



**Economic
Perspectives on
Food Retailing**

September 2008

Westpac Economics

Contents

Executive summary	3
Economic update and forecasts	4
Australian consumer update	8
Food & fast food retailing	10

The Westpac Institutional Bank Economic Perspectives on Food Retailing is a publication produced by Westpac Economics and the Consumer & Industrials Research team

Publication inquiries

Matthew Hassan
Senior Economist
Westpac Economics
Phone +61 2 8254 2100
mhassan@westpac.com.au

Minter Barnard
Associate Director
Consumer & Retail
Phone +61 2 8254 1712
mbarnard@westpac.com.au

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Executive summary

A sharp slowdown in demand ...

The Australian economy is in the midst of a sharp domestic slowdown. Growth in domestic demand is forecast to fall from 5.7% in 2007 to 1.8% in 2008-09, it's slowest pace since 2001. GDP growth will be more resilient with rising exports and slowing imports forecast to hold this up at 2.0%. However, the abrupt slowdown is expected to see significant interest rate cuts in coming months, paving the way for a recovery from the second half of 2009.

... as consumers tighten back spending

Australian consumers are the main sector driving the slowdown. Monthly retail sales rose 8.3% through the year to December but declined 0.3% in the six months to June. Quarterly real inflation adjusted sales volumes fell 0.9% in the first half of 2008; a 1.6% fall in per capita sales. Real retail spending is expected to remain subdued near term, rising 1.3%yr for 2008 as a whole, with growth firming to 2.2% in 2009 – a decline in per capita sales over the two years.

Food retail has tracked broader slowdown; aggravated by higher food price inflation

Food and fast food retailing has tracked the broader weakness in retail although performances have varied across segments. Quarterly real sales volumes excluding gambling fell by an estimated 1.3% in the first half of 2008. Higher food price inflation has also contributed to the weaker sales volumes. Overall, food and fast food sales are forecast to rise 0.4% for 2008 as a whole and 2.0% in 2009, marking the weakest two years since 1997-98 (excluding the GST period).

Most abrupt turnaround has been in WA, Qld: but under-performance won't worsen or last long

The biggest turnaround in retail conditions has been in the resource states. Trend growth in food and fast food retail has gone from double digit annual rates in WA and Queensland to just 0.9%yr and 4.4%yr respectively with a particularly sharp slowdown in the more discretionary hospitality and services segment. However, this under-performance is unlikely to worsen or last long as the mining boom continues to drive above-trend income growth in these states.

Consumer belt tightening seeing switch to cheaper food options

Across sub-segments, cafes & restaurants and 'other food' retailing (which includes liquor and specialty food stores) have seen the sharpest turnaround while takeaways, pubs & clubs and basic food retail have held up better. Consumers have been switching expenditure from higher cost dining options to cheaper self-catering or 'ordering in' options.

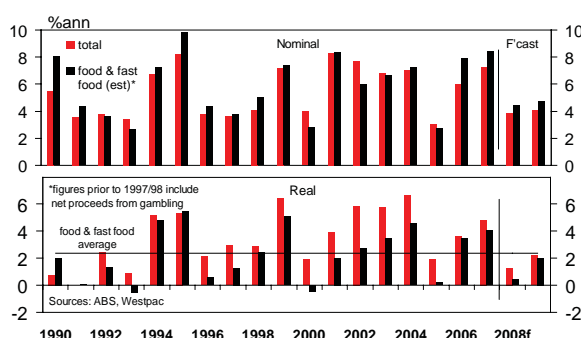
Basic food price inflation moderating but may be slow to filter through elsewhere

Food price inflation has risen sharply since 2006 and is running at 4%yr or higher in all segments. Recent falls in global food and fuel prices and improved growing conditions locally suggest the pressure on basic food prices is subsiding. Basic food price inflation is expected to moderate short term but price pressures may be slower to ease in other segments as these were to slower to respond on the way up. That said, sharply weaker demand will encourage this moderation.

The following sections discuss the economic and food retailing outlook in more detail.

Food retail volumes forecast to be up only 0.4%yr in 2008; growth rising to 2%yr in 2009

Food & fast food vs total retail sales



Economic data & forecasts

Calendar years	GDP	Retail*	Food retail*	Unemp. rate	CPI	Cash rate	AUD/USD
2005	2.9	1.9	0.2	5.1	2.7	5.50	0.74
2006	2.7	3.6	3.4	4.8	3.5	6.25	0.77
2007	4.3	4.8	4.0	4.4	2.3	6.75	0.89
2008f	2.7	1.3	0.4	4.3	4.4	6.50	0.90
2009f	3.0	2.2	2.0	5.0	3.5	6.00	0.92

Annual averages except for cash rate, and AUD, which are as at Dec.

*retail trade basis, chain-weighted 2004-05 prices. Food retail is a Westpac estimate. It includes both food and fast food retail sales, and excludes net proceeds from gambling.

