

Chapter 13 Retail and Wholesale

Key Points

- Retail and wholesale trade accounted for 6.6 per cent of Northern Territory gross state product (GSP) and 16 per cent of resident employment in 2004-05.
- Following solid growth of 5.3 per cent in 2004-05, Territory real retail turnover growth is expected to moderate to 2.5 per cent in 2005-06. Major contributors to growth in 2005-06 were household goods, hospitality and services.
- Territory retail turnover is forecast to increase by 4.5 per cent in 2006-07, supported by strong employment, a positive outlook for the housing market and stable interest rates.

The retail industry is an important source of employment for Territorians, accounting for 13 per cent of resident employment in 2004-05 compared to 15 per cent nationally. It accounted for 4.7 per cent of Territory GSP, compared to 5.8 per cent of gross domestic product (GDP) nationally (Table 13.1).

Compared to retail trade and wholesale trade in other jurisdictions, wholesale trade in the Territory is a much smaller contributor to the Territory economy, accounting for 1.9 per cent of GSP and 3.0 per cent of resident employment in 2004-05. The relatively small contribution of wholesale trade reflects the Territory's small size, which means that retailers often source products directly from interstate wholesalers.

Table 13.1: Retail and Wholesale Trade, 2004-05

	Percentage of Total Employment		Percentage of Total GSP/GDP	
	Retail %	Wholesale %	Retail %	Wholesale %
New South Wales	15.0	4.7	5.5	4.7
Victoria	15.0	4.7	5.6	5.0
Queensland	16.4	4.3	7.2	4.4
South Australia	14.8	4.6	5.6	3.7
Western Australia	15.1	4.6	5.1	3.6
Tasmania	15.0	3.5	6.9	3.1
Northern Territory	13.0	3.0	4.7	1.9
Australian Capital Territory	12.4	1.8	4.9	1.7
Australia	15.2	4.5	5.8	4.4

Source: ABS Cat. No. 5220.0

Demand Drivers

Growth in population, employment and household disposable income are major determinants of growth in retail turnover. Household disposable income is affected by interest rates, employment and wages growth. In nominal terms, Territory household disposable income per capita increased by 7.7 per cent in 2004-05, compared with 4.0 per cent nationally. The significance of the tourism sector in the Territory impacts retail turnover due to the significant influence of interstate and overseas visitors.

Population

Following a strong growth phase in the mid 1990s associated with the defence force build up, Territory population growth slowed between 1997 and 2003. Population growth has since recovered, reporting 1.1 per cent growth in 2004 and estimated growth of 1.7 per cent for 2005. Growth is forecast to continue at recent levels in 2006 and 2007.

Household Debt

Nationally, household debt and credit growth continued at a solid pace over 2005, with annual credit growth of 13 per cent. At the same time, household assets have grown by 11 per cent and household net worth is improving. Nonetheless, the rate of credit growth is moderating, down from about 20 per cent in the second half of 2003.

In recent years, stable inflation, financial deregulation and stronger property markets have influenced the capacity and confidence of households to take on greater debt, with credit growth increasing at an annual rate of about 12 per cent over the 10 years to December 2005. Although increased debt has been associated with increased wealth, it is likely that households will be more sensitive to interest rate increases in the future.

Interest Rate Movements

In response to strong domestic demand and import growth, coupled with a positive outlook for global economic growth, the Reserve Bank of Australia (RBA) raised interest rates by 0.25 per cent in March 2005. The increase was the first since late 2003, when rates were raised by 0.5 percentage points. Since March 2005, rates have remained unchanged.

