n.e.c.
- Nursery stock retailing
- Pesticide retailing
- Plant, garden, retailing
- Pot plant retailing
- Seedlings retailing
- Seed, garden, retailing
- Shrub or tree retailing
- Tuber, flower, retailing

##### *Exclusions/References*

Units mainly engaged in retailing cut flowers are included in Class 4274 Flower Retailing.

### **424 Recreational Goods Retailing**

#### **4241 Sport and Camping Equipment Retailing**

This class consists of units mainly engaged in retailing sporting goods, camping equipment or bicycles.

##### *Primary activities*

- Ammunition retailing
- Bicycle retailing
- Camping equipment retailing
- Canoe retailing
- Equestrian equipment retailing
- Fishing tackle retailing
- Fitness equipment retailing
- Golfing equipment retailing
- Gun or rifle retailing
- Gymnasium equipment retailing
- Sailboard retailing

- Snow ski retailing
- Sporting equipment retailing (except clothing or footwear)
- Wetsuit retailing

*Exclusions/References*

Units mainly engaged in:

- retailing sports apparel (clothing and footwear) are included in Classes 4251 Clothing Retailing and 4252 Footwear Retailing; and
- retailing new or used boats are included in Class 4245 Marine Equipment Retailing.

**4242 Entertainment Media Retailing**

This class consists of units mainly engaged in retailing audio tapes, compact discs, computer games, digital versatile discs or video cassettes.

*Primary activities*

- Audio cassette retailing
- Compact disc retailing
- Computer game retailing
- Digital versatile disc (DVD) retailing
- Video cassette retailing

*Exclusions/References*

Units mainly engaged in:

- retailing second-hand records, tapes, CDs, DVDs or videos are included in Class 4273 Antique and Used Goods Retailing;
- retailing CD players, DVD players, VCRs or other appliances are included in Class 4221 Electrical, Electronic and Gas Appliance Retailing; and
- retailing computers and computer peripherals are included in Class 4222 Computer and Computer Peripheral Retailing.

**4243 Toy and Game Retailing**

This class consists of units mainly engaged in retailing toys or games (except computer games).

*Primary activities*

- Doll retailing
- Game retailing
- Toy retailing

*Exclusions/References*

Units mainly engaged in retailing computer games are included in Class 4242 Entertainment Media Retailing.

**4244 Newspaper and Book Retailing**

This class consists of units mainly engaged in retailing books, periodicals and newspapers.

*Primary activities*

- Book retailing
- Magazine retailing

- Newspaper retailing
- Periodical retailing
- Religious book retailing

*Exclusions/References*

Units mainly engaged in:

- retailing stationery and writing goods are included in Class 4272 Stationery Goods Retailing; and
- retailing second-hand books are included in Class 4273 Antique and Used Goods Retailing.

## **425 Clothing, Footwear and Personal Accessory Retailing**

### **4251 Clothing Retailing**

This class consists of units mainly engaged in retailing clothing or clothing accessories.

*Primary activities*

- Clothing accessory retailing
- Clothing retailing
- Foundation garment retailing
- Fur clothing retailing
- Glove retailing
- Hosiery retailing
- Leather clothing retailing
- Millinery retailing
- Sports clothing retailing
- Work clothing retailing

*Exclusions/References*

Units mainly engaged in:

- retailing second-hand clothing are included in Class 4273 Antique and Used Goods Retailing; and
- retailing personal accessories (except clothing and footwear) are included in Class 4259 Other Personal Accessory Retailing.

### **4252 Footwear Retailing**

This class consists of units mainly engaged in retailing boots, shoes or other footwear.

*Primary activities*

- Boot retailing
- Footwear retailing
- Shoe retailing
- Sports footwear retailing

### **4253 Watch and Jewellery Retailing**

This class consists of units mainly engaged in retailing new watches and jewellery (except clocks and silverware).

#### *Primary activities*

- Jewellery retailing
- Watch retailing

#### *Exclusions/References*

Units mainly engaged in:

- retailing second-hand jewellery are included in Class 4273 Antique and Used Goods Retailing;
- retailing clocks are included in Class 4279 Other Store-Based Retailing n.e.c.; and
- retailing silverware are included in Class 4213 Houseware Retailing.

### **4259 Other Personal Accessory Retailing**

This class consists of units mainly engaged in retailing other personal accessories, including new handbags, sunglasses, leather goods, luggage and other personal accessories not elsewhere classified.

#### *Primary activities*

- Briefcase retailing
- Handbag retailing
- Leather goods retailing (except clothing and footwear)
- Luggage retailing
- Personal accessory retailing n.e.c.
- Sunglass retailing
- Umbrella retailing
- Wig retailing

#### *Exclusions/References*

Units mainly engaged in:

- retailing leather clothing are included in Class 4251 Clothing Retailing; and
- retailing leather footwear are included in Class 4252 Footwear Retailing.

