

7. RETAIL INDUSTRY ANALYSIS

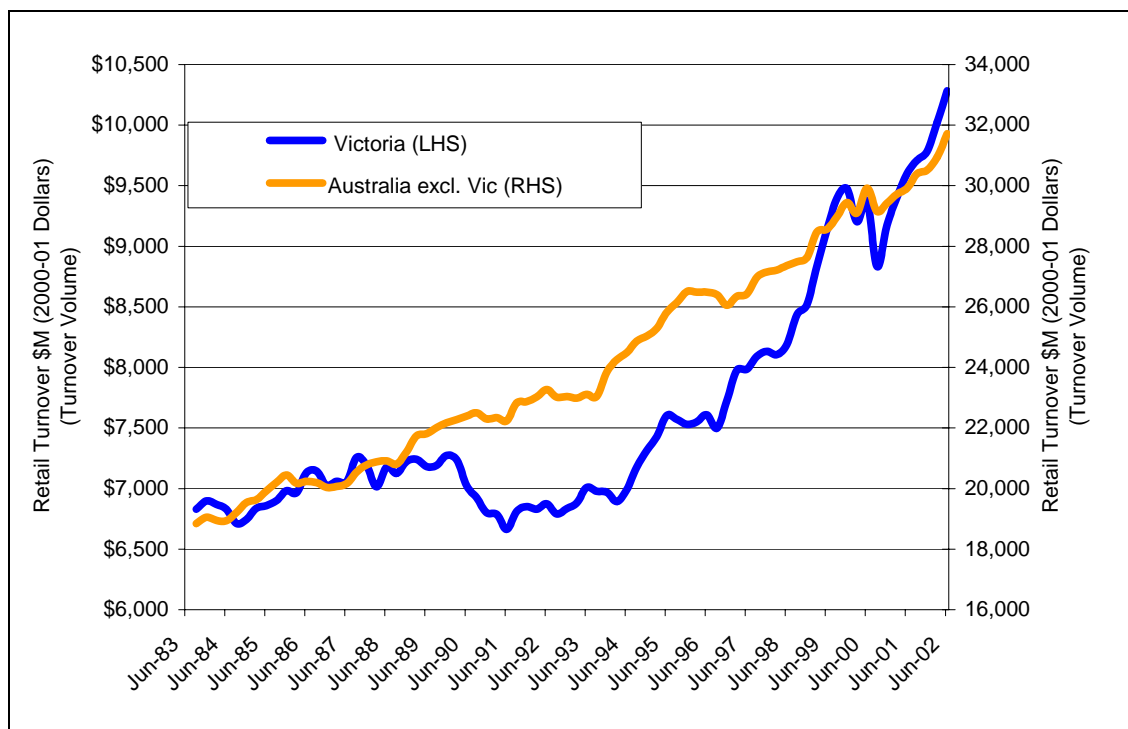
Industry level developments have a significant impact upon the performance of individual centres due to:

- Orientation of individual centres towards particular retail sectors which are closely linked to economic conditions. (e.g. homewares, clothing, restaurants);
- Emergence of new free-standing retail formats (e.g. homemaker centres, etc, hardware warehouses), supplying goods traditionally sold in strip centres; and
- Demographic / social trends across the wider community as reflected in the increasing popularity of cafes and restaurants.

This section focuses upon the impact of macro-economic and industry-level developments upon the performance of the retail industry at the state and national levels, and forms a basis for assessing the potential impact of changing economic conditions upon the performance of individual centres.

The performance of the retail sector has been assessed in terms of turnover at both the state and national levels. This provides a basis for identifying the key drivers of demand for retail goods and services, and in particular providing an explanation for the strong performance of the retail sector in Victoria over recent years and the potential for this to continue in the future.

