

Chapter 13 Retail Trade

Key Points

- Retail and wholesale trade accounted for 7.0 per cent of Northern Territory Gross State Product (GSP) in 2002-03, and over 15 per cent of employed people in the Territory.
- Compared to the national average, Territory consumers tend to spend more on food relative to other retail categories (in part due to the higher cost of freighting and storing many food lines), while relatively less is spent on recreational goods and clothing and footwear (reflecting differences in climate and lifestyle).
- Following soft growth in 2002-03, Territory real retail turnover is estimated to have grown by 3.8 per cent in 2003-04, boosted by an increase in spending on household goods (such as domestic houseware and hardware, appliances, furniture and the like).
- Territory real retail turnover growth of 4.2 per cent is forecast for 2004-05, supported by a steadily improving population growth rate and a healthy increase in employment (particularly from major projects such as the construction of the liquefied natural gas plant at Wickham Point).

Retail trade is an important industry in the Territory particularly in terms of employment and is also an indicator of consumer spending which is a significant component of economic growth.

Wholesale trade is not as significant in the Territory, accounting for 2.4 per cent of Territory GSP and 2.9 per cent of Territory employment in 2002-03, compared to national rates of 4.9 per cent and 4.7 per cent respectively. The relatively small contribution of wholesale trade reflects the Territory's isolated and remote population centres, and comparatively smaller scope for economies of scale, with distributors tending to operate more efficiently from interstate supply centres.

Important demand drivers of retail trade include disposable income, interest rates, household debt, consumer sentiment, population and employment growth. In particular, population and employment are important in the context of the Territory, as growth rates for both tend to be more volatile than nationally.

The high level of employment relative to GSP indicates the high capital to labour ratio of the retail industry and the prevalence of part-time employees.

Table 13.1: Retail and Wholesale Trade as a Percentage of GSP (2002-03)

	Retail	Wholesale	Total
New South Wales	4.6	5.1	9.7
Victoria	4.8	5.4	10.2
Queensland	6.2	5.0	11.2
South Australia	4.9	4.1	9.0
Western Australia	4.8	4.2	9.0
Tasmania	5.9	3.7	9.6
Northern Territory	4.6	2.4	7.0
Australian Capital Territory	4.1	1.9	6.0
Australia	5.0	4.9	9.9

Source: ABS Cat. Nos 5220.0, 2001-02

Table 13.2: Northern Territory Real Retail Turnover

Year ended June	Food		Clothing and Soft Goods		Household Goods		Recreational Goods		Other		Hospitality and Services		Total	
	\$M	% Ch	\$M	% Ch	\$M	% Ch	\$M	% Ch	\$M	% Ch	\$M	% Ch	\$M	% Ch
1991	645		60		67		55		98		222		1147	
1992	667	3.5	65	7.9	74	11.2	61	10.0	103	14.5	236	6.1	1206	5.1
1993	710	6.4	65	-0.5	93	24.9	63	3.8	106	-6.4	268	13.4	1304	8.1
1994	686	-3.3	72	11.3	103	11.4	58	-8.2	128	-0.9	260	-3.0	1307	0.2
1995	754	9.9	76	5.6	121	17.2	76	30.7	151	43.5	267	2.7	1445	10.6
1996	809	7.2	99	30.5	125	3.1	76	0.1	162	14.5	291	9.1	1562	8.0
1997	746	-7.7	74	-25.5	128	2.3	64	-15.4	156	11.0	296	1.8	1464	-6.2
1998	692	-7.3	64	-13.9	156	22.4	77	19.9	186	5.9	318	7.2	1492	1.9
1999	723	4.5	67	5.6	166	6.4	67	-12.9	205	19.9	350	10.0	1578	5.7
2000	800	10.6	76	13.2	206	24.1	65	-2.2	228	18.8	296	-15.3	1672	5.9
2001	769	-4.0	88	15.9	200	-3.0	67	3.0	224	17.4	304	2.6	1652	-1.2
2002	787	2.4	92	4.3	220	10.0	59	-11.9	259	-0.6	298	-1.9	1716	3.9
2003	835	6.1	88	-4.5	209	-5.2	61	3.0	280	18.4	288	-3.4	1761	2.7
2004e	849	1.6	82	-6.7	254	21.5	65	6.4	298	18.4	281	-2.5	1828	3.8
Compound Annual Growth %														
1990-91 to 2003-04e	2.1		2.4		10.8		1.3		8.9		1.8		3.6	
1993-94 to 1998-99	1.1		-1.4		10.0		2.9		9.9		6.1		3.8	
1998-99 to 2003-04e	3.2		4.0		8.8		-0.6		7.8		-4.3		3.0	