## **426 Department Stores**

### **4260 Department Stores**

This class consists of units engaged in retailing a wide variety of goods, other than food or groceries, but the variety is such that no predominant activity can be determined. These units have predominant retail sales in at least four of the following six product groups:

- Clothing
- Furniture
- Kitchenware, china, glassware and other housewares

- Textile goods
- Electrical, electronic and gas appliances
- Perfumes, cosmetics and toiletries

The products primary to these headings, as well as other products, are normally sold by or displayed in separate departments or sections supervised by managers (with specialised product knowledge) within the store, and, generally, merchandising, advertising, customer service, accounting and budgetary control functions are undertaken on a departmentalised basis.

*Primary activities*

- Department store operation

*Exclusions/References*

Units mainly engaged in

- retailing food and groceries on a departmentalised basis are included in Class 4110 Supermarket and Grocery Stores;
- retailing clothing; furniture; kitchenware, china, glassware and other housewares; textile goods; electrical, electronic and gas appliances; or perfumes, cosmetics and toiletries on a specialised basis are included in the appropriate classes of Subdivision 42 Other Store-Based Retailing; and
- retailing a wide variety of products that are not sold, displayed, managed or administered on a departmentalised basis (i.e. gift shops or souvenir shops) are included in Class 4279 Other Store-Based Retailing n.e.c.

## **427 Pharmaceutical and Other store-Based Retailing**

### **4271 Pharmaceutical, Cosmetic and Toiletry Goods Retailing**

This class consists of units mainly engaged in retailing prescription drugs or patent medicines, cosmetics or toiletries.

*Primary activities*

- Cosmetic retailing
- Drug retailing
- Patent medicine retailing
- Perfume retailing
- Pharmacy, retail, operation
- Prescription, medicine, dispensing
- Toiletry retailing

### **4272 Stationery Goods Retailing**

This class consists of units mainly engaged in retailing stationery goods and writing materials.

*Primary activities*

- Artists' supplies retailing
- Ink retailing
- Note book retailing
- Pen or pencil retailing

- Stationery retailing
- Writing material retailing

*Exclusions/References*

Units mainly engaged in retailing books or magazines are included in Class 4244 Newspaper and Book Retailing.

**4273 Antique and Used Goods Retailing**

This class consists of units mainly engaged in retailing antiques or second-hand goods (except motor vehicles or motor cycles and parts).

*Primary activities*

- Antique retailing
- Coin dealing (retailing)
- Disposals retailing
- Pawnbroking
- Second-hand book retailing
- Second-hand cloth retailing
- Second-hand electrical, electronic or computer equipment retailing
- Second-hand furniture retailing
- Second-hand goods retailing n.e.c.
- Second-hand jewellery retailing
- Second-hand record, tape, CD, DVD or videos retailing
- Second-hand sports card retailing
- Stamp, collectible, dealing (retailing)

*Exclusions/References*

Units mainly engaged in

- retailing second-hand motor vehicles are included in Class 3911 Car Retailing;
- retailing second-hand motor cycles are included in Class 3912 Motor Cycle Retailing;
- retailing second-hand motor vehicle or motor cycle parts are included in Class 3921 Motor Vehicle Parts Retailing; and
- providing auctioning services are included in Class 3800 Commission-Based Wholesaling.

**4274 Flower Retailing**

This class consists of units mainly engaged in retailing cut flowers or display foliage.

*Primary Activities*

- Cut flower retailing
- Display foliage retailing
- Dried flower retailing
- Florist, retail, operation

#### **4279 Other Store-Based Retailing n.e.c.**

This class consists of units mainly engaged in retailing goods not elsewhere classified from store-based premises.

##### *Primary activities*

- Art gallery operation (retail)
- Binocular retailing
- Bottled liquefied petroleum gas (LPG) retailing
- Briquette retailing
- Clock retailing
- Coal retailing
- Coke retailing
- Computer consumables (toners, inks) retailing
- Craft goods retailing
- Duty free store operation
- Firewood retailing
- Firework retailing
- Greeting card retailing
- Ice retailing
- Map retailing
- Musical instrument retailing
- Pet and pet accessory retailing
- Photographic chemical retailing
- Photographic film or paper retailing
- Pram retailing
- Religious goods (except books) retailing
- Specialty stores n.e.c.
- Store-based retailing n.e.c.
- Swimming pool retailing
- Tobacco product retailing
- Variety store operation

##### *Exclusions/References*

Units mainly engaged in:

- retailing second-hand sports cards are included in Class 4273 Antique and Used Goods Retailing;
- retailing religious books are included in Class 4244 Newspaper and Book Retailing;
- retailing goods without the use of a shopfront or physical store presence are included in Class 4310 Non-Store Retailing; and

- retailing goods on a commission basis are included in Class 4320 Retail Commission-Based Buying and/or Selling.

## **431 Non-Store Retailing**

### **4310 Non-Store Retailing**

This class consists of units mainly engaged in retailing goods without the use of a shopfront or physical store presence, including milk vendors, sole e-commerce retailers and direct shopping units.

