

Retail Sales Growth – A Local Perspective

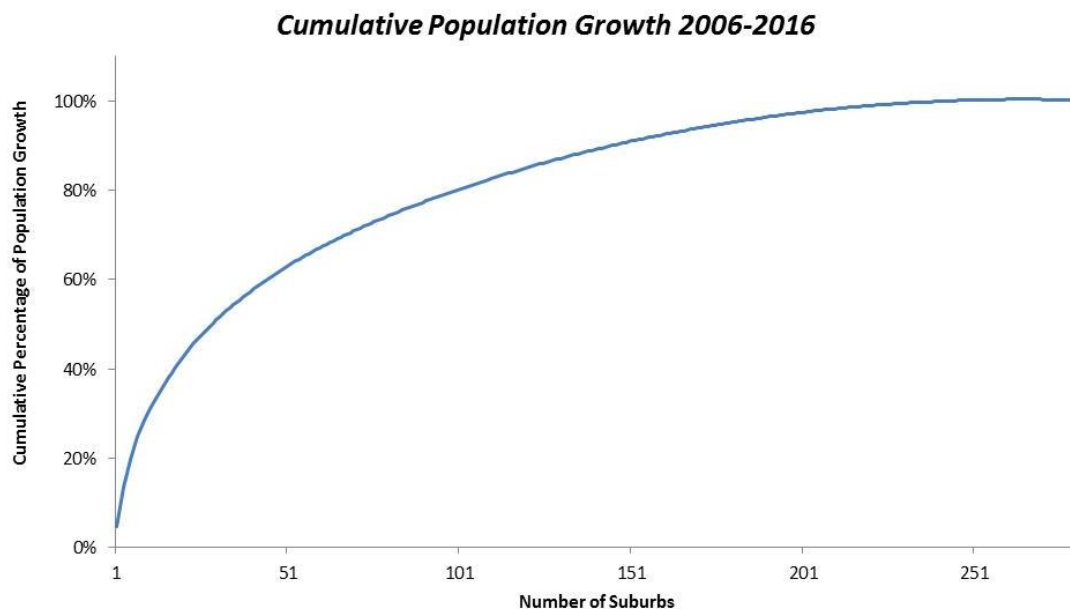
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‘Retailers on the verge of recession’ was a recent headline in the media following the release of monthly retail sales data by the Australian Bureau of Statistics. While this is a sobering thought, many activity centres may still offer opportunities for growth through better understanding their local market. In this Research Bite we break down the headline numbers to identify future challenges and opportunities for centres.

Media commentary tends to focus on retail sales growth at a national level given the implications for economic growth, monetary policy and share markets. While the ‘big picture’ provides valuable insight into broader industry trends, consumer sentiment, and structural changes within the retail sector, the experience of individual activity centres may be very different. This reflects the unique attributes of each centre in terms of their role, function and the markets they serve. For example, even broad drivers of demand for retail goods and services, such as population growth and per capita spending, vary significantly at a local level.

Growth in retail sales has averaged 5.1% per annum across Victoria over the past three years. However 75% of this has been due to population growth and inflation, with the remaining 25% attributed to real growth in per capita spending which averaged 1.3% per annum.

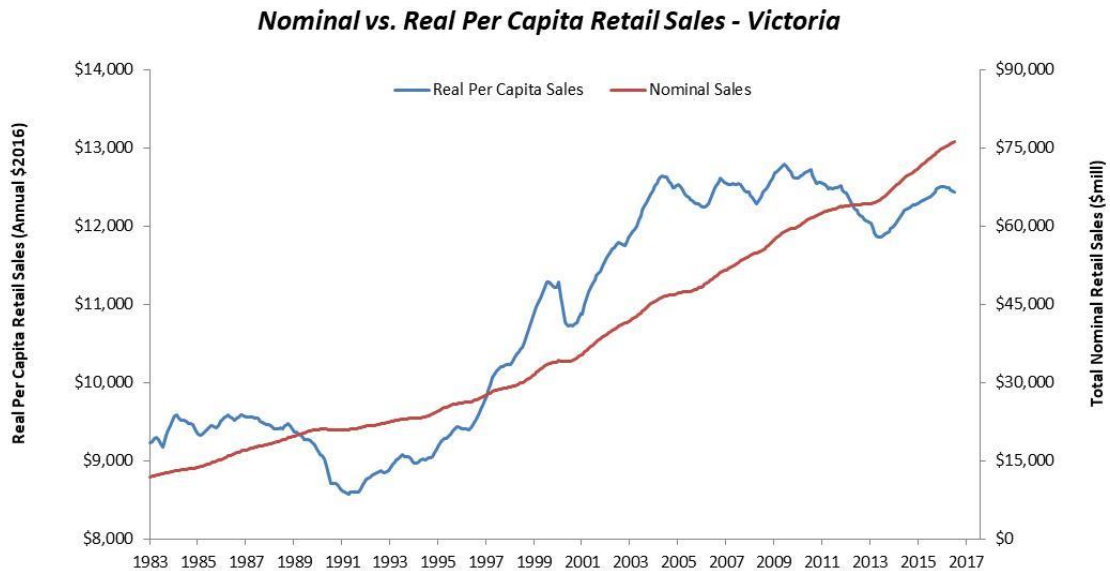
While Melbourne’s population growth has averaged 2.1% per annum over the past decade, much of this has been concentrated in a relatively small number of suburbs. The figure below shows that 40% of population growth was accounted for by only 18 of Melbourne’s 281 suburbs, and 80% of growth by 100 suburbs. Overall, 75% of Melbourne’s suburbs had an average annual growth rate less than the metropolitan average.



