

Chapter 13 Retail and Wholesale Trade

Key Points

- » Retail and wholesale trade accounted for 6.1 per cent of Northern Territory GSP and 14.1 per cent of resident employment in 2006-07.
- » In 2007, real retail turnover grew by 7.7 per cent in the Territory despite the uncertainty surrounding future increases in interest rates and petrol prices.
- » Territory real retail turnover is forecast to increase by 6.2 per cent in 2007-08 and moderate to 4.2 per cent in 2008-09.

Retail trade is the trade in goods for resale to final consumers for personal or household consumption or in selected repair activities via stores and, increasingly, online. It also includes repairs to household equipment and motor vehicles.

Wholesale trade is the resale of new or used goods to businesses and institutional users. Wholesalers buy large quantities of goods from producers, and resell them in smaller quantities. This structure allows for the efficient transfer of goods by wholesalers acting as intermediaries in the process of bringing goods from producers to the final customer. By way of example, Mintech is one Territory chemical wholesaler offering chemicals to offshore and onshore miners, such as the Bayu-Undan project.

A significant proportion of the Territory's economy is made up of the retail and wholesale trade industries. The combined contribution of these industries to gross state product (GSP) was 6.1 per cent in 2006-07, with retail trade the larger, and directly contributing 4.1 per cent to GSP. In comparison to other Australian states, the contribution to GSP by wholesale trade is relatively small in the Territory at 2.0 per cent, compared to an average of 4.6 per cent nationally. The remoteness and small population of Territory centres tend to be unfavourable for many wholesale activities. Therefore, a significant amount of wholesale activity occurs interstate, with goods for retail in the Territory sourced directly from interstate wholesalers.

Although retail trade is a significant contributor to the Territory's GSP, the contribution to resident employment is considerably larger, accounting for 12.2 per cent of resident employment and reflecting the labour intensive nature of the industry. The combination of wholesale and retail trade accounts for 14.1 per cent of total resident employment.

Table 13.1: Retail and Wholesale Trade

	Employment 2007				GSP/GDP 2006-07			
	Retail Trade		Wholesale Trade		Retail Trade		Wholesale Trade	
	% ¹	No. 000	% ¹	No. 000	% ²	\$M	% ²	\$M
New South Wales	15.8	525.7	4.1	137.6	5.5	17 617	4.9	15 793
Victoria	15.1	386.1	5.2	132.9	5.5	13 428	5.5	13 306
Queensland	16.5	346.6	3.7	77.2	7.0	13 087	4.6	8 571
South Australia	15.9	120.3	4.6	35.1	5.9	3 881	4.0	2 604
Northern Territory	12.2	13.1	1.9	2.0	4.1	551	2.0	265
Western Australia	13.5	147.1	4.1	44.7	4.7	6 050	3.5	4 432
Tasmania	15.5	34.7	3.6	8.1	6.7	1 293	3.5	670
Australian Capital Territory	9.9	18.6	1.9	3.6	4.5	944	1.8	369
Australia	15.4	1 592.1	4.3	441.1	5.7	56 851	4.6	46 010

1 Percentage of the total national/state/territory employed.

2 Percentage of total national/state/territory GSP/GDP.

Source: ABS Cat. Nos 5220.0, 6291.0.55.003

Consumption Profile

The Australian Bureau of Statistics (ABS) conducts a Household Expenditure Survey (HES) every five years. The latest, for the 2003-04 period, reported that the average weekly household expenditure for Darwin was \$1085, the highest of all the capital cities. In addition, the HES reported that for all households in the Territory, average weekly expenditure was \$1044, considerably higher than the national average of \$893. However, this figure should be treated with caution since the scope of the HES as defined by the ABS excludes very remote districts and Indigenous communities, which account for about 23 per cent of the Territory population. If the scope of the HES was expanded to include all areas of the Territory, average weekly earnings and expenditure would be lower because the excluded population is largely dependent on income support.

The HES reports that consumers in Darwin spend more than the national average in most of the household expenditure categories. Higher prices for many items in the Territory are associated with higher freight costs and less competition, resulting in higher retail prices.

Indexing the HES income and expenditure data using the change in the Consumer Price Index (CPI) over the three years from 2003-04 to 2006-07 increases Darwin average weekly household expenditure to \$1249 in 2006-07. Darwin reports the highest weekly expenditure ahead of Canberra (\$1205) in 2006-07. Retail turnover is a major component of household consumption expenditure, which in turn is a significant component of final demand and economic growth. The indexed 2006-07 HES data reports that Darwin household expenditure increased at the fastest rate in the following categories (in descending order):

- automotive fuel;
- tobacco products;
- health expenses; and
- housing.