#### *Primary activities*

- Direct mail retailing
- Direct selling of books
- Direct selling of cosmetics
- Direct selling of goods n.e.c.
- Internet retailing
- Milk vending
- Mobile food retailing (except takeaway food)
- Vending machine operation (except leasing)

#### *Exclusions/References*

Units mainly engaged in:

- the retailing of goods through means of a shopfront or physical store presence are included in the appropriate classes of subdivisions within the Retail Trade Division; and
- providing mobile food services such as ice cream vending from a van are included in Class 4512 Takeaway Food Services.

## **431 Retail Commission-Based Buying and Selling**

### **4320 Retail Commission-Based Buying and/or Selling**

This class consists of units mainly engaged in selling goods to the general public on a fee or commission basis. These activities include units who arrange the sale of goods on behalf of a principal, but do not take title to the goods themselves.

#### *Primary activities*

- Commission-based milk vending
- Commission buying service
- Commission retailing of books
- Commission retailing of cosmetics
- Commission retailing of health foods
- Commission selling service

#### *Exclusions/References*

Units mainly engaged in:

- the commission-based buying and selling of real estate are included in Class 6720 Real Estate Services;

- the broking of financial or insurance services are included in the appropriate classes of Subdivision 64 Auxiliary Finance and Insurance Services; and
- providing auction services are included in Class 3800 Commission-Based Wholesaling.

## **Division H – Accommodation and Food Services**

This division comprises of units providing short-term accommodation for visitors and/or meals, snacks, and beverages for consumption by customers both on and off-site. The division includes units providing accommodation, food/beverage, and hospitality services because one or more of these activities are undertaken by the same unit.

Excluded from this division are gambling institutions (casinos); amusement and recreation parks; long-term (residential) caravan parks; theatre restaurants; sporting clubs; and other recreation or entertainment facilities providing food, beverage, and accommodation services.

### **451 Cafes, Restaurants and Takeaway Food Services**

#### **4511 Cafes and Restaurants**

This class consists of units mainly engaged in providing food and beverage serving services for consumption on the premises. Customers generally order and are served while seated (i.e. waiter/waitress service) and pay after eating.

##### *Primary activities*

- Cafe operation
- Restaurant operation

##### *Exclusions/References*

Units mainly engaged in

- providing food ready to be taken away for immediate consumption are included in Class 4512 Takeaway Food Services;
- providing catering services (including airline food catering services) at specified locations or events are included in Class 4513 Catering Services;
- selling alcoholic beverages both for consumption on and off the premises are included in Class 4520 Pubs, Taverns and Bars; and
- operating theatre restaurants mainly engaged in providing live theatrical productions with food and beverages are included in Class 9001 Performing Arts Operation.

#### **4512 Takeaway Food Services**

This class consists of units mainly engaged in providing food services ready to be taken away for immediate consumption. Customers order or select items and pay before eating. Items are usually provided in takeaway containers or packaging. Food is either consumed on the premises in limited seating facilities, taken away by the customer or delivered. This class also includes units mainly engaged in supplying food services in food halls and food courts.

##### *Primary activities*

- Juice bar operation
- Mobile food van operation
- Takeaway food operation

### *Exclusions/References*

Units mainly engaged in:

- providing food services for consumption on the premises only are included in Class 4511 Cafes and Restaurants;
- providing catering services (including airline food catering services) at specified locations or events are included in Class 4513 Catering Services;
- retailing baked goods manufactured on the same premises are included in Class 1174 Bakery Product Manufacturing (Non-factory based);
- retailing baked goods manufactured at other premises are included in Class 4129 Other Specialised Food Retailing; and
- retailing beer, wine or spirits for consumption off the premises only are included in Class 4123 Liquor Retailing.

### **4513 Catering Services**

This class consists of units mainly engaged in providing catering services at specified locations or events such as airline catering. Meals and snacks may be transported and/or prepared and served on or off the premises, as required by the customer.

### *Primary activities*

- Airline food catering service
- Catering service operation

### *Exclusions/References*

Units mainly engaged in:

- providing food services for consumption on the premises only are included in Class 4511 Cafes and Restaurants;
- providing food ready to be taken away for immediate consumption are included in Class 4512 Takeaway Food Services; and
- manufacturing food products (including snack foods and prepared meals) are included in Class 1199 Other Food Product Manufacturing n.e.c.

## Appendix D

### **Description of the remainder of Division G, Retail Trade, as per the Australian and New Zealand Standard Industrial Classification (ANZSIC) 2006 (cat. no. 1292.0)**

The majority of Division G Retail Trade, namely that which is in common with the ABS Retail Trade series (cat. no. 8501.0), was detailed at Appendix C. But some of the data referred to in this report is collected and reported by the ABS according to the ANZSIC classification Division G Retail Trade. The extent of the difference in coverage is indicated by the material below, which shows those industry sectors included in Division G of the ANZSIC classification but not included in the ABS Retail Trade series (cat. No. 8501.0) or included in the coverage of the General Retail Trade Award 2010.