Source: NT Treasury, unpublished ABS data

Household Consumption

The Australian Bureau of Statistics conducts a Household Expenditure Survey every five years that gives an indication of household consumption patterns. The 1998-99 survey reported that, compared to the national average, Territory consumers and businesses spend relatively more on:

- food, due in part to higher costs of freighting and storing most lines of food products to the Territory and less competition;
- hotels, cafes and restaurants, due to higher consumption that reflects the younger population; and
- transport, mostly due to higher expenditure on motor vehicles.

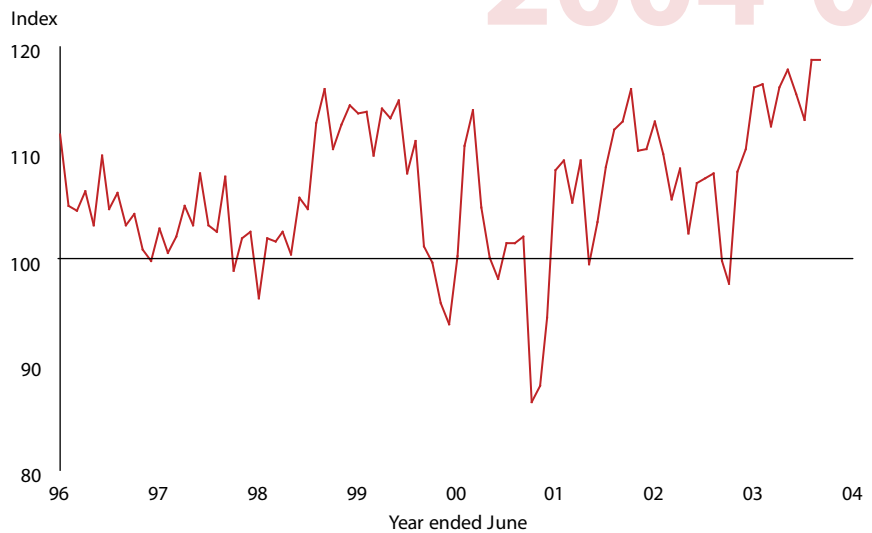
Relatively less is spent on clothing and footwear, reflecting climate and lifestyle factors.

Retail turnover in the Territory accounts for a significantly larger proportion of final consumption expenditure than nationally. At the national level, retail turnover typically accounts for around 40 per cent of private consumption expenditure compared to almost 50 per cent in the Territory.

Demand Drivers

Population, household disposable income growth and tourism to the Territory are the major determinants of retail trade growth. Household disposable income is influenced by employment, wages growth and interest rates, with these factors also influencing consumer confidence and ultimately the level of spending. Territory household disposable income per capita increased by 1.8 per cent in 2002-03 compared with 1.5 per cent nationally. The Territory recorded the third highest level of household disposable income per capita of all jurisdictions.

Chart 13.1: Consumer Sentiment



Source: Westpac/Melbourne Institute

Population

Territory population growth has moderated in the past four years following a strong growth phase in the mid 1990s associated with the defence expansion. The volatile net interstate migration component of population growth tends to be driven by employment opportunities. Despite weaker population growth, consumption and retail turnover growth since late 2001 was associated with the boost from railway-related and non-residential construction employment.

