

14 November 2011

# The world came to play

## NZ Q3 real retail sales surged 2.2%

- Retail sales volumes rose 2.2% in the September quarter, reflecting a boost to spending by overseas visitors during the Rugby World Cup.
- Spending in domestically-oriented categories was more mixed but showed signs of gradual improvement.
- These figures present upside risk to our near-term GDP forecasts, but the impact will be temporary and the RBNZ will continue to wait out the global turmoil.

### Summary

September quarter retail sales saw a much larger Rugby World Cup-related boost than other data sources to date had suggested – though, we should add, more in line with pre-tournament expectations. This presents an upside risk to our forecast of 0.5% GDP growth in Q3, although given the temporary nature of the RWC boost, and the deteriorating global picture, today's figures are unlikely to influence the RBNZ's thinking on the timing of rate hikes – we continue to expect a 25bp hike next June.

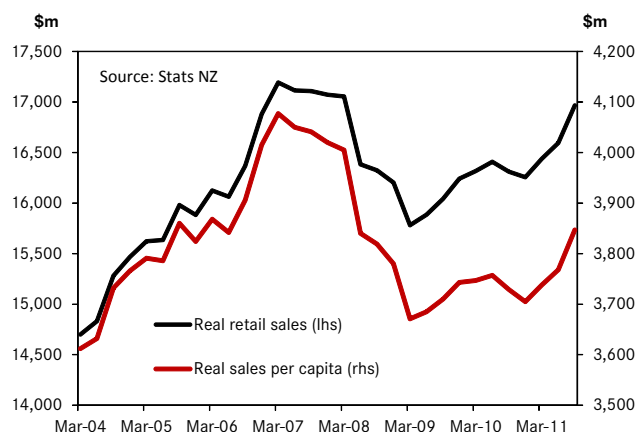
### Details

Real retail sales rose 2.2% in the September quarter, much higher than we or the market expected. The largest gains were in food and accommodation, but aside from durable goods there were strong gains across every storetype, suggesting that locals contributed to at least some of the spend-up.

The biggest growth contribution – about two thirds – was from food and beverages. Supermarkets and grocery stores were up 3.8%, specialised food rose 5% and liquor rose 3.5%. This was the major surprise for us, as the monthly electronic cards figures had indicated a roughly flat result – and cards' share of purchases tends to be quite high in these areas. That suggests there was a higher than usual share of cash and cheque transactions, something more likely to be associated with overseas visitors. Food and beverage services (restaurant, cafes and bars) also saw a solid 1.7% increase.

By percentage, the biggest increase was in accommodation (up 6.5%). This was again much stronger than what the cards data for the quarter indicated, although the difference here may be more straightforward. Card billings have been consistently strong

Real Retail sales (s.a)



since May (and probably would have risen earlier than that, were it not for the disruptions after the February earthquake), whereas it appears that the retail survey didn't capture these until they were 'consumed' during the tournament.

Durable goods, a more domestically-oriented category, showed a mixed picture. Department store sales were flat, and furniture fell 6% (this group is very volatile, but the trend remains down). However, electronic goods rose 1.6%, on top of a 16% gain in the previous two quarters. Much of the growth in this category tends to come from falling prices and technological progress, which means that people get more bang for their buck – think of it as people buying bigger TVs rather than more of them. Even so, the dollar value of spending in this category has been significantly higher in the last two quarters.

The auto-related sectors (which are no longer seasonally adjusted) showed solid gains. Vehicles and parts rose 1.8%, a fraction of which will represent a recovery from constrained supply in Q2 after the Japanese tsunami. Fuel spending fell 3% in nominal terms, but with prices down for the quarter that translated to a 1.2% rise in volumes.

The regional breakdown showed the strongest gains in Canterbury (+3.8%) – the only region that didn't host RWC

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games. However, the reopening of two major shopping malls will have boosted spending relative to the June quarter.

It's worth noting that the retail survey does not include spending on rugby match tickets, which has been accruing since last year. However, this will be captured in GDP for Q3 and Q4, in the services component of private consumption.

Setting aside the significant but temporary boost from RWC-related spending, the retail figures suggest some improvement in underlying demand, but this should be kept in perspective. Real retail sales per capita have recovered less than half of the 10% drop seen during the recession, and they will continue to face headwinds from the overhang of household debt, a subdued housing market, slow jobs growth, the disappearance of dozens of non-bank lenders, and increased consumer caution.

The New Zealand dollar rose 40pts to 0.7930 after the release, but eventually gave back these gains. The two-year swap rate rose 4 basis points, having ended last week at a record low of 2.94%. Global developments remain to the fore, and given the temporary nature of the RWC boost, today's figures add little to the case for higher interest rates. The RBNZ's most recent projections pointed to hikes resuming in March next year; we think it more likely that this will be pushed out to June.

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