#### **391 Motor Vehicle Retailing**

##### **3911 Car Retailing**

This class consists of units mainly engaged in retailing new or used cars.

###### *Primary Activities*

- New car retailing
- Used car retailing Exclusions/References

Units mainly engaged in wholesaling cars are included in Class 3501 Car Wholesaling.

##### **3912 Motor Cycle Retailing**

This class consists of units mainly engaged in retailing new or used motor cycles or scooters.

###### *Primary activities*

- All terrain vehicle retailing
- Go-kart, motorised, retailing
- Motor cycle or scooter retailing
- Motorised minibike retailing

###### *Exclusions/References*

Units mainly engaged in

- wholesaling new or used motor cycles or scooters are included in Class 3503 Trailer and Other Motor Vehicle Wholesaling;
- repairing motor cycles or scooters are included in Class 9419 Other Automotive Repair and Maintenance; and
- retailing motor cycles or scooter parts or accessories are included in Class 3921 Motor Vehicle Parts Retailing.

##### **3913 Trailer and Other Motor Vehicle Retailing**

This class consists of units mainly engaged in retailing caravans, trailers and other motor vehicles, including mobile homes or cabins.

###### *Primary activities*

- Box trailer retailing
- Caravan retailing

- Horse float retailing
- Mobile home retailing
- Trailer retailing (except boat trailers)

*Exclusions/References*

Units mainly engaged in

- retailing boat trailers are included in Class 4245 Marine Equipment Retailing; and
- hiring of trailers or caravans are included in Class 6619 Other Motor Vehicle and Transport Equipment Rental and Hiring.

## **392 Motor Vehicle Parts and Tyre Retailing**

### **3921 Motor Vehicle Parts Retailing**

This class consists of units mainly engaged in retailing new or used parts or accessories for motor vehicles.

*Primary activities*

- Automotive air conditioning retailing
- Automotive battery retailing
- Car radio or CD-player retailing
- Motor cycle or scooter parts or accessory retailing
- Motor vehicle accessory retailing
- Motor vehicle parts retailing

*Exclusions/References*

Units mainly engaged in

- wholesaling motor vehicle parts are included in either Class 3504 Motor Vehicle New Parts Wholesaling or 3505 Motor Vehicle Dismantling and Used Parts Wholesaling; and
- installing automotive air conditioners, car radios or CD-players are included in Class 9411 Automotive Electrical Services.

### **3922 Tyre Retailing**

This class consists of units mainly engaged in retailing motor vehicle or motor cycle tyres (new or reconditioned) or tubes.

*Primary activities*

- Motor cycle or scooter tyre and tube retailing
- Tyre or tube, motor vehicle, retailing

*Exclusions/References*

Units mainly engaged in retreading, recapping or rerubbing motor vehicle tyres are included in Class 1914 Tyre Manufacturing.

## **400 Fuel Retailing**

### **4000 Fuel Retailing**

This class consists of units mainly engaged in retailing fuels, including petrol, LPG or lubricating oils.

#### *Primary activities*

- Automotive CNG retailing
- Diesel oil retailing
- Distillate retailing
- Engine oil retailing
- Kerosene retailing
- LPG, automotive, retailing
- Lubricating oil or grease retailing
- Petrol retailing
- Service station operation (mainly petrol retailing)

#### *Exclusions/References*

Units mainly engaged in

wholesaling of petroleum products are included in Class 3321 Petroleum Product Wholesaling; and automotive repairs and services are included in the appropriate classes of Group 941 Automotive Repair and Maintenance

## **4245 Marine Retailing**

This class consists of units mainly engaged in retailing new or used boats or boat accessories.

#### *Primary activities*

- Boat retailing (including used)
- Boat trailer retailing
- Marine accessory retailing n.e.c.
- Outboard motor retailing
- Sailing or nautical accessory retailing
- Yacht retailing