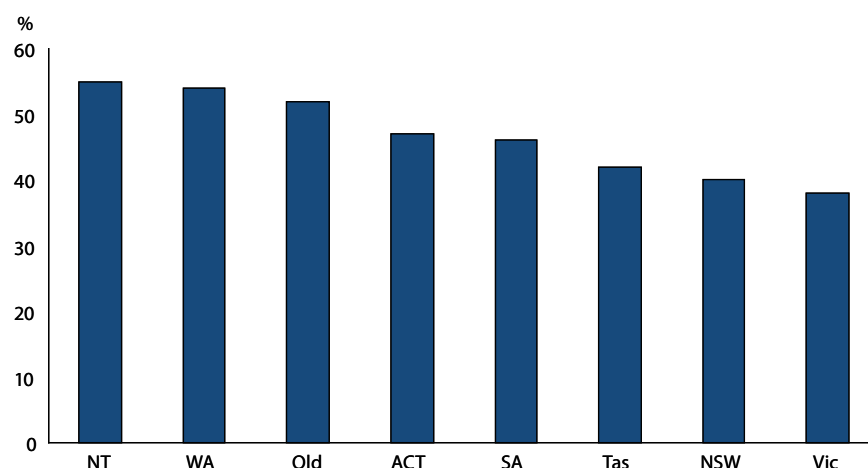
Household expectations of the inflation outlook and, importantly, their expectations of the RBA's response to any emerging inflationary pressures, will influence how sensitive household expenditure is to interest rate changes.

Consumer Sentiment

Nationally, consumer sentiment as reported by the Westpac/Melbourne Institute, rose to historically high levels in January 2005, buoyed by strong employment conditions, a rising stock market and strengthening property markets. A sharp deterioration in sentiment was reported in March 2005, following the interest rate increase. It also coincided with a slowdown in economic growth, increasing fuel prices and a downturn in global markets. In late 2005, sentiment decreased to the lowest level since March 2003. Consumer sentiment has since rebounded, although not to the levels reported in early 2005.

According to the December quarter 2005 Sensis Consumer Report, Territory consumers are more confident than consumers in all other jurisdictions (Chart 13.1). Territorians are also the most likely to feel 'better off' than they had a year earlier, with 'earning more money' from work and investments identified as the key reason for improved confidence.

Chart 13.1: Consumer Sentiment, December Quarter 2005



Source: Sensis Consumer Report



Retail Trade Activity

Territory real retail turnover strengthened over 2004-05 with strong growth of 5.3 per cent, higher than the 3.4 per cent average over the five years to June 2005. Strong growth was boosted by higher levels of consumer confidence, low interest rates, wages growth, steady population growth and the impact of Australian dollar appreciation on the price of imported goods.

In 2005-06, retail turnover growth in the Territory is expected to moderate to 2.5 per cent, although it comes after a period of strong growth. Although higher fuel prices may have a negative impact, the strength of the local construction and property markets, historically low interest rates and the strong exchange rate are supporting consumption.

The weakening Australian dollar is dampening consumption. National growth eased to 3.5 per cent in 2004-05 following record growth of 7.6 per cent in 2003-04. In 2005-06, national growth is estimated to moderate further to 2.0 per cent. This moderation reflects the combined effects of a more cautious approach to household consumption influenced by increasing debt servicing requirements, the downturn in property markets in several jurisdictions and the volatility of consumer confidence related to rising fuel prices.

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 has been a period of consolidation.

A high growth phase is currently under way, with a number of major retail construction projects due for completion in mid and late 2006. Bunnings is undertaking a major expansion of retail space with the construction of two new warehouses in Palmerston and Darwin that have a combined floor space of about 22 267 square metres. Further, an expansion of a new 3000 square metre showroom at the Jape Homemaker Village is due for completion in 2006-07.

Looking ahead, completion of several major residential projects in the Darwin central business district is expected to decrease the high level of vacant retail space. There are also plans for the further development of Darwin International Airport's new business park over the next 20 years. The business park master plan is to develop the 33 hectare site that is bounded by McMillans and Bagot roads into a major commercial and retail precinct.