Drivers of Retail and Wholesale Trade

The economic environment and population growth are the main drivers of retail and wholesale turnover.

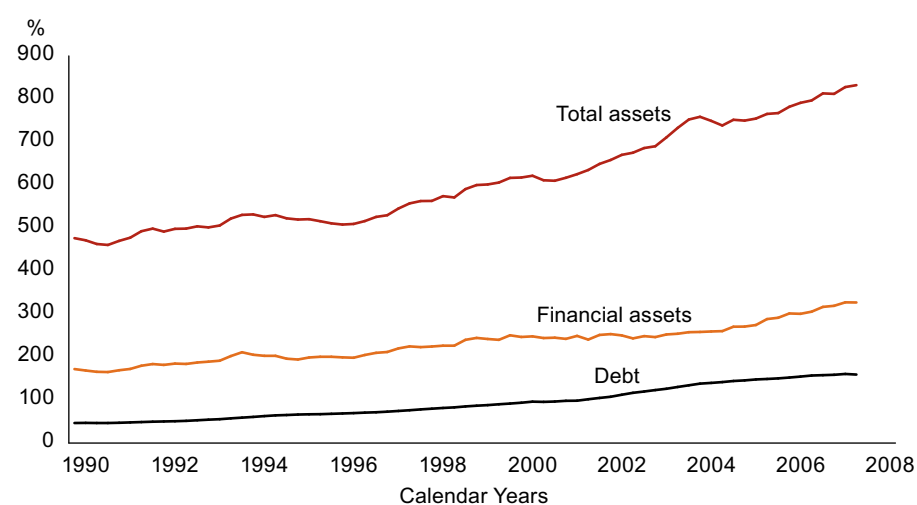
Population Population growth impacts positively on both retail and wholesale trade by supplying labour, increasing the number of consumers and generating a favourable environment for the establishment of new businesses. Since December 2004, Territory population growth has been above the national average, coinciding with strong economic growth. Through the year to September 2007, the Territory's resident population increased by 4616 to 216 503. The major contributor to this increase was natural increase. Net interstate migration continues to challenge the Territory, with a small gain in 2006-07 after negative net interstate migration in calendar year 2006.

Household Disposable Income and Debt Household disposable income is a major driver of retail trade turnover. The 2006 Census reports that the Northern Territory has the second highest median household income of the states and territories, at \$1192 per week. Latest data from the Australian Taxation Office reports that the average individual taxable income for the Territory, at \$38 823 for 2004-05, was the third highest of the jurisdictions and above the national average. Both these measures support relatively stronger retail turnover in the Territory.

At the national level, in the year to September 2007, the ABS reports real net disposable income growth of 4.8 per cent (in seasonally adjusted terms). Stable average weekly earnings growth, combined with personal income tax cuts, saw household income growth outpace consumption spending growth, improving the net household savings ratio to 3.2 per cent in the September quarter 2007, compared to -0.2 per cent in the September quarter 2006. The household savings ratio is calculated by deducting household final consumption expenditure from household disposable income. In addition, the growth in the value of both housing and financial assets has increased household net worth. This 'wealth effect' has been linked to increased consumer spending.

Chart 13.1 shows the ratio of total household assets to income, financial assets to income, and total household debt to income.

Chart 13.1: Household Assets and Debt – Percentage of Annual Household Income



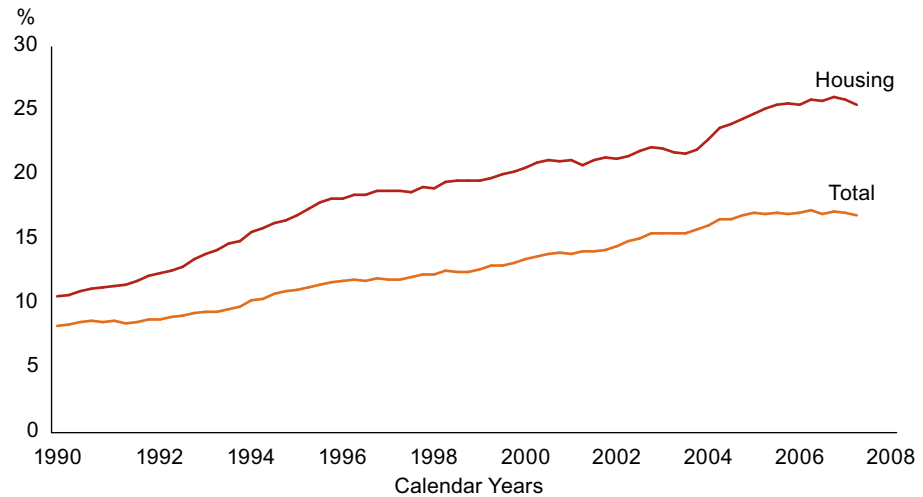
Source: Reserve Bank of Australia

Total household assets, as a percentage of household disposable income, increased at an average annual rate of 4.4 per cent over the four years to September 2007. This mainly reflects growth in house prices (the primary asset of many households) and financial assets (such as superannuation). In September 2007, total household