#### *Exclusions/References*

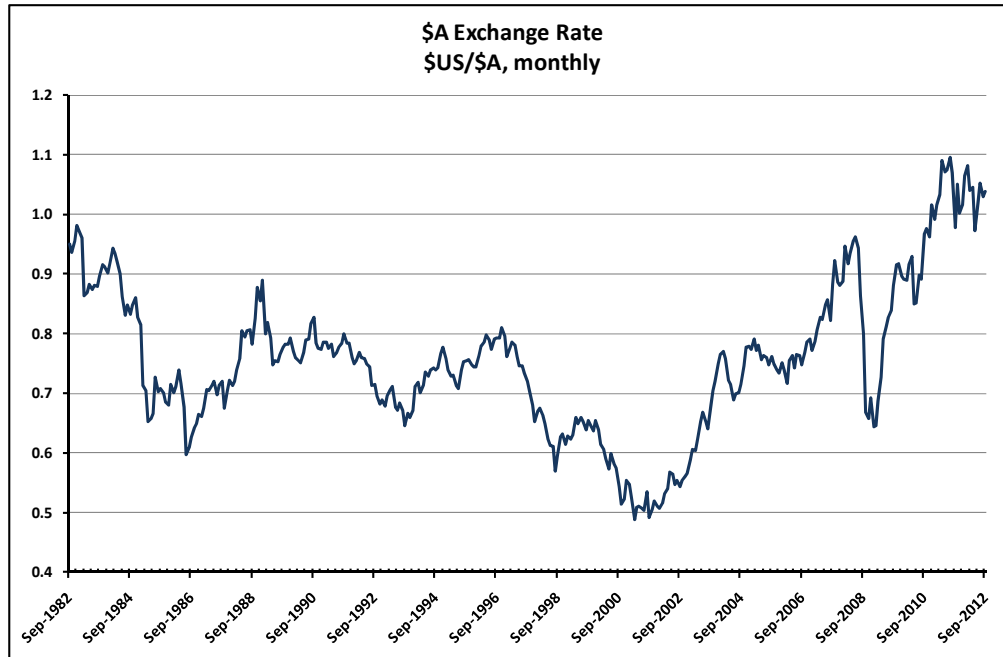
Units mainly engaged in

- retailing sailboards, canoes or wetsuits are included in Class 4241 Sport and Camping Equipment Retailing;
- repairing boats are included in Class 2392 Boatbuilding and Repair Services; and
- hiring of pleasure craft (without crew) are included in Division L Rental, Hiring and Real Estate Services.

## Appendix E

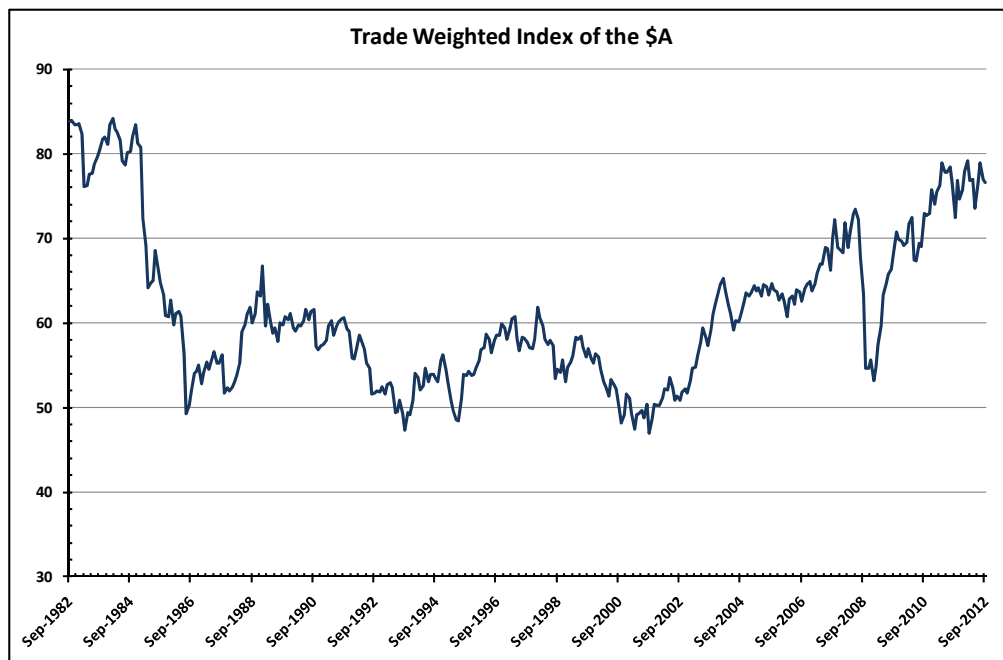
### Additional Graphs and Data

Graph E1



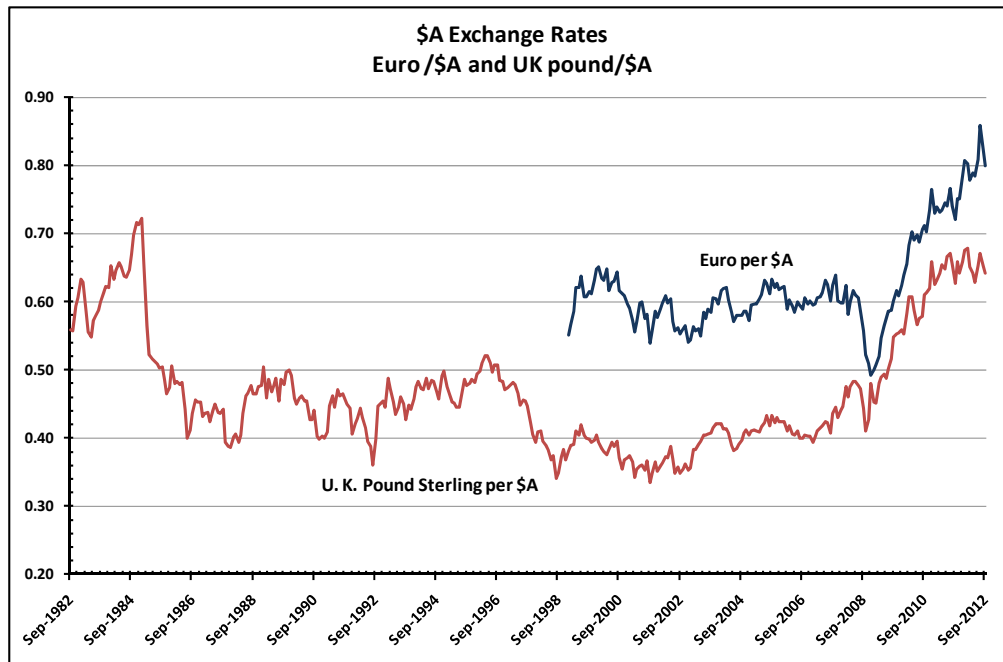
Source: Reserve Bank of Australia, via [www.rba.gov.au](http://www.rba.gov.au).