Source: ABS, BWEC

As a result, the majority of Melbourne's activity centres cannot rely upon population growth to fully offset the negative impact of increasing competition from online retailing or new centres.

Real per capita spending by Victorians grew strongly over the period 1991-2004 before stagnating as shown in the figure below. This weaker retail environment has been due to a number of factors including the leakage of spending to online retailers, which began with eBay's Australian launch in 1999, as well as generally lower consumer confidence following the Global Financial Crisis.



Source: ABS, BWEC

The impact of this slump in retail spending at traditional bricks and mortar retailers has however been cushioned by Victoria's strong population growth which has increased from an average of 0.7% per annum during the 1990s, to 1.5% over 2000-2010, and then to 1.8% since 2010. With the Victoria Government now forecasting a slowing in population growth, a perfect storm may be brewing with sluggish consumer spending, slowing population growth and increasing competition from online retailers with Amazon's proposed launching in Australia. In addition, any slowing in house price growth is likely to see households pull back on spending as their perceived wealth weakens.

An appreciation of the impact of economic conditions upon per capita spending may be gained from the variance in spending growth rates between states, which have ranged from less than 1% in resource dependent Western Australia over the past year to 5% in the ACT (refer figure below). These differences can be even more pronounced at a local level due to the much greater variation in local economic conditions, with unemployment rates across Victoria ranging from 1.3% to over 25% at a suburb level. Similarly, the change in unemployment rates since 2010 at a suburb level has ranged from -6 to +5 percentage points. As a result, the economic environment facing activity centres may be primarily determined by local socio-economic factors rather than broader economic conditions.

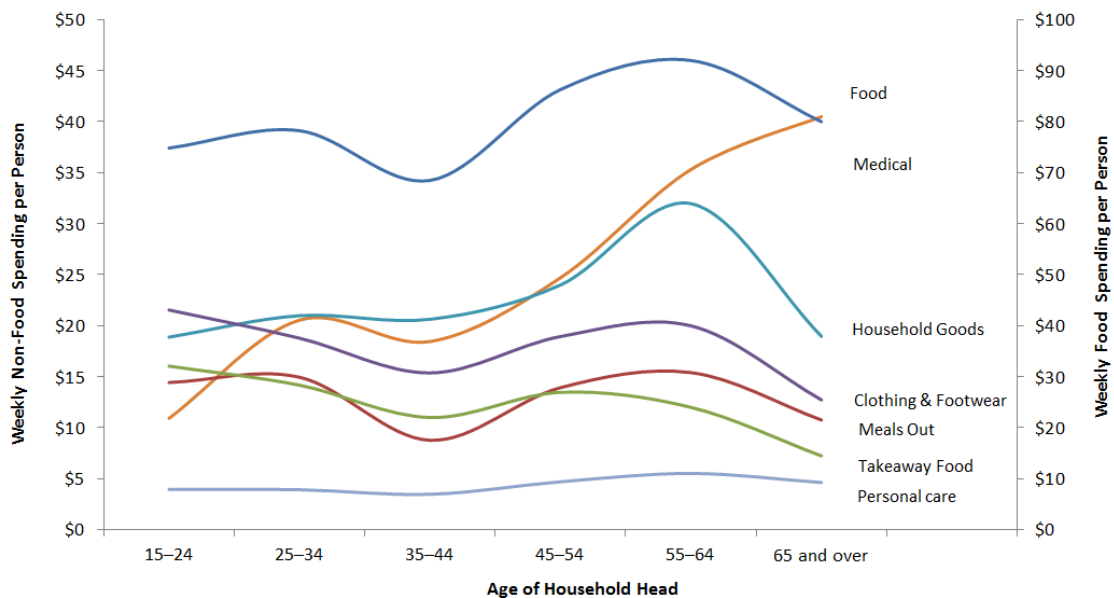
Retail Sales Growth by State
Year to March 2017



Source: ABS, BWEC

Trends in household retail spending at a local level will also vary from the state ‘average’ depending upon ‘life cycle’ stage of local residents. Gentrifying areas will typically experience strong growth in household spending as younger families move in, while established areas with an ageing population often have negative growth. The figure below highlights the impact of a household’s lifecycle stage upon per capita spending based on the age of the ‘household head’. Most notable is the sharp decline in discretionary spending as households reach retirement age, when they are increasingly likely to be ‘empty nesters’ as well as have reduced disposable income.