Interest Rate Movements

In response to strengthening domestic and global conditions, the Reserve Bank of Australia (RBA) began tightening monetary policy in late 2003, raising interest rates by 0.5 percentage points, the first change since June 2002. Although the impact of interest rate changes on consumption typically lags by 6 to 18 months, it is likely that with increased levels of household debt, consumers will be more sensitive to interest rate movements than in the past.

Consumer Sentiment

Nationally, consumer sentiment was at historically high levels for most of 2003, underpinned by a strong domestic economy and labour market, low interest rates and a strengthening Australian dollar. Confidence deteriorated somewhat in the later months of 2003, before rebounding to a 10 year high in early 2004.

Household Debt

Nationally, over the past decade, household debt has increased at an average annual rate of 14 per cent, far in excess of the growth in household incomes. Increased debt levels have been influenced by low interest rates, strong property markets, low and stable inflation and financial deregulation. Although the increase in debt was associated with increased wealth, it is likely that households will be more sensitive to interest rate increases.

Retail Space

The development of new retail space tends to proceed when capacity constraints become evident. Following a large increase in the supply of retail space in the mid 1990s, associated with strong population growth, there was a period of consolidation. Recent developments completed include the Mitchell Centre and extensions to the Jape and Nightcliff Shopping Centres in Darwin's northern suburbs.

Retail Trade

Territory real retail turnover strengthened between 1997-98 and 1999-2000, fuelled by solid population and employment growth, largely associated with the defence force build up and boosted in late 1999 by East Timor-related activity. Slower population growth and weakening consumer confidence subsequently led to a downturn in 2000-01, with retail turnover falling by 1.2 per cent. The Territory retail industry recovered in 2001-02, recording an increase in real retail turnover of 3.9 per cent.

Northern Territory retail trade turnover increased by 2.7 per cent in 2002-03 as employment associated with the construction of the railway, low interest rates, cheaper petrol and healthy consumer confidence supported retail and consumption spending.

Food

'Food' consistently accounts for the bulk of national and Territory retailing turnover, and accounted for 6.1 per cent of Territory turnover in 2002-03. Food retailing is estimated to have increased by 1.6 per cent in 2003-04, contributing 0.8 percentage points to growth.

Household Goods

'Household goods' retailing is estimated to have increased by 21.5 per cent in 2003-04, contributing 2.5 percentage points to growth. Demand for household goods, which comprise furniture and floor covering; domestic appliances and recorded music; domestic houseware and hardware, is closely linked to dwelling investment.

Other Retailing

'Other retailing' includes spending on pharmaceuticals and discretionary items such as cosmetics and toiletry, jewellery, antique and used goods and nursery items. 'Other retailing' has recorded strong growth in recent years, with growth in 2003-04 estimated at 6.6 per cent, contributing 1.0 percentage point to growth.

Clothing and Soft Goods

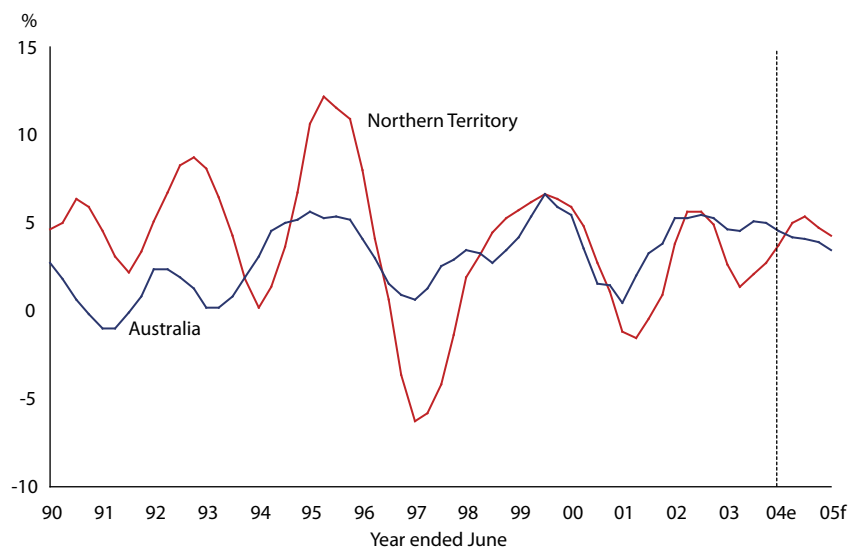
'Clothing and soft good' retailing is estimated to have decreased by 7.0 per cent in 2003-04, consistent with the national rate.