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Economic update & forecasts

A sharp slowdown in domestic demand ...	<p>Australian economy: sharp slowdown underway</p> <p>After a strong 2007, the Australian economy has entered a sharp slowdown in 2008. Growth in domestic demand is forecast to fall from 5.5% in 2007 to 1.5% in 2008, it's slowest pace since 2001. GDP growth will be more resilient with rising exports and slowing imports forecast to hold this up at 2.0%. The abrupt slowdown will see significant interest rate cuts in coming months, paving the way for a recovery from the second half of 2009.</p>
... prompts the RBA to switch tack to easing interest rates.	<p>The biggest shifts since our last <i>Food Retailing</i> report in May have been: externally, a broadening and deepening global economic downturn and continued stress in financial markets; and domestically, signs of a sharper slowdown in demand, consumer spending in particular. Although high inflation remains a concern both here and abroad, these developments have prompted a clear shift in focus for the RBA with the Bank cutting interest rates by 25bps at its September meeting and further cuts imminent. Despite this, the Australian economy remains well-placed to ride out the slowdown with growth firming again by the end of 2009.</p>
US outlook bleak.	<p>World growth falters but commodity boom intact</p> <p>The US economy continues to struggle badly. Growth is staying above recession levels but is expected to come in at just 1.4% in 2008 and 1.5% in 2009. The figures disguise the extent of underlying weakness. Housing markets have continued to slump and the financial sector is suffering write-downs now running into the hundreds of billions. Neither is expected to stabilise any time soon while the effect on consumer spending and the broader economy is still to be fully felt. Aggressive rate cuts from the Fed (325bps in 7mths) and a substantial fiscal injection to households (US\$165bn) have lent support but a durable recovery remains a distant prospect.</p>
UK, Europe, Japan and developing economies also slowing to varying degrees ...	<p>Growth is starting to show a more pronounced weakening across the rest of the world as well. Amongst the developed economies: activity has stalled badly in the UK, and contracted outright in both the EU and Japan. Developing world economies have been less affected, especially those with strong links into the booming Chinese economy and associated strength in the resources sector. However, even here activity has moderated with slowing exports taking some of the heat out of China's growth as well.</p>
... but spillover to emerging markets so far has been minor.	<p>Despite this, there remains some important offsets for Australia's exposure to the global slowdown. China's expansion continues to run at a strong pace overall, especially in those segments that drive demand for resources: namely investment and public infrastructure. Powerful development drivers and scope for additional policy support means prospects also remain positive going forward. Similar conditions prevail for other developing economies such as India, Russia and Brazil, which are also key areas of growing demand for resources.</p>
Commodity boom remains on solid footing.	<p>As such, demand for Australia's mineral exports is likely to remain robust despite the lower profile for world growth and already elevated prices. Indeed, prices for Australia's exports will still be up more than 15% for the 2008 year despite recent falls, giving a boost to national income of over 3%. Meanwhile the pipeline of investment projects in the sector is enormous with over \$50bn in works under construction and about five times that committed, under consideration or a possible go-ahead. Most of these will be impervious to funding issues and the latest pull-back in prices. The sheer size of projects – most take two to three years to complete – also means that even if the number of new projects starts to taper off, construction will remain strong for years to come.</p>
Main impact on Australia will be via credit market turmoil.	<p>We continue to see the main impact from developments abroad coming from the ongoing dislocation in global financial markets. Funding has become much more expensive and difficult to secure with little sign of improvement.</p>
Interest rates have been the dominant force locally.	<p>Policy levers well-place to rescue demand; rate cuts on the way</p> <p>Domestically, the dominant force since mid-2007 has been a sharp rise in interest rates. A 100bp rise in official rates has been compounded by an additional market-driven tightening in rates. All up, standard floating mortgage rates rose 150bps to over 9.5% by July 2008, a 15yr high and an unambiguously 'tight' level. The rise is having a clear impact on consumers, housing markets and business investment with all expected to remain under pressure through the remainder of 2008 and into 2009.</p>

Economic update & forecasts

Chart 1.

Global growth contributions

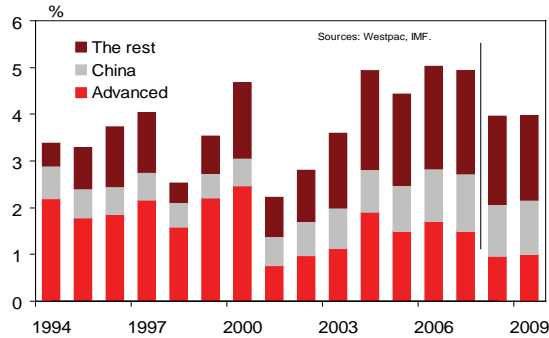


Chart 2.