Graph E2



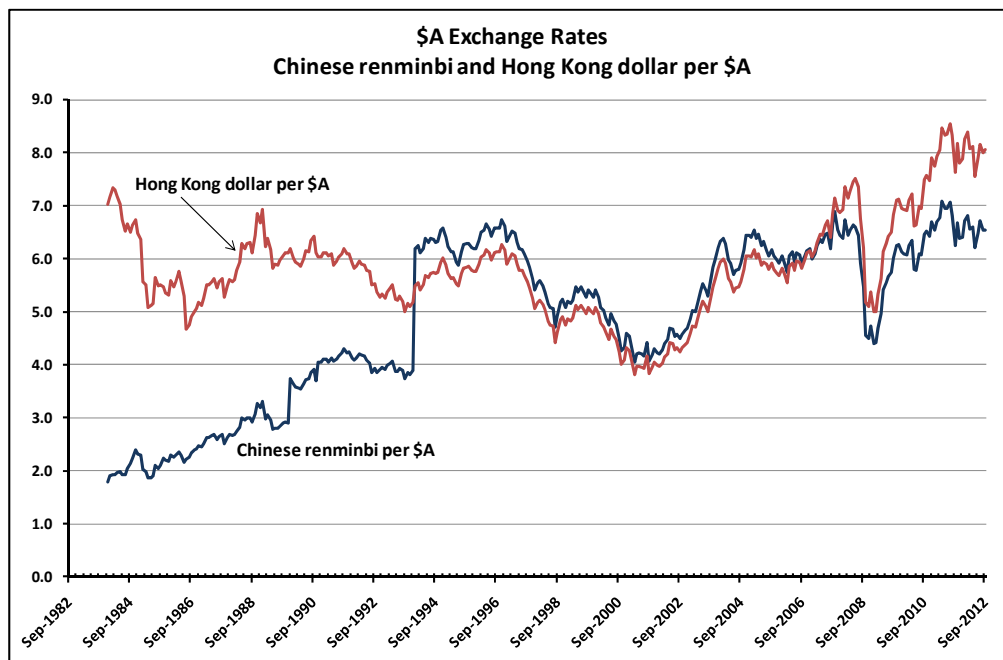
Source: Reserve Bank of Australia, via [www.rba.gov.au](http://www.rba.gov.au).

Graph E3



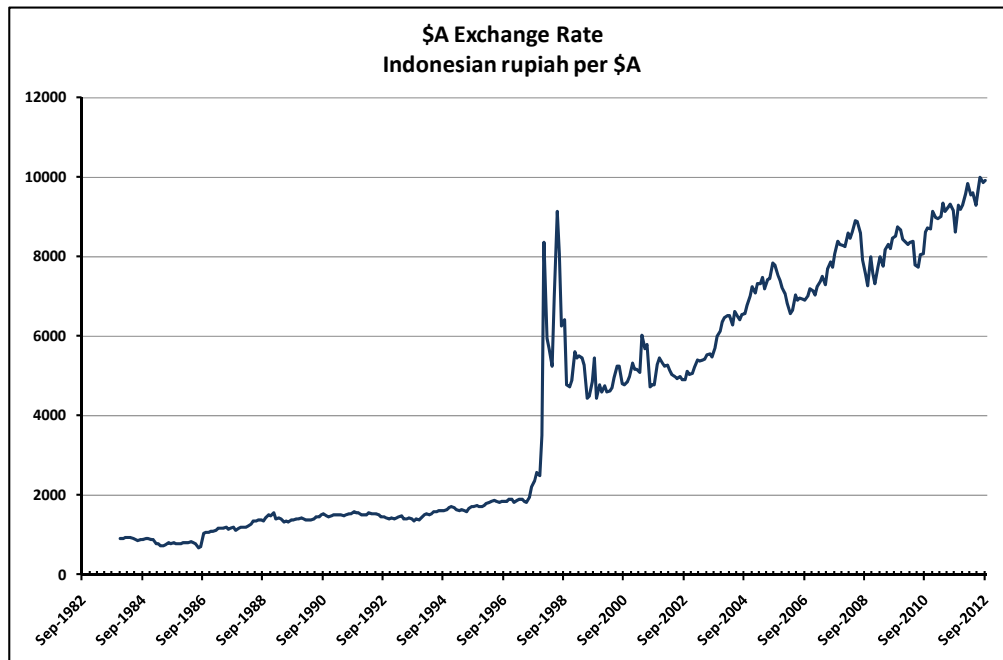
Source: Reserve Bank of Australia, via [www.rba.gov.au](http://www.rba.gov.au).