assets were eight times annual household disposable income. The household debt to disposable income ratio has grown at a higher rate than the household assets to income ratio, surging by an average annual rate of 13.9 per cent in 2002-03 (reflecting house price increases in many southern capital cities), before increasing by an average annual rate of 4.7 per cent in the two years to September 2007. This again reflects increases in house prices and increased average mortgage sizes.

Household debt continued to grow in 2006-07 with housing debt increasing 13 per cent (see Chart 13.2). With this increase in personal debt, consumers are more sensitive to interest rate increases than in the past. The recent increases in the official cash rate in November 2007 and February and March 2008 have combined to dampen growth in consumer spending in the second half of 2007-08.

Chart 13.2: Household Debt Ratios
– Debt as a Percentage of Assets



Source: Reserve Bank of Australia

Chart 13.2 shows housing debt as a percentage of housing assets compared to the total asset to debt ratio for households. In September 2007, average Australian housing debt was 25.5 per cent of the value of housing assets. In comparison, in September 2007, total debt was 16.9 per cent of total assets. The significantly higher housing debt to asset ratio reflects the substantial increase in house prices and mortgages in recent years. Nevertheless, because only 34 per cent of Australian householders are buying their home, the total debt to asset ratio is somewhat lower. The widening gap between the housing debt ratio and the total debt ratio since 1990 shows the increase in recent years of housing costs. For example, in 1990 the difference between the two ratios was 2.3 percentage points, whereas in 2007 this has widened to 8.6 percentage points.

Employment

The strong economic growth of 5.6 per cent reported for the Territory economy in 2006-07 has continued into 2007-08, resulting in strong employment growth. In the year to February 2008, resident employment in the Territory grew by 5.1 per cent and the ABS reports average weekly earnings in November 2007 of \$1116, an increase of \$21 in the year. The robust employment environment and a Territory participation rate of 73.1 per cent, 7.8 percentage points higher than the national average, reflects the strength of the Territory economy during 2007-08. Consumer confidence in the Territory was high in late 2007, in contrast to some other Australian jurisdictions.

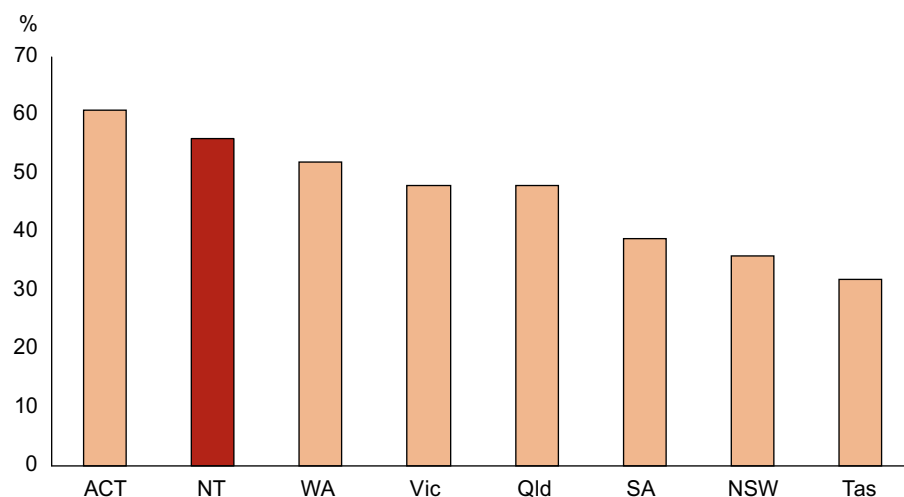
Consumer Sentiment

Consumer confidence predominantly influences discretionary spending, particularly for more expensive items and non-essential goods, such as travel, which are often purchased on credit. Subdued consumer confidence may result in delayed purchases and the propensity for consumers to substitute lower priced items, while strong consumer confidence supports high levels of discretionary spending.