Figure 8: Real Retail Turnover² 1983 – 2002



Source: ABS, Charter Keck Cramer

² Real retail turnover represents the volume of goods and services purchased

7.1 Retail Turnover

The Victorian retail sector has experienced strong growth in turnover volumes since the mid 1990's (refer Figure 8), increasing by around 50% over the period compared to just under 40% for the remainder of Australia. Victoria's relatively strong performance over this period may be attributed to:

- A strong recovery in per capita turnover volumes following the impact of recessionary conditions during the early 1990s; and
- Strong population growth consistent with the recovery of the Victorian economy, and the subsequent return of economic refugees from interstate.

7.2 Per Capita Consumption

Real per capita retail turnover has been closely correlated with economic cycles through the unemployment rate and its impact upon household disposable income and consumer sentiment (refer Figure 10). This has occurred at both the national and Victorian level. Similarly, any shift in Victoria's unemployment rate relative to that at the national level has resulted in equivalent disparities in per capita retail turnover volumes over this period (refer Figure 11).

At the national level, approximately 50% of the variation in per capita turnover volumes may be attributed to movements in the economic cycle (as defined by the unemployment rate) (refer Figure 12). The impact of economic cycles on each retail group however varies substantially, reflecting the extent to which each represents a discretionary form of household expenditure. For example, only 20% of the variation in the volume of food retailing may be attributed to changing economic conditions, compared to around 85% of movements in the hospitality and services sector. Similarly department stores, clothing and soft goods retailing are noticeably more susceptible to changes in economic conditions.

While the unemployment rate is expected to remain at relatively low levels into the foreseeable future, there is a need to be aware of emerging hidden unemployment in the form of the:

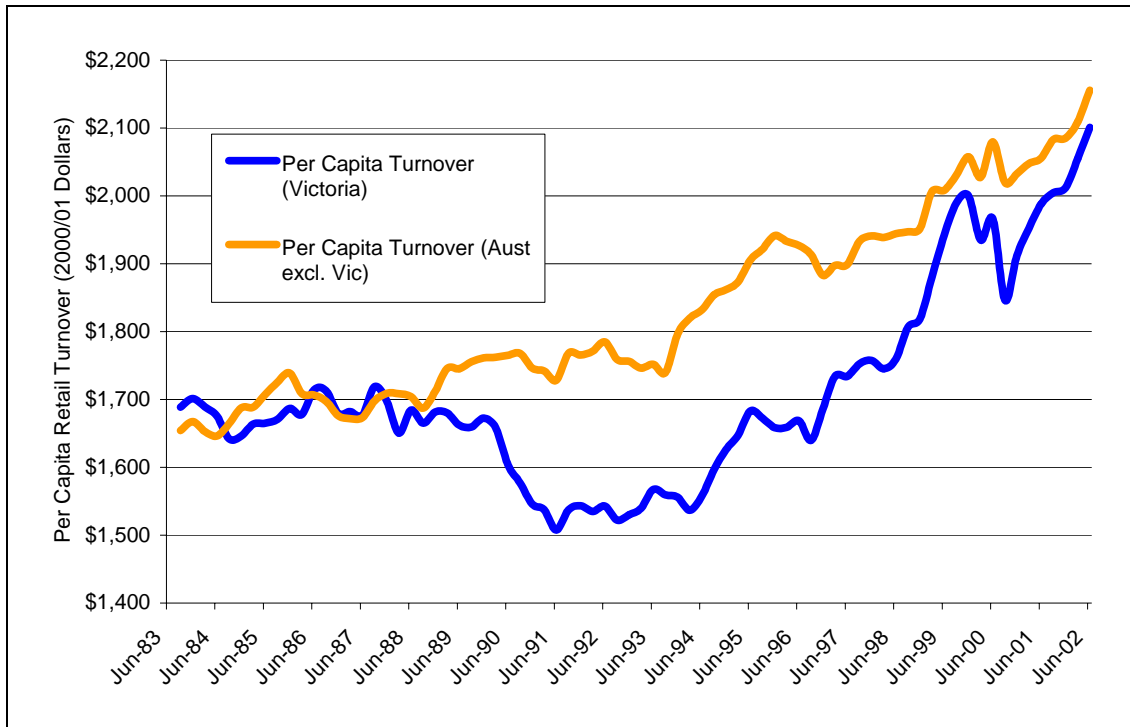
- Continuing shift towards part time and casual employment which in many cases represents a form of "under employment"; and
- Increasing incidence of "under funded" retirees who are unable to maintain previous levels of consumption, particularly of discretionary items.