Graph E4



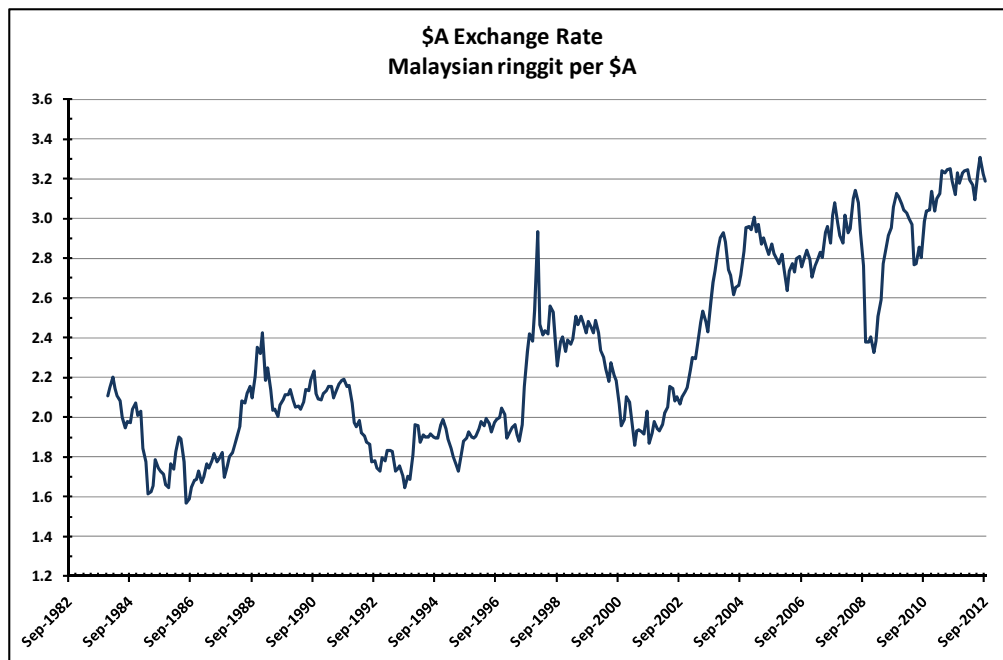
Source: Reserve Bank of Australia, via [www.rba.gov.au](http://www.rba.gov.au).

**Graph E5**



Source: Reserve Bank of Australia, via [www.rba.gov.au](http://www.rba.gov.au)

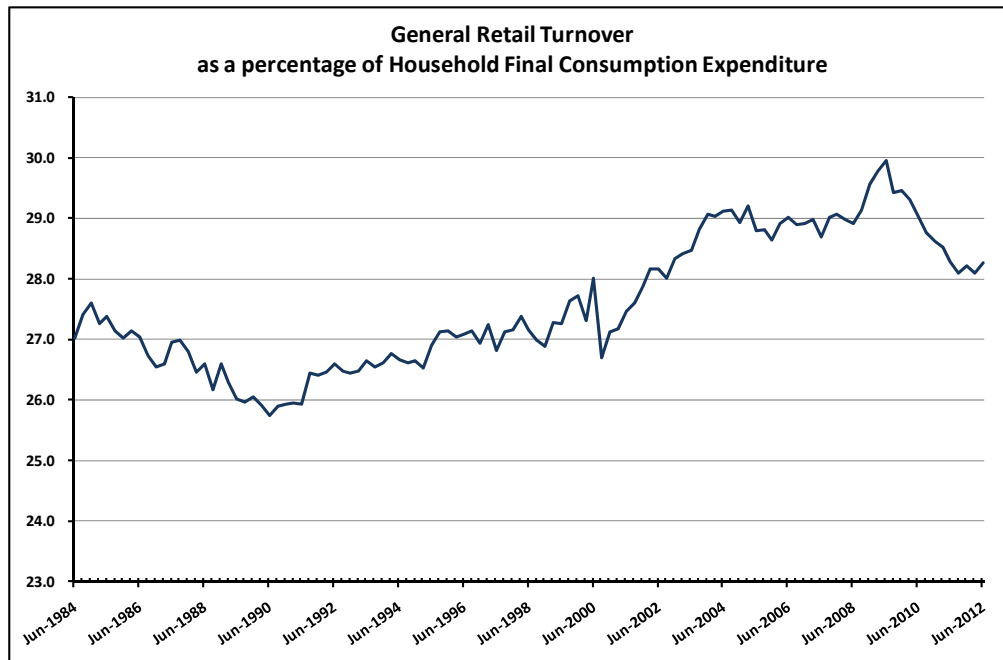
**Graph E6**



Source: Reserve Bank of Australia, via [www.rba.gov.au](http://www.rba.gov.au)

The above graphs, E1 to E6, illustrate movements in the exchange rate of the \$A, which was referred to on a couple of occasions in this report.