Per Capita Spending by Age Group



Source: ABS Household Expenditure Survey, BWEC

While retail sales data is not available below a state level, some appreciation of the challenges facing individual centres may be gained from the experience of larger privately owned centres such as those managed by Westfield. Since 2007 average annual growth in retail sales at Westfield’s

shopping centres, excluding those undergoing significant expansion, has ranged from 5% per annum at Westfield Kotara in Newcastle down to -1.7% per annum for Westfield Woden in Canberra. This variation may be partly explained by the immediate area around Westfield Kotara experiencing average population growth of 0.8% per annum together with a reasonably stable age profile for residents, whereas Woden's immediate catchment population only grew by 0.3% per annum and the proportion of residents aged over 65 years increased from 12% to 18%.

At the same time, the competitiveness of department stores which anchor these larger shopping malls has also been impacted upon by new retail formats, initially in the form of bulky goods retailers and then online retailing. Without a strong local demographic profile, it is often difficult to change the role and function of centres as potential retailers will favour locations offering the strongest opportunities for sales growth.



Local demographics influence the role and function of centres

Westfield's experience highlights not only the reliance of even large shopping centre operators upon population growth to maintain sales performance, but also the limited opportunities for these 'shopping mall' formats to adapt to a changing retail environment.

While there is no doubt that individual centres are facing major challenges due to a changing retail landscape, it is important

not to overlook opportunities that may be emerging closer to home. Subtle changes in the profile of local households can have a significant impact upon the demand for the goods and services offered by businesses. It is the ability of centres to respond to these changes that will determine their longer term future.

Smaller neighbourhood centres and retail strips may offer some of the strongest opportunities to evolve for a number of reasons including, a reduced reliance upon key retail anchors, individual retailers having greater exposure to passing traffic, a stronger focus upon convenience retailing and personal services, and greater opportunities for new innovative start-up businesses to locate in centres.

There are numerous examples of inner city retail strips being transformed into cafe precincts. However there is also some less obvious opportunities for smaller centres to maintain their role and function as commercial centres through catering for a changing local demographic or retail landscape. Some examples include:

- Increasing cultural diversity providing opportunities for ethnic food retailers that also attract visitors from beyond the immediate area.
- Independent supermarkets that have the flexibility to tailor products to the local demographic, and in some instances offer a sufficiently wide range of products to be competitive with full-line supermarkets for weekly grocery shopping.

- Aldi and independent supermarkets offering greater flexibility to be accommodated on smaller sites in centres, and often resulting in shoppers doing top-up shopping at specialty retailers.
- Independent fresh food retailers still being preferred by many shoppers over supermarkets.
- Pop-up shops for businesses using social media to attract visitors from a wider catchment.
- Personal and health related services, which like cafes and restaurants, are unable to be sourced online and are 'destination' activities that may attract visitors from a wider area.



Personal services - Barber shops making a comeback

Niche activities may also be supported by a relatively small segment of the market. Such opportunities may be overlooked without a detailed profiling of the local population. For example, the early stages of an area's gentrification may not be that obvious due to the continued ageing of established households. Identifying niche opportunities requires a more detailed profiling by age group, workforce participation and income

level, as well as anecdotal observations, to paint a human picture of emerging opportunities at a local level.

In this Research Bite we have only been able to scratch the surface of what may drive retail sales and the performance of activity centres at a local level. Without even considering the impact of other factors such as the retail mix of local centres and the impact of online retailing, it can be seen that the performance of individual centres will vary significantly. Perhaps most importantly, each centre is unique and in many cases has been adapting to change for generations, and will continue to do so in the future.

With real per capita growth in spending at traditional retailers now looking like a thing of the past, there is the growing need for local centres to be more than just retail centres. This has already begun to happen with cafes and restaurants typically accounting for 30-40% of businesses in many traditional strip centres. Similarly, privately managed shopping centres recognise the importance of creating lifestyle precincts as retail anchors may no longer provide the attraction that they once did.

Anticipating and responding to low growth situations before they impact upon the amenity of centres is crucial to maintaining the vibrancy of centres. Doing so however requires an understanding of not just trends occurring at a national level but also those emerging locally and the capacity of centres to respond.