Australia's economy has slowed

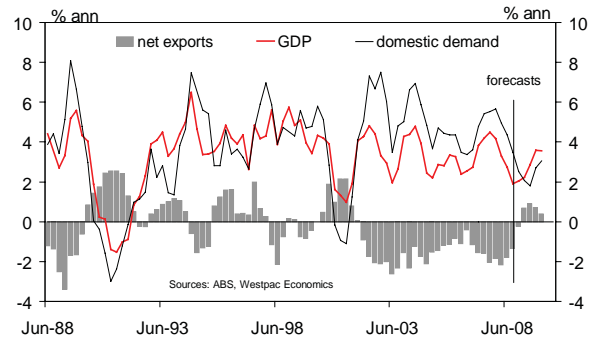


Chart 3.

Company profits: non-mining surprise

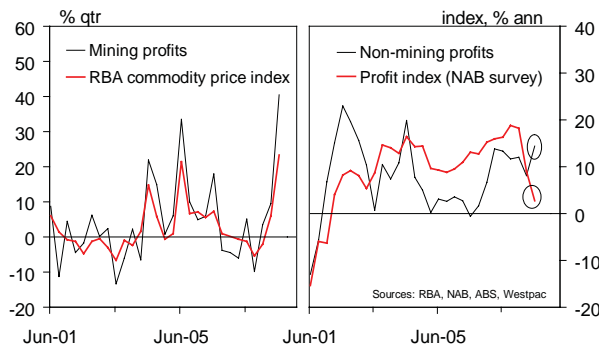


Chart 4.

Consumers feeling the squeeze

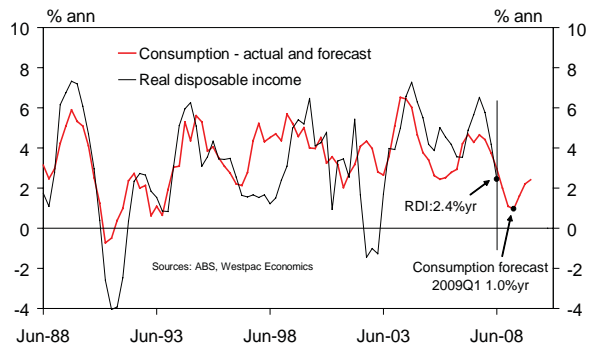


Chart 5.

RBA policy U-turn

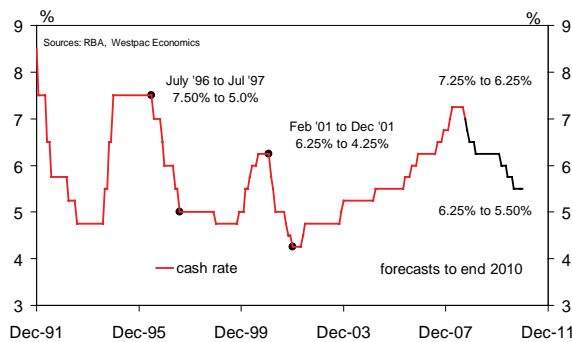
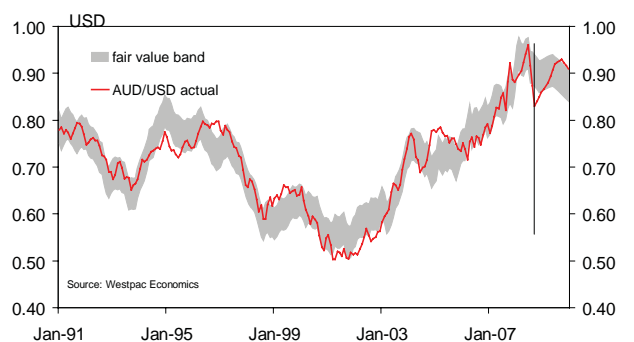


Chart 6.

Australian dollar: actual versus fitted



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Economic update & forecasts

Policy well placed to add support.

Fortunately, both monetary and fiscal policy are reasonably well placed to provide support as required. On the fiscal side, income tax cuts implemented in July are already providing a boost to household disposable incomes while a strong ramp-up in public works activity at the state government level is also adding to growth. More importantly, a healthy fiscal surplus means there is scope for the Federal Government to provide additional stimulus with its 2009 Budget.

High inflation is testing the RBA's nerve ...

The situation for monetary policy is a little more problematic due to a sharp rise in inflation over the year to June 2008. Both headline and core CPI inflation have risen to around 4.5%yr – well above the Reserve Bank's 2 to 3% target range. Despite this, the Bank remains confident that monetary settings will rein in inflation over time. Comments from RBA Governor Glenn Stevens and others have also indicated a willingness to cut rates to prevent a deeper, more protracted slowdown in growth even while inflation is above target.

... but the Bank has shown a willingness to act if growth risks undershooting and has ample ammunition at its disposal.