**Graph E7**

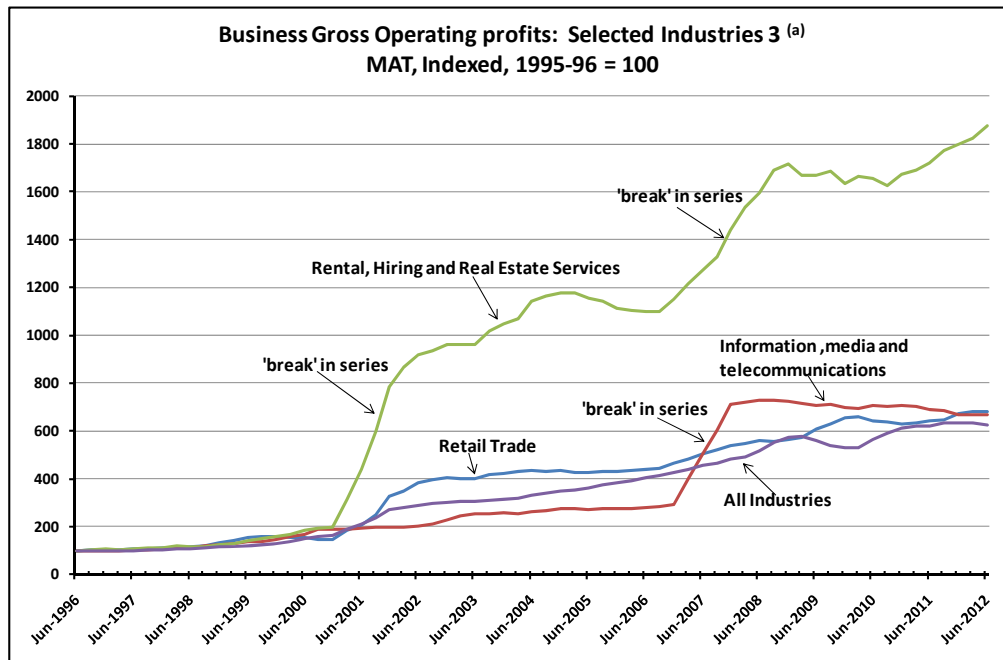


Source: Australian Bureau of Statistics, cat. no. 5206.0 National Accounts, cat. no. 8501.0 Retail Trade, via [www.abs.gov.au](http://www.abs.gov.au); Fulcrum Economics Australia

The above graph (E7) is included primarily for the sake of completeness. It presents essentially the same picture as Graph 26 in the main body of this report. However, it does make clear that in the last three years there has been a decline in the proportion of household spending on consumption directed to expenditure on general retail items. In part this would reflect faster rises in costs in non-general retail areas including rent, electricity, health and education, so that a greater proportion of household consumption expenditure has needed to be directed to these areas. But in part it likely also reflects the fact that there has been a structural change in household expenditure in recent years, reflecting in particular the lower level of investment in housing (both new and established), thus leading to a lower level of demand for new household goods.

The other notable feature of Graph E7 is that despite the decline in recent years in the percentage of household consumption expenditure being directed to general retail purchases this percentage nevertheless remains higher than it did throughout the 1990s. Furthermore, in recent quarters it has again turned up.

Graph E8



(a) There are a number of “breaks” in these series. The indicated ‘break’ at around 2001 reflects a change in the scope and coverage of the survey. The main change in the coverage was the inclusion of unincorporated enterprises (ie previously only the profits of companies had been included in the survey). A second change around this time was a widening of the scope of the survey to include companies with less than 30 employees. Consequently, in interpreting the data the spike in profitability around 2001 should be adjusted for. The ‘break’ in the ‘information, media and telecommunications’ series around 2007 reflects the privatization of Telstra.

(b) Gross operating profit refers to profits before income tax and with certain other selected items also being excluded, so as to provide a better measure of underlying profits. The items excluded include interest income and expenses; depreciation and amortization; and selected items which do not involve the production of goods and services, such as foreign exchange gains/losses, gains/losses arising from the sale of non-current assets, and net unrealized gains/losses from the revaluation of current or non-current assets.

Business gross operating profit is the sum of unincorporated gross operating profit and company gross operating profit.

Note: This data series refers to the Retail Trade Industry as defined by ANZSIC.

Source: Australian Bureau of Statistics, cat. no. 5676.0 Business Indicators, via [www.abs.gov.au](http://www.abs.gov.au); Fulcrum Economics Australia

Graph E8 has been included here and not in the main body of the report since the two additional industry sectors that it shows are sectors where the data on profitability has been severely impacted by ‘breaks’ in the series, so that it is difficult to draw any solid conclusions about longer run trends in profitability in these two industry sectors.