Recreational Goods

'Recreational goods' retailing, typically the smallest category, consists of newspaper, book and stationery and other retailing such as sport and camping equipment, toy and games and photographic equipment. After negative growth in 2001-02, 'recreational goods' retailing recorded growth of 3.0 per cent in 2002-03. Growth of 6.6 per cent is expected in 2003-04, contributing 0.2 percentage points to growth.

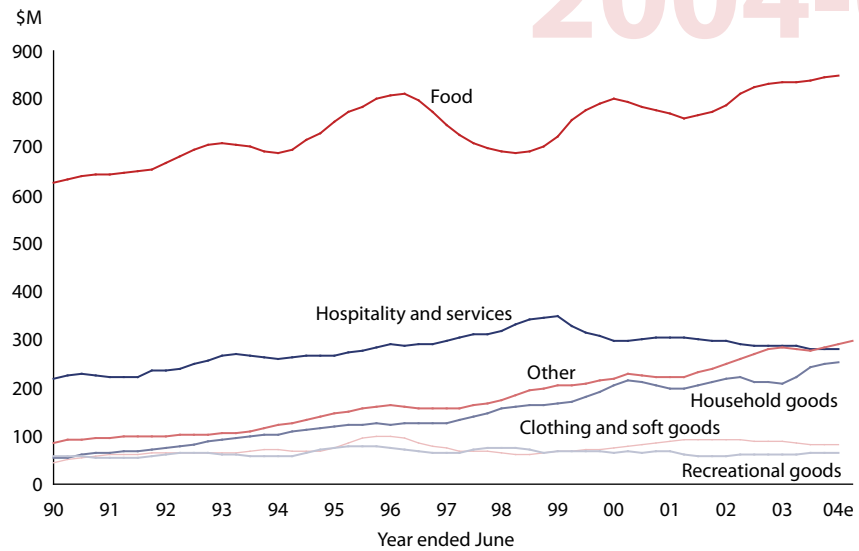
Retail Trade

Chart 13.2: Territory Retail Turnover (moving annual total, annual percentage change)



Source: NT Treasury, ABS Cat. No. 8501.0

Chart 13.3: Territory Retail Turnover (moving annual total)



Source: NT Treasury, unpublished ABS data

Hospitality and Services

'Hospitality and services' remains weak, with turnover falling by 1.9 per cent in 2002-03. The tourism-related hospitality and services retailing sector continues to be negatively affected by weak external conditions and the associated decline in international visitor numbers to the Territory. It is expected that growth in 'hospitality and services' turnover will decline by 2.5 per cent in 2003-04, subtracting 0.4 percentage points from growth.

Outlook

Nationally, the strength of the domestic economy can be attributed to the well-above-average growth in domestic spending. It is expected that national consumption growth in 2004 will be lower than in 2003, although any possible slowdown will be moderated by strong consumer sentiment and a firm labour market.

Over the medium term, interest rate movements will continue to play an important role in influencing discretionary disposable household income, consumer confidence, consumption expenditure and therefore the pattern of retail activity.

Territory retail turnover is expected to strengthen in 2003-04, with growth estimated at 3.8 per cent. It is anticipated that this growth will be maintained in 2004-05 with retail turnover growth estimated at 4.2 per cent. It is expected that solid retail growth will be supported by strong employment and steady population growth.