

# Driving ahead

## NZ Q2 real retail sales rose 0.9%

- Retail sales volumes rose 0.9% in the June quarter (nominal sales up 1.7%, prices up 0.8%), more than we expected. Cars and durable goods led the gains.
- The regional breakdown suggested a solid but narrowly focused post-quake rebound in the Canterbury region.
- Growth and inflation pressures continue to run ahead of the RBNZ's assumptions, but we think global risks will stay its hand on rates for now.

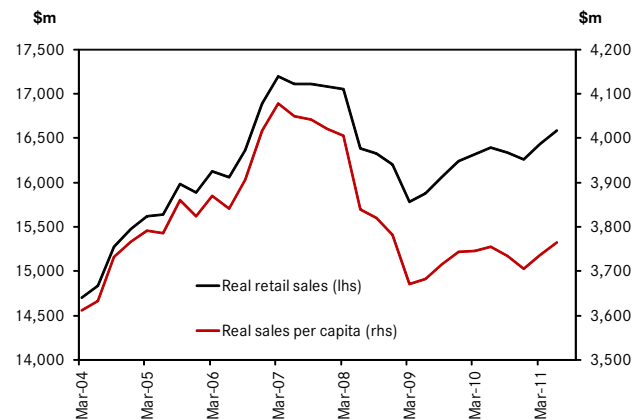
New Zealanders have begun to crack open their wallets again this year, although rising prices continue to eat away at their purchasing power in some cases. The 1.0% rise in core retail volumes for the June quarter was mostly in line with what the debit and credit card transaction figures were saying; however, better than expected car sales lifted total retail sales growth to 0.9%, ahead of our 0.4% forecast. On that basis, we see upside risks to our current forecast of 0.6% growth in Q2 GDP.

Quarterly growth comparisons have been troubled lately by some significant one-off factors. The increase in GST last October affected the figures between September and March (sales were brought forward from Q4 into Q3, then returned to normal in Q1). Then there was the Christchurch earthquake on 22 February, which depressed sales in Q1 before a partial rebound in Q2. In times like these it may be more helpful to look at the smoothed 'trend' measure, which was up 0.6% for the quarter and 1.1% on a year ago.

The biggest positive contribution was a 4% rise in vehicle and parts sales. We were expecting a flat outcome, based on car registrations over the quarter – in particular, new car registrations were down due to supply disruptions following the Japanese earthquake. But it appears that car yards were able to meet growing demand by running down their inventories.

The other big positives were a 10% jump in electrical and electronic goods, a 5.4% rise in recreational goods, a 1.2% rise for department stores, and a 4% rise for pharmacies and 'other'. Notably, cheaper imports via the high New Zealand dollar don't appear to have been much of a factor – for most of these groups the price index was down by less than 1%, and the 2.7% fall for

Real Retail sales (s.a)



electronic goods wasn't unusually large in the context of a long-running trend decline in prices.

On the softer side, food sales were about flat, hardware and building supplies were down 1.6%, and fuel volumes fell 4%, balancing out the 4.5% rise in prices over the quarter. Non-store and commission-based retailing – a category that surged after the February earthquake put many stores out of action in Christchurch – fell by 5%, but was still up 25% on a year ago.

Statistics NZ cautions that the retail survey is not really designed to measure sales by region. Nevertheless, given the level of interest in the impact of the February quake, they did provide some additional details on the Canterbury region (not deflated or seasonally adjusted). Spending growth did outpace the rest of the country in the region (and even more so in Christchurch itself), with the biggest contributions being a 16% rise in fuel and a 10% rise in hardware and building supplies, against roughly flat outturns nationwide.

### Market implications

The stronger than expected retail figures, along with the sharp rise in July food prices published at the same time, saw markets nudge up their OCR expectations slightly. The two-year swap rate rose by two basis points to 3.37% – a move that could easily be swamped in the turmoil created by overseas developments.

For further information, questions or comments contact Dominick Stephens, Chief Economist, Ph: (64-9) 336 5671, email dominick\_stephens@westpac.co.nz

For all clients: Westpac Institutional Bank is a division of Westpac Banking Corporation ABN 33 007 457 141, incorporated in Australia ("Westpac"). The information contained in this report: does not constitute an offer, or a solicitation of an offer, to subscribe for or purchase any securities or other financial instrument; does not constitute an offer, inducement or solicitation to enter a legally binding contract; and is not to be construed as an indication or prediction of future results. The information is general and preliminary information only and while Westpac has made every effort to ensure that information is free from error, Westpac does not warrant the accuracy, adequacy or completeness of the Information. The Information may contain material provided directly by third parties and while such material is published with necessary permission, Westpac accepts no responsibility for the accuracy or completeness of any such material. In preparing the Information, Westpac has not taken into consideration the financial situation, investment objectives or particular needs of any particular investor and recommends that investors seek independent advice before acting on the Information. Certain types of transactions, including those involving futures, options and high yield securities give rise to substantial risk and are not suitable for all investors. Except where contrary to law, Westpac intends by this notice to exclude liability for the information. The information is subject to change without notice. Westpac expressly prohibits you from passing on this document to any third party. Westpac Banking Corporation is registered in England as a branch (branch number BR000106) and is authorised and regulated by The Financial Services Authority. Westpac Europe Limited is a company registered in England (number 05660023) and is authorised and regulated by The Financial Services Authority. © 2011 For Australian clients: WARNING – This document is provided to you solely for your own use and in your capacity as a wholesale client of Westpac.

While things are now heading in the right direction for retailers, it's still going to be a long road to recovery for the retail sector – sales volumes per capita are still a whopping 7.7% below their early 2007 peak. Our view has been that without the wealth effect of rising house prices, consumer spending growth will be broadly constrained by the pace of income growth. It's that last leg that was lacking through much of last year, and has gradually returned this year as jobs and wages have risen.

The retail trade component of GDP is calculated on a slightly different basis to this survey, and we don't yet have the details to produce a final estimate. However, taking this survey at face value, along with other recent sectoral indicators, suggests that we will probably be revising up our preliminary forecast of 0.6% growth in June quarter GDP.

With economic growth apparently still tracking ahead of the Reserve Bank's MPS assumptions, and with inflation – actual and expected – remaining uncomfortably high, the pressure is on for OCR hikes to resume sometime soon. However, we think that global market volatility will keep the Reserve Bank's finger off the trigger at least until December.

**Dominick Stephens**, Chief Economist, Ph: (64-9) 336 5671

**Michael Gordon**, Senior Economist, Ph: (64-9) 336 5670