With interest rates well above neutral, there is ample room for the RBA to cut rates if it feels growth is slowing too sharply. And the Bank's latest statements clearly indicate that it is becoming increasingly concerned about growth. Inflation will remain an issue but the Bank has already moved to lower rates by 25bps in September and is poised to cut rates by another 75bps by early 2009. It should be noted that this will still leave rates at a restrictive level – while it is keen to prevent a 'hard landing' in growth, the Bank will be uncomfortable about moving rates to an outright 'stimulatory' level without firm evidence that inflation is coming back under control. Assuming inflation does come back in line – and this remains the most likely scenario as demand weakens and fuel price pressures subside – the RBA will move to ease again, probably from late 2009. The easing will bring cash rates down to 5.5% by early 2010 (an easing of 175bps in total).

Households feeling the squeeze ...

Household sector under pressure but relief on the way

Australian consumers have borne the brunt of the interest rate induced slowdown. The jolt from rate increases has combined with surging fuel prices, an equity market slump and falling house prices (albeit with only moderate declines to date). The impact is most readily seen in the *Westpac-Melbourne Institute Consumer Sentiment Index* which saw its steepest slump on records going back to 1975. Retail sales declined 0.3% in Q1 and 0.6% in Q2 in volume terms. Housing markets are also coming under intense pressure with housing finance approvals down by over a quarter from their peak and prices dipping 0.3% nationally in Q2.

... but some relief is on the way and labour markets should hold up reasonably well.

Several factors should provide some support to households over the second half of 2008: the aforementioned tax cuts will give a direct boost to disposable incomes; lower fuel prices will also ease some of the pressure on budgets; and interest rate cuts will reduce the debt servicing burden later in the year. Labour market conditions are also likely to hold up reasonably well with firms likely to 'horde' labour in the initial stages of the slowdown. Wages growth should also maintain reasonable momentum. Growth in disposable incomes will nevertheless slow abruptly from the outstanding 9.4%yr in 2007 to a forecast 4.8%yr rise in 2008. With higher inflation eroding purchasing power, the growth slowdown will be even greater in real terms.

Downside risks dominate ...

And there will be other significant ongoing challenges for consumers. Household financial distress is likely to become more widespread, housing markets will also come under more sustained pressure, while growth in household wealth will slow sharply. All up, consumer demand is set for a sustained slowdown. Indeed, having turned cautious in early 2008, the risk is that households remain cautious for longer than expected despite positives.

... but a relatively 'soft' landing is still achievable.

Overall, we expect a significant slowdown in real consumer spending growth, from 4.4%yr in 2007 to just 1.1%yr in 2008 before a modest recovery to 2.4% in 2009. Risks remain stacked to the downside.

AUD oversold; rally back to above US0.90 expected before the 'real' downswing begins late 2009.

Australian dollar falls sharply but some recovery likely short term

The AUD continues to see exceptional volatility. The RBA's u-turn on policy, falling commodity prices and a USD rally have seen the currency sell-off from a high near 98.5c US to below 80c. However we see some of this decline as overdone. While the worm has turned on interest rates, markets have become over-optimistic on US growth and interest rate prospects and overly pessimistic on commodities. Overall, we see the AUD regaining much of the lost ground. Another tilt at parity is clearly too much of a stretch, but we do expect the AUD/USD cross to return to the 95¢ range by mid-2009, moving into a sustained downswing thereafter.

Economic update & forecasts

Interest rate forecasts

	Latest (Sep 12)	Dec 08	Mar 09	Jun 09	Sep 09	Dec 09
Cash	7.00	6.50	6.25	6.25	6.25	6.25
90 Day Bill	7.25	6.75	6.50	6.20	6.00	5.70
3 Year Bond	5.59	5.50	5.30	5.50	5.50	5.00
10 Year Bond	5.68	5.60	5.60	5.80	5.60	5.45
10 Year Spread to US (bps)	203	200	210	210	160	105

International

Fed Funds	2.00	2.00	2.00	2.00	2.00	2.25
US 10 Year Bond	3.65	3.60	3.50	3.70	4.00	4.40
ECB Repo Rate	4.25	4.25	4.00	3.75	3.75	3.50

New Zealand

Cash	7.50	7.00	6.75	6.75	6.75	6.75
90 day bill	7.84	7.20	7.00	7.00	7.00	7.00
2 year swap	6.95	6.70	6.80	6.95	6.95	6.95
10 Year Bond	5.83	5.70	5.80	5.85	5.85	5.90
10 Year spread to US	218	210	230	215	185	150

Exchange rate forecasts

	Latest (Sep 12)	Dec 08	Mar 09	Jun 09	Sep 09	Dec 09
AUD/USD	0.8067	0.86	0.88	0.92	0.93	0.91
NZD/USD	0.6562	0.69	0.71	0.74	0.75	0.74
USD/JPY	107.41	108	105	103	102	104
EUR/USD	1.4028	1.46	1.47	1.48	1.47	1.45
AUD/NZD	1.2294	1.25	1.24	1.24	1.24	1.23