Income distribution also impacts significantly upon per capita retail expenditure. Economists refer to the income elasticity of demand as being the extent to which demand for a product changes in response to a change in income. Per capita expenditure on clothing, and café and restaurant meals, increases sharply with household income (refer Figure 13). This contrasts with spending on food which is relatively more stable across income groups. These patterns of expenditure have significant implications where changes in household income occur in response to gentrification or a structural change in employment patterns.

7.3 Population Growth

While Victoria continued to experience a net loss of residents to other states until the end of 1998, since that time it has enjoyed a net influx of residents. Latest available data indicates that in the 12 months to September 2001, Victoria gained some 7,700 residents from other Australian states. Overall, Victoria's population grew by 1.3% (or 62,865 persons) over the year to December 2001, matching the overall national population growth rate. Victoria's strong economic and employment growth over recent years has largely been responsible for the remarkable turn around in interstate migration trends since 1998.

Figure 9: Per Capita Real Retail Turnover 1983 – 2002



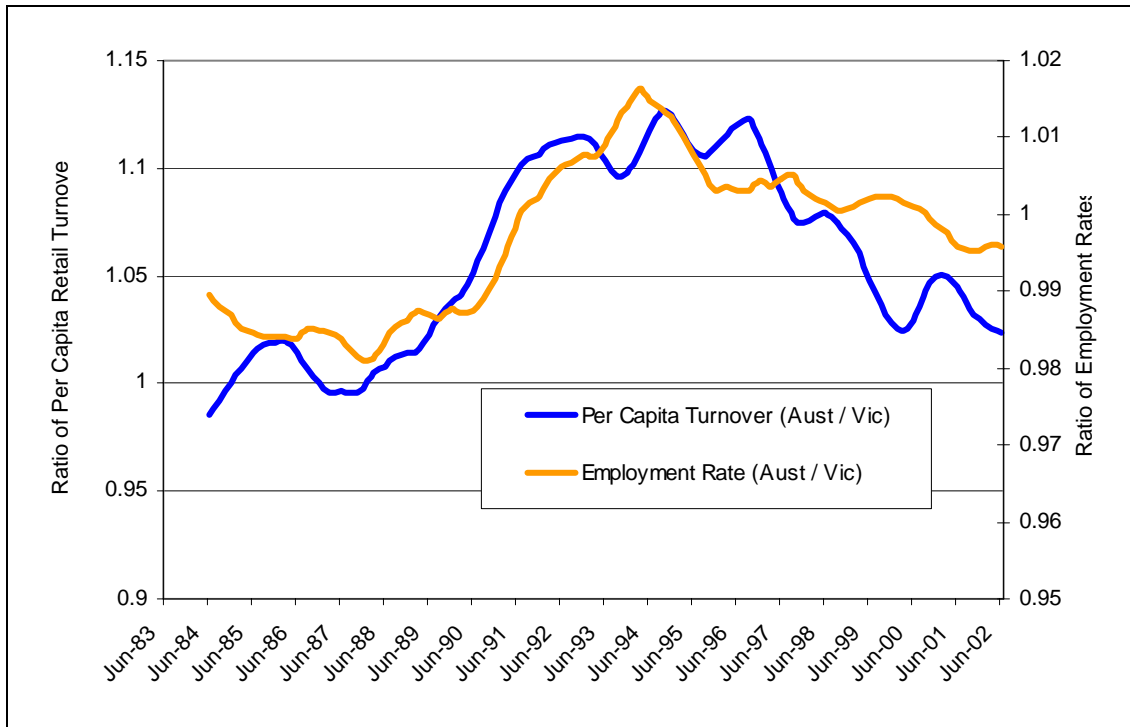
Source: ABS, Charter Keck Cramer

Figure 10: Australia: Real Per Capita Retail Turnover Vs Unemployment Rate 1993 – 2002