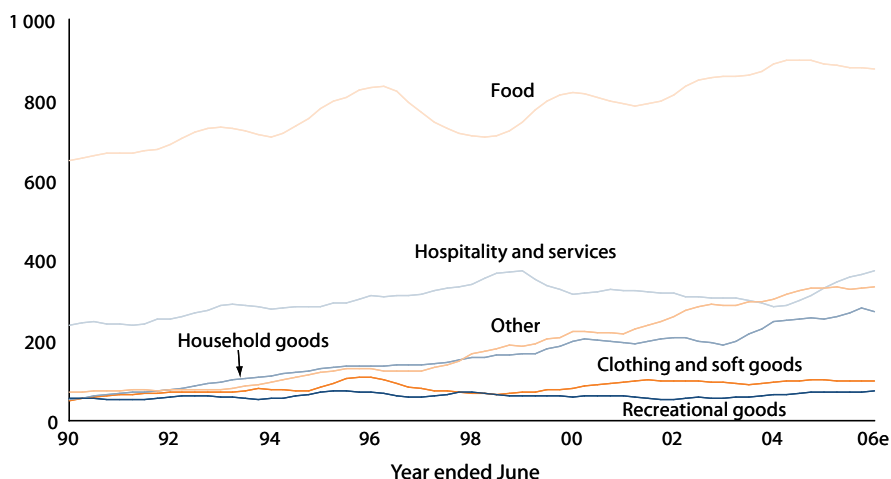
Consumption Profile

Retail turnover is a major component of household consumption expenditure, which in turn is a significant component of final demand and economic growth. The Australian Bureau of Statistics (ABS) released its Household Expenditure Survey (HES) in August 2005. HES results indicate that Territory consumers spend relatively more than the national average on:

- recreation, alcoholic beverages and tobacco products;
- housing; and
- household services (particularly pest control).

Territory consumers spend relatively less on clothing and footwear, which is indicative of climate and lifestyle factors. Territory consumers also spend relatively less on medical care and health expenses to reflect the young and transient population and limited availability of private health care.

Chart 13.2: Territory Real Retail Turnover (moving annual total)



e: estimate

Source: Northern Territory Treasury, unpublished ABS data

Food Food consists of supermarket and grocery items, meat, fish and poultry, fruit and vegetables, liquor and bread retailing. Food consistently accounts for a significant proportion of national retail turnover and accounts for about half the Territory's retail turnover. Expenditure on food fell by 1.5 per cent in 2005-06, subtracting 0.7 percentage points from total retail growth. The decline in reported food turnover has occurred in spite of strengthening population growth and moderate household consumption growth over 2005-06. The decline in food turnover may be counter-balanced somewhat by an increase in expenditure on takeaway, restaurant and cafe meals, which is captured in the hospitality and services category.

Household Goods Household goods turnover is estimated to have increased by 7.0 per cent in 2005-06, adding 0.9 percentage points to retail growth. Household goods include furniture and floor coverings, domestic houseware, appliances and hardware. Demand for household goods is closely linked to dwelling investment.

Other Retailing The other retailing category includes department store turnover and spending on pharmaceuticals, jewellery, nursery items, toiletries, antiques and used goods. Following strong growth of 9.2 per cent in 2004-05, other retailing is estimated to record modest growth of 0.5 per cent in 2005-06, reducing total retail growth by 0.1 percentage points.

Hospitality and Services Hospitality and services consists of hotels, pubs, taverns, bars, clubs, cafes and restaurants, video hire outlets, hairdressing and beauty salons. After declining in the three years to 2003-04, hospitality and services retailing experienced a very strong recovery, increasing by 16 per cent in 2004-05 with estimated growth of 13 per cent in 2005-06 contributing 2.2 percentage points to retail growth. After being affected by the decline in international visitor numbers in the period since 2000, the strengthening outlook for tourism, stronger population and disposable income growth are having a positive impact on this largely discretionary retailing category.



Outlook

Nationally, the strength of the economy can be largely attributed to the strong growth in domestic spending in recent years, with retail turnover typically representing about 40 per cent of household consumption. At the national level, retail trade growth is forecast to strengthen in 2006-07, underpinned by strong employment, a positive outlook for the housing market and stable interest rates.

The outlook for the Territory is broadly consistent with the national outlook. Territory retail turnover is expected to strengthen over 2006-07, with forecast growth of 4.5 per cent. It is expected that solid retail growth will be supported by strong employment, steady population growth and continued positive outlook for the housing market.

Over the short to medium term, interest rates and petrol prices will continue to play an important role in influencing discretionary disposable household income, consumer confidence, consumption expenditure and the pattern of retail activity. Major risks to forecast activity are interest rate increases, a depreciation of the Australian dollar and the flow through to household budgets and consumption.