Australian economic growth forecasts

	2008				2009				Calendar years			
	Q4	Q1	Q2	Q3f	Q4f	Q1f	Q2f	2006	2007	2008f	2009f	
% change												
GDP	0.7	0.7	0.3	0.2	0.8	0.9	0.9	2.7	4.2	2.5	3.0	
ann chg	4.2	3.3	2.7	1.9	2.0	2.2	2.9	-	-	-	-	
Unemployment rate	4.3	4.1	4.3	4.4	4.6	4.8	5.0	4.8	4.4	4.3	5.0	
CPI headline	0.9	1.3	1.5	0.7	0.8	1.1	0.8	-	-	-	-	
ann chg	3.0	4.2	4.5	4.5	4.4	4.1	3.4	3.3	3.0	4.4	3.0	
CPI core	1.1	1.2	1.1	0.9	0.8	0.7	0.7	-	-	-	-	
ann chg	3.6	4.2	4.4	4.4	4.1	3.6	3.1	2.9	3.6	4.1	2.8	

New Zealand economic growth forecasts

	2007		2008		March financial years			Calendar years		
	Q4	Q1	Q2f	Q3f	06/07	07/08	08/09f	2007	2008f	2009f
GDP % qtr	0.8	-0.3	-0.5	0.1	-	-	-	-	-	-
Annual avg change	3.1	3.0	2.3	1.5	1.6	3.0	0.5	3.1	0.6	2.8
Unemployment rate %	3.4	3.6	3.8	4.3	3.7	3.6	4.9	3.4	4.6	5.0
CPI %qtr	1.2	0.7	1.6	1.9	-	-	-	-	-	-
Annual change	3.2	3.4	4.0	5.5	2.5	3.4	4.7	3.2	5.1	1.7

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Food & fast food retailing

Retailers at the pointy end of the consumer slowdown.

Retail sales: sharp decline points to a difficult road ahead

Just as consumers have borne the brunt of the interest-rate induced slowdown in Australia's domestic demand, so too retailers have borne the brunt of the consumer downturn in early 2008. Retail sales rose 8.3% in the year to December but declined 0.3% in the six months to June; a 0.9% decline in inflation-adjusted terms and a 1.6% fall in real per capita spending. Indeed, the first half of 2008 has been the biggest six-monthly drop in retail sales since the early 1990s recession (excluding the post-GST period in 2000). Sales should see some bounce in coming months, initially as tax cuts, lower fuel prices and one-off boosts from specific events give a lift and then later as rate cuts stimulate demand. However, underlying conditions are expected to remain difficult through the second half of 2008.

Food retailing stalls ...

Food and fast food retailing has tracked the broader weakness in retail although performances have varied across segments. Real sales volumes excluding gambling fell by an estimated 1.3% in the first half of 2008. Higher food price inflation has also played a part. Nominal sales growth has slowed from 7.9%yr in 2007Q4 to 3.9%yr in 2008Q2 while sales in inflation-adjusted 'volume' terms have slowed from 4.3%yr in 2007Q4 to -0.1%yr. Across sub-segments, cafes & restaurants and 'other food' retailing (which includes liquor and specialty food stores) have seen the sharpest turnaround while takeaways, pubs & clubs and basic food retail have held up better.

... a weak two years ahead.

Overall, food and fast food sales are forecast to rise 0.4% in 2008 and 2.0% in 2009, marking the weakest two years of growth since 1997-98 (excluding the GST introduction period).

WA, Qld coming back to the pack ...

States: 'resource divide' closes for retail

As noted in our May report, the slowdown in retail sales – while broadly spread across the states – has been most pronounced in the resource states. In the case of food and fast food retail, trend sales growth has gone from double digit annual rates in WA and Queensland to just 0.9%yr and 4.4%yr respectively. Trend growth in the more discretionary hospitality and services segment (dominated by restaurants, cafes, hotels and clubs) has turned from 12.2%yr in 2007Q3 to -5.0%yr in 2008Q2 in these two states. By contrast, sales in NSW and Victoria have slowed but only from around 5%yr to 1.5 to 2%yr over the same period.

... but mining boom will still see resource states outperform medium term.

The higher starting point for retail sales growth in the resource states, a sharper slowdown in employment growth from previously red-hot rates due to worsening labour shortages, and a housing bust in WA have all contributed to the bigger turnaround. That said, this under-performance is unlikely to widen or last long as the mining continues to driving above-trend income growth.

Staples stable ...

Basic food: counter-cyclical switch to staples plus easing price pressures

This segment covers the staples: supermarkets, fruit and vege stores, liquor retailers, butchers, bakers and specialty food stores. It accounts for about two thirds of the total spend on food and fast food. It is also one of the least cyclical components of consumer spending as it covers many staples/necessities and items that exhibit 'counter-cyclical' demand as consumers opt for cheaper food alternatives during tough times.