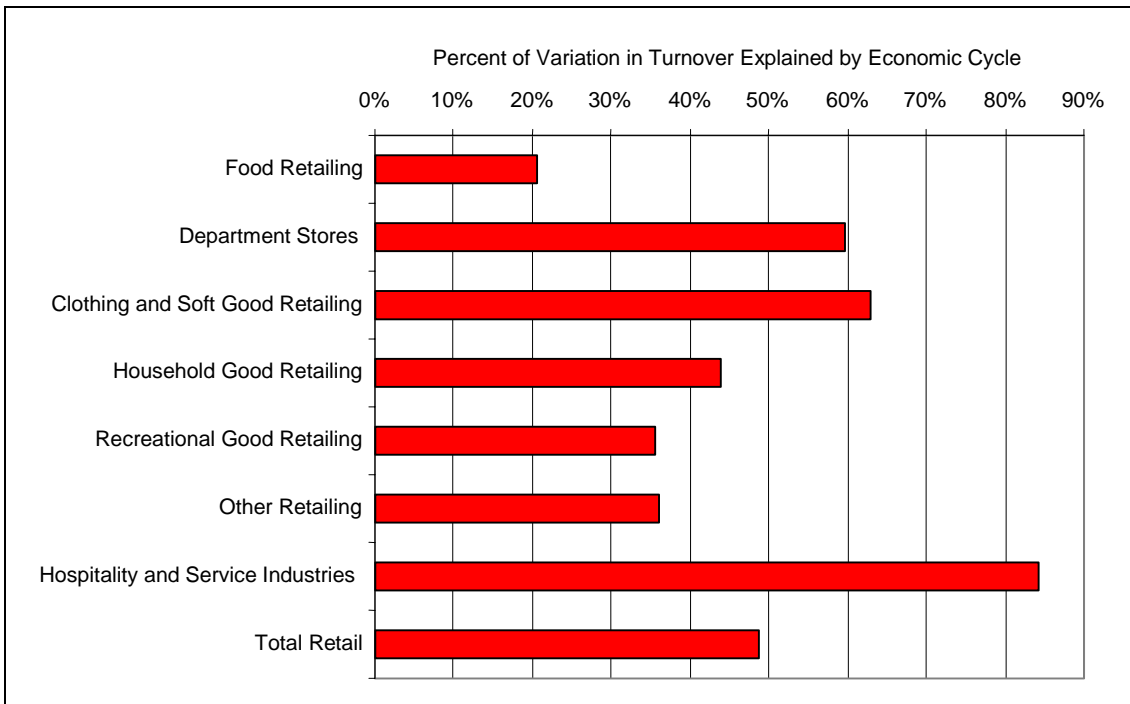
Source: ABS, Charter Keck Cramer

Figure 11: Relative Employment Rates and Per Capita Retail Turnover



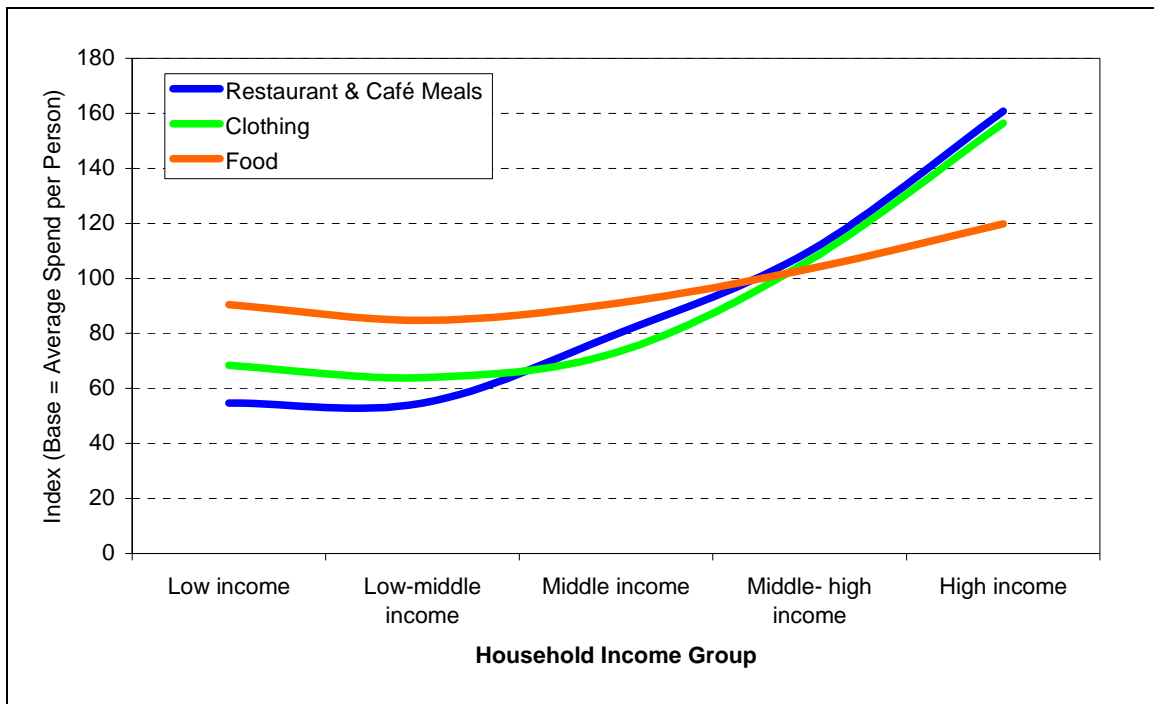
Source: ABS, Charter Keck Cramer

Figure 12: Australia: Correlation Between Economic Cycle (Unemployment Rate) and Real Per Capita Turnover 1988 – 2002