Sensis undertakes a nationwide quarterly survey designed to measure the confidence and behaviour of Australia's consumer population. The survey is weighted to reflect age, gender and location based on the latest ABS population figures. The March quarter 2008 Sensis Consumer Report found that Territory consumers were the second most confident in the nation, with 56 per cent feeling confident about their financial prospects for the year ahead (Chart 13.3). The main reasons Territory consumers gave for feeling confident were 'having a good or secure job', followed by 'everything is going well'. Those consumers who were worried about their financial prospects for the year ahead cited their main concern as rising interest rates. The prime concern for Territory consumers in the March quarter 2008 was rising petrol prices.

Nationally, consumer confidence fell markedly in the March quarter 2008 to a net balance of 44 per cent. This represents the largest quarterly drop in confidence level since the start of the Sensis Consumer Report in May 2004. Interest rates were the main concern across all gender, age and socio-economic groups. Security in the job market was the main reason for confidence.

Chart 13.3: Consumer Sentiment, March Quarter 2008



Source: Sensis March 2008 Consumer Report

Interest Rates

In February and March 2008, and in August and November 2007, the Reserve Bank of Australia (RBA) raised the official cash rate in response to rising growth in aggregate demand and inflation fuelled by housing costs and high petrol prices. In January and March 2008, independently of the RBA, some banks raised the interest rates they charge on their loan products, citing higher credit costs.

The Lags of Monetary Policy report by the RBA found that there is generally a lag of up to 18 months between interest rate movements and changes in consumer behaviour. It appears consumer spending was largely unaffected by the three official interest rate increases in 2006, although there was a significant softening in commitments for housing finance for owner occupation. In 2007, retail turnover was strong nationally and even stronger in the Territory, with the year on year real retail growth rates around 8.0 per cent throughout the year. Retail spending has shown resilience despite the emergence of global uncertainty and rising interest rates. This may in part be attributable to strong employment growth and the positive consumer sentiment regarding the strength of the Territory economy in 2007. However, consumer confidence fell sharply in early 2008 and is expected to be further impacted by the latest increases in the cash rate, which has taken the banks' average variable rate mortgage to around 9.3 per cent.

Retail Trade Turnover

Moderate growth of 2.7 per cent in real retail turnover in 2005 was followed by growth of 5.8 per cent in 2006. High levels of consumer confidence, relatively low interest rates, wages growth, steady population growth and competitively priced imports, particularly from China, helped to boost growth in retail spending.

In 2007, year on year retail turnover growth continued to strengthen, increasing 8.0 per cent in March 2007 as consumers shrugged off uncertainty surrounding interest rates and fuel prices. The continuing strength of the local construction and mining industries and solid employment growth saw retail growth remain strong throughout the rest of the year, despite two further interest rate increases, to record 7.7 per cent growth in 2007.

Retail Turnover by Sector

Food Expenditure on food is by far the largest category in retail sales and accounts for about 45 per cent of all retail sales in the Territory, noticeably higher than the national average of around 40 per cent. The higher than national average expenditure on food in the Territory is largely accounted for by freight costs and the less competitive retail market, both leading to higher prices.

In 2007, expenditure on food in the Territory increased by 9.8 per cent to exceed \$1.0 billion (see Chart 13.4). The growth in expenditure on food is predominantly accounted for by the increase in population and higher average food prices.

The food category consists of supermarket and grocery items, fish and poultry, fruit and vegetables, liquor, bakery products and takeaway food.

Hospitality and Services Hospitality and services expenditure, which includes hotels, pubs, taverns, clubs, cafes and restaurants, video hire outlets, and hairdressing and beauty salons, decreased by 5.8 per cent to \$371 million in 2007, following 6.1 per cent growth in 2006. This is the second largest expenditure category in the Territory.

Despite strong tourism numbers in 2007, this decrease comes as a result of a shift in discretionary spending between categories. It may be that expenditure in this retail category is the most responsive to changes in disposable income. Consumer spending may have shifted to other need areas, such as housing and transport, possibly due to the impact of rising interest rates and petrol prices on household budgets.