Despite this stability, this segment has still seen a notable slowing in sales over the last year. Sales volumes for basic food retail (i.e. ex takeaways) has moderated from an estimated 5.4%yr in December 2007 to just 1.4%yr in June 2008, with the first half of the year seeing sales rising at an annualised pace of just 1.7%yr, well below the long run average growth rate of 2.7%yr.

... despite some crimping of sales volumes from a recent burst of price inflation.

Strong price rises have been a factor in this segment over the last year but pressures look to be easing some what. Basic food price inflation has averaged 4.5%yr since 2006, well above the 3.1% average recorded since 1990. The elevated inflation reflects rising world food prices and difficult growing conditions affecting the price of many 'non-traded' foods (fresh fruit and veges in particular).

Basic food prices showing signs of easing.

More recently however, prices have eased somewhat. Basic food inflation eased back to 3.5%yr in Q2. Moreover, the world prices for many food commodities have also pulled back. Improved growing conditions are also seeing some easing in fresh fruit and vege prices. To the extent that these are sustained, falls should provide some ballast to sales volumes over the second half of 2008.

Food & fast food retailing

Chart 1.

Total retail turnover

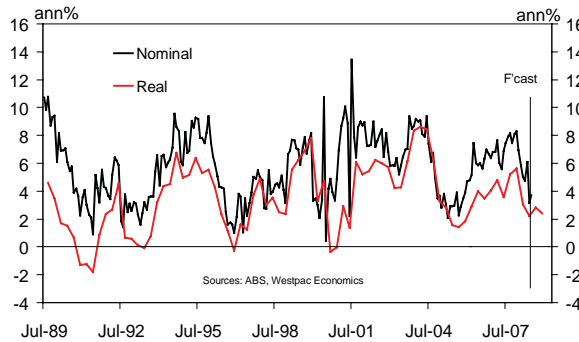


Chart 2.

Westpac-MI Consumer Sentiment Index

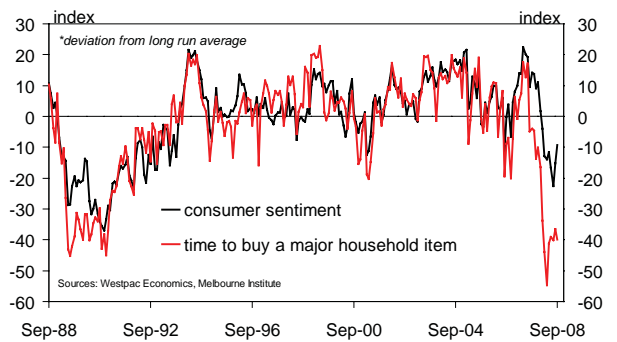


Chart 3.

Food & fast food retailing*

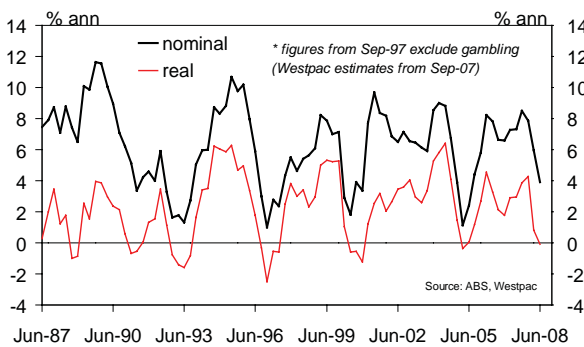


Chart 4.

WA, Qld lead broad slowdown in food retail

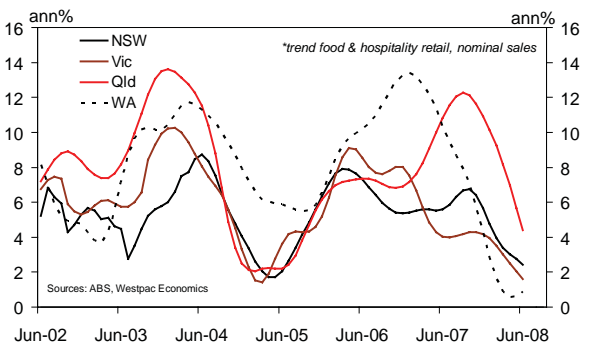


Chart 5.