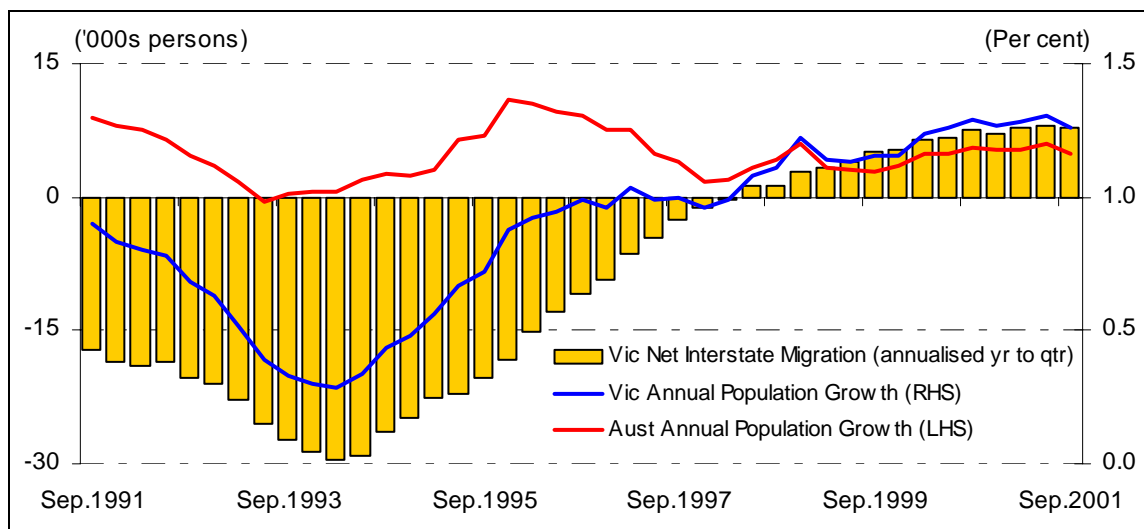
Source: ABS, Charter Keck Cramer

Figure 13: Index of Per Capita Expenditure by Household Income Group

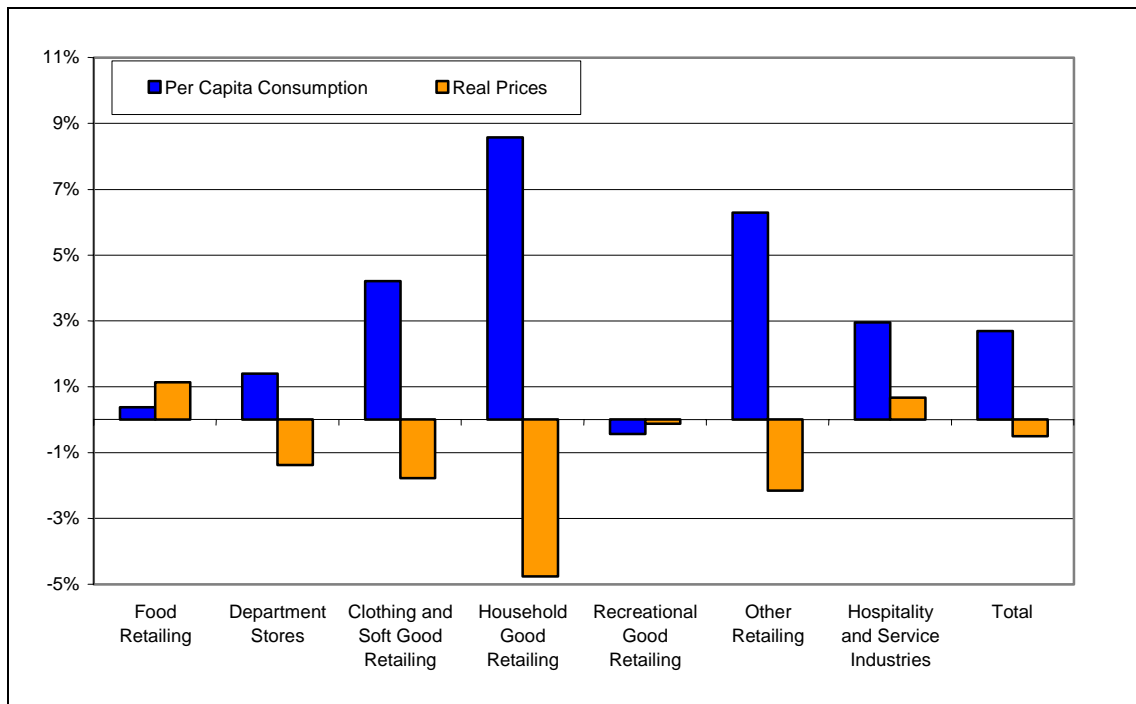


Source: ABS, Charter Keck Cramer

Figure 14: Annualised Net Interstate Migration and Population Growth



Source: ABS, Charter Keck Cramer

Figure 15: Source of Growth in Retail Turnover 1997 - 2002

Source: ABS, Charter Keck Cramer

7.4 Price Growth

Real price growth for retail goods and services has contributed little to overall retail turnover over recent years. Since 1997, real prices have only increased in the food retailing (1.1% p.a.) and the hospitality and services sector (0.7% p.a.). Across the entire retail industry, real prices have fallen by an average of 0.5% p.a. Real prices for household goods have fallen by an average of 5% p.a. while prices in the clothing and soft goods retailing sector have fallen by an average of 1.8% p.a. in real terms.

7.5 Retail Turnover Outlook

There is expected to be a stabilisation in the rate of growth in retail turnover, down from the high levels experienced over recent years due to:

- A slowing in the rate of population growth, and
- A return to longer-term per capita consumption growth following a catch-up phase over recent years during which levels grew to become consistent with the rest of Australia.

Price growth for retail commodities is expected to remain low consistent with trends in recent years, as a low inflationary environment now characterises the economy.