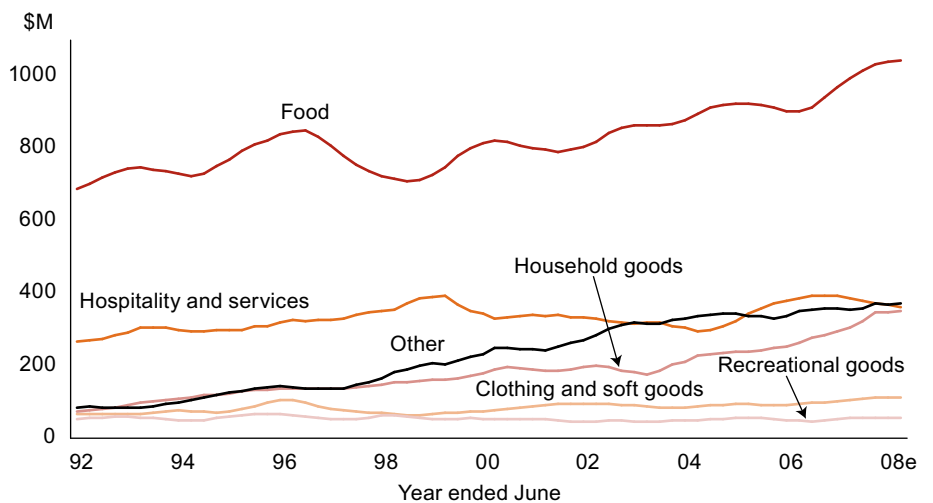
Other This category includes retailing in department stores, jewellery, gardening, pharmaceuticals, cosmetics and flowers. In 2007, expenditure in other retailing increased to \$371 million, an increase of 3.6 per cent over 2006.

Household Goods Household goods retailing recorded very strong growth in 2007 with total turnover reaching \$349 million, an increase of 22.1 per cent compared to 2006. Household goods include furniture and floor coverings, domestic houseware, appliances and hardware. Demand for household goods is closely linked to dwellings investment.

Clothing and Soft Goods The category of clothing and soft goods comprises clothing and clothing accessories, footwear and textiles. During 2007, turnover increased by 12.4 per cent to \$112 million.

Recreational Goods Recreational goods, the smallest category, includes sport and camping equipment, toys and games, marine equipment, newspapers, books and stationery, and photographic equipment, and increased by 11.8 per cent to \$56 million in 2007.

Chart 13.4: Territory Real Retail Turnover (moving annual total)



e: estimate

Source: Northern Territory Treasury, ABS unpublished data

Retail and Wholesale Developments

Retail and wholesale floor space is expecting strong growth in 2008-09, with a \$20 million wholesale grocery warehouse in Darwin Business Park at East Arm expected to be completed by November 2008. The completion of retail space at the Darwin Waterfront will progressively increase retail space through 2008-09. Smaller commercial and residential retail development projects in Darwin City due for completion in 2007-08 will add to these major projects.

High levels of vacant retail space in the Darwin central business district are expected to be maintained in 2008-09 as increases in innercity population lag behind growth in retail floor space.

Recent trends in retailing have seen an increasing shift from traditional store-front based retailing to online retailing. To match this shift, the ABS has adjusted its categories of retailing to include non-store retailing and retail commission-based buying and/or selling. The ABS reports for 2005-06 wages and salary were \$1.2 million for non-store retailing and retail commission-based buying and selling, while sales of goods and services for this subdivision reached \$22.3 million, making up less than 1.0 per cent of both total Territory sales, and compensation of employees. While currently at low levels sales in this category of retailing are expected to grow strongly in the future, both adding and subtracting from retail in the Territory as spending moves away from store-front retailing.

Outlook

Nationally, retail trade turnover is forecast to grow by 3.0 per cent in 2007-08 compared to 4.0 per cent in 2006-07. Solid wages and employment growth are expected to be the main drivers in retail growth. Territory retail turnover in 2007-08 is expected to exceed the national average and is estimated to grow by 6.2 per cent. The strong growth in retail turnover in the Territory is consistent with forecast strength in the resource industry over 2007-08. The commodity boom, strong construction activity and employment and population growth are expected to maintain a stable level of consumer confidence that will maintain a healthy retail turnover through 2007-08, despite the dampening effect of rising interest rates.

In 2008-09, retail turnover is expected to weaken at both the national and Territory level as the economy feels the full effect of the contraction in monetary policy. The negative effect of the November 2007, and February and March 2008 interest rate rises will be felt across all states, decreasing discretionary spending and slowing retail trade.

Following strong growth in 2007-08, Territory retail turnover growth is expected to moderate in 2008-09 to 4.2 per cent, largely due to the interest rate rises and their effect on discretionary spending. The continuing strength of the Territory's construction and commodity sector, with its close economic relationship to China, will prevent a contraction in retail trade turnover and will be supported by strong wages and employment growth. The outlook beyond 2008-09 is positive, with large projects expected to commence in the medium term.