Retail sales: detailed segments

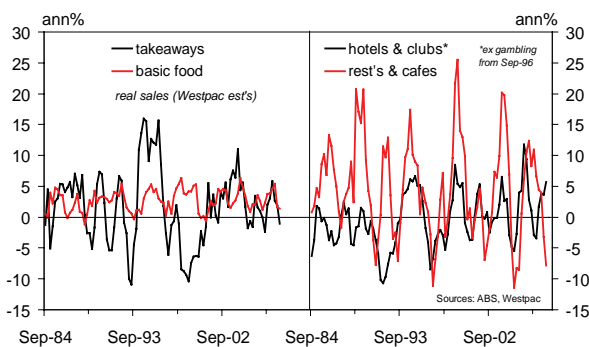
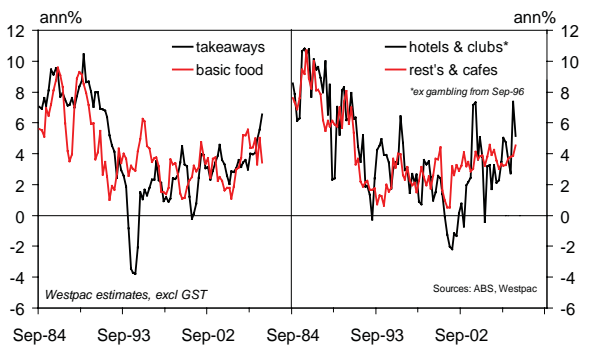


Chart 6.

Retail prices: detailed segments



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Food & fast food retailing

Consumers still ordering in ...

Takeaway food retailing: vols +3.8%yr June 2007; +1.2%yr June 2008

Spending on takeaways makes up about 9% of total food and fast food retailing. Although it enjoys some of the counter-cyclical features of basic food, i.e. consumers switch from more expensive dining out options to dining in when faced with budget constraints, spending in this segment has still slowed sharply over the last year. Sales volumes rose an estimated 5.8% in the year to September 2007 but have fallen 3.3% in the three quarters to mid-2008.

Overall, this is still a better performance than during historical downturns: sales volumes in this segment have fallen by more than 10% in previous cycles. And this is despite the slowdown being aggravated by higher prices. According to the CPI, takeaway prices rose 6.5% in the year to June 2008, the strongest increase since 1991 and well above the 2.8%yr average rise recorded since 1990. Much of this appears to be due to the accumulated pressure of several years of strong rises in basic food prices (see above). As such, the inflation pulse should ease as these upstream cost pressures subside. However, it may be a slow process. Continued softness in demand however, will further dampen price pressures.

... but cutting back sharply on eating out.

Restaurant & cafe spending: vols +6.6%yr June 2007; -7.9%yr June 2008

This is by far and away the most cyclical component of food & fast food retail, accounting for roughly 11% of total spending. Accordingly, it has seen the starkest turnaround in sales since late last year. Sales volumes rose an estimated 10.9% in the year to March 2007 but plunged an estimated 7.9% in the year to June 2008. The downswing is on a par with previous cyclical downturns.

Consumers are clearly cutting back sharply on discretionary expenditure such as dining out as they have become increasingly concerned about meeting mortgage repayments, higher fuel prices, their job security and financial situation more generally. Cost escalation appears to have been less of a factor in this segment than in other food segments – although prices rose 4.5% in the year to June 2008, this is around about the average rise seen over the past five years. Indeed, the weakening in demand has likely capped price rises over the last year. Although some improvement in consumer sentiment is likely to see some firming in demand in the months ahead, the outlook for this segment will remain bleak through 2008 and 2009.

Hotels & clubs bucking the trend as slumping gaming revenues following the introduction of smoking bans ...

Hotels & clubs ex gambling: vols -3.4%yr June 2007; +5.7%yr June 2008

This segment accounts for around 10% of total food & fast food retailing and about 35% of the 'prepared food' retail spend. Recent spending patterns have been complicated by the introduction of smoking bans between June 2005 and 2008 (most states having fully phased bans in by July 2007). These have punctured gambling revenues, which are down an estimated 20% since the bans were introduced after growing at double-digit rates prior to this.

... encourage venues to seek new patrons; cheaper offerings also a lure.

However sales ex gambling, made up of both food and alcohol sales, have risen an estimated 5.7% in real terms in the year to June 2008. We suspect this reflects two things: a positive spinoff from the smoking bans, as the smoke-free environment encourages new patrons, and some of the 'downshift' effects noted above, i.e. consumers switching from restaurants and cafes to cheaper hotel and club meals.

Given that the decline in gambling revenues appears to be moderating, the overall prospects for this retail component now look somewhat less bleak than they did six months ago even with the sharp slowdown in total food retail spending.

Price inflation remains a wildcard but there are some promising signs that global pressures are easing.

Price pressures: drag starting to abate?

Rising inflation has been a notable feature of the food retail sector in recent years. Food price inflation has been significantly higher since 2006, running at well over 4%yr. Inflation in the 'prepared food' segments was more subdued through 2006 and early 2007 but started to pick up notably in the second half of 2007 to over 4%yr.

Looking forward, significant upward price pressure is likely continue in both segments in 2008 and 2009. Global food prices have risen sharply over the last 18 months, especially wheat and dairy (up 51.6% and 40.4% respectively in AUD terms). Meanwhile, higher fuel prices continue to push up the cost of transportation. The cost of both basic and prepared food is likely to rise as a result even with softer consumer demand.

Food & fast food retailing

Chart 1.

Food & fast food retailing: large vs small

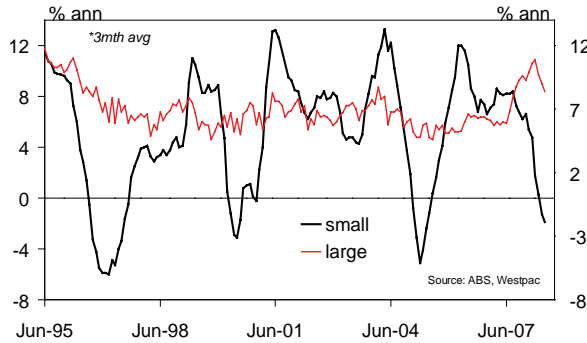


Chart 2.

Hotels & clubs: food vs gambling

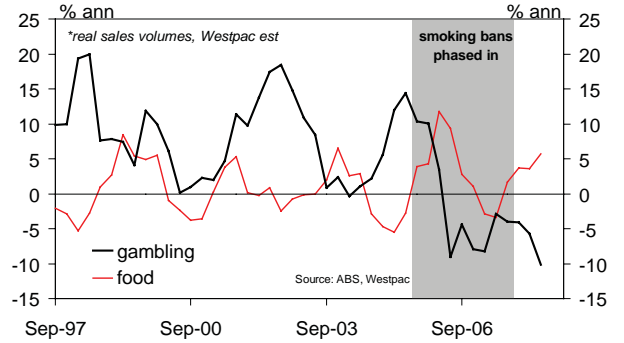


Chart 3.

Fuel prices fall but AUD slide offsets locally

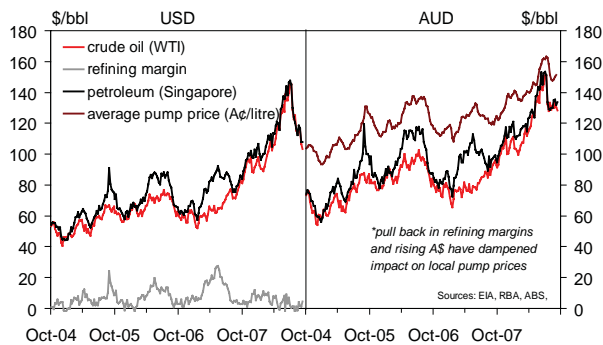


Chart 4.

Tentative easing in price pressures

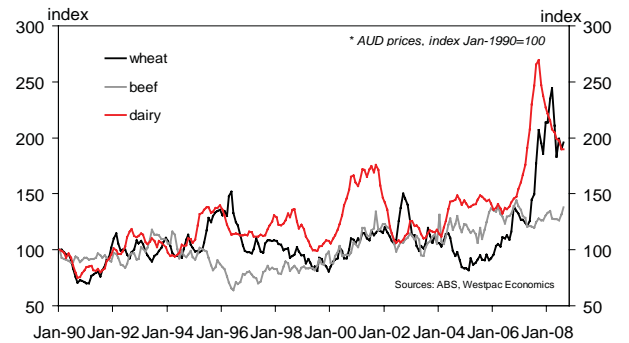


Chart 5.

Food inflation: year to March 2008

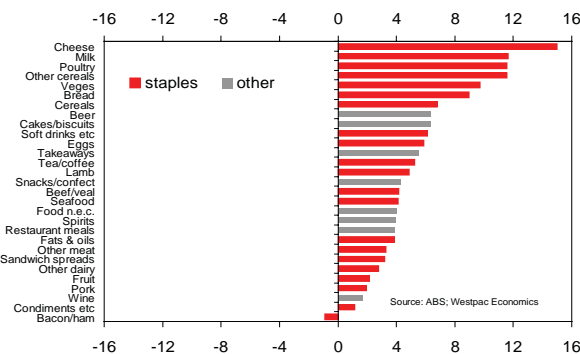
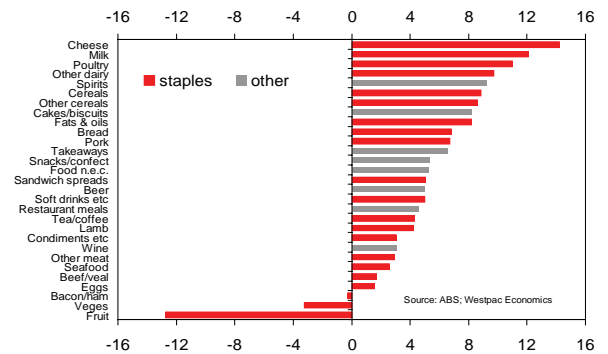


Chart 6.

Food inflation: year to June 2008



Past performance is not a reliable indicator of future performance. The forecasts given above are predictive in character. Whilst every effort has been taken to ensure that the assumptions on which the forecasts are based are reasonable, the forecasts may be affected by incorrect assumptions or by known or unknown risks and uncertainties. The results ultimately achieved may differ substantially from these forecasts.