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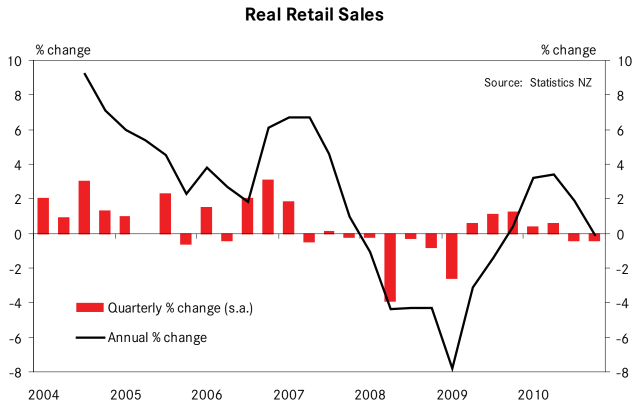
Westpac Institutional Bank

Holding back

NZ Q4 retail sales volumes down 0.4%

- **Retail sales volumes fell 0.4% in the December quarter, reflecting the stalled economic recovery, a post-GST hangover and the aftermath of the Canterbury earthquakes.**
- **Spending was soft over the Christmas period, although timelier data points to a solid start to 2011.**
- **Today's release does not in itself raise the likelihood of a double-dip recession in the second half of last year.**



Key results

Quarter	Q3	Q4	Q4 Expected	
	2010	2010	WBC	Mkt
Total sales, real	–0.4	–0.4	–0.2	–0.5

Month	Nov	Dec	Dec Expected	
	2010	2010	WBC	Mkt
Total sales, nominal	1.2	–1.1	0.0	–0.4
Core sales, nominal	–0.4	–1.2	–0.4	–0.3

Retail sales volumes fell 0.4% in the December quarter, a slightly larger drop than we estimated. Excluding the auto-related sectors, sales were flat for a second quarter in a row, ending a five-quarter growth streak since the recession officially ended in June 2009.

While there are some caveats to this survey that we'll discuss shortly, these figures tell the general tale of the consumer over the course of last year. The recovery in activity stalled in the middle part of 2010; employment prospects dimmed, and house values began to fall again as tax changes reduced the benefits of property investment. With no income growth or perceived wealth increases to speak of, households reined in their spending accordingly.

Part of the December quarter decline can also be chalked up to one-off factors. First, the increase in GST on 1 October saw some purchases of big-ticket items – furniture, electrical goods, hardware and vehicles – pulled forward into September, with a consequent dip in sales in the following months. The second factor was a drop in spending in the Canterbury region following the 4 September earthquake. The regional breakdown of the retail survey suggests that spending in the region was running ahead of the rest of the country in the December month (perhaps due to replacements of damaged household items), but was behind for the quarter as a whole.

Partly offsetting the weakness in big-ticket purchases, there was a 1.9% rise in supermarkets and grocery stores, and a 2.3% rise in clothing. Auto-related spending was weaker on balance, with a 6.4% rise in fuel volumes but an 8.2% drop in vehicles and parts. Stats NZ no longer seasonally adjusts these series, claiming that the seasonal pattern is unreliable; we think there's still seasonality in there, and would recommend taking those quarterly movements with a pinch of salt.

The retail price deflators (which exclude the impact of the GST increase) were subdued again in the December quarter, though there were no particular signs of further pressure towards discounting. In seasonally adjusted terms, the 1.5% fall in electrical goods prices was actually slightly less than average, and may reflect the waning benefits of a strong currency (the NZ dollar was close to flat over 2010). There were also price declines for recreational goods and clothing (the latter sector was notably unable to pass on the GST increase). A 3.8% rise in fuel prices left overall retail prices up 0.3% for the quarter.

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For the December month, the 1.1% drop in spending was larger than we expected. The timelier electronic card transactions measure had fallen 0.8% in December, followed by a 2.4% bounce in January. Our estimates suggested that this might be overstating the variability in spending over the Christmas period – which turned out not to be the case. We will be bumping up our forecast for January retail sales accordingly.

The weakness in December was concentrated in a few major categories. Supermarket sales fell $39m (2.9%) – the second large monthly drop in a row, following a 5% rise in October. So far we've been willing to write this off as a belated GST timing effect, but the latest month's decline is harder to fathom. The other headscratcher was an 11% drop in hardware, building and garden supplies. Generally speaking, sales in this sector have followed the trend in housing turnover, so are understandably well below their 2007 peaks. But given that house sales were ticking up again by the end of 2010, it's hard to explain such as large drop in spending. Finally, the 3.8% fall in vehicles and parts was more than we expected, although car registrations for the month had pointed in that direction. Perhaps we just need to chalk these up to monthly volatility – something that will trouble us less in the future, as Stats NZ is scaling back the retail survey to a quarterly frequency.

Market implications

The NZ dollar initially fell 30pts to 0.7560, while the two-year swap rate fell 3bps to 3.79% after the release. The monthly figures are where most of the 'new' information content lies, and the market responded accordingly to the downside surprise.

There's a keen interest at the moment as to whether the economy contracted again in Q4, fulfilling the technical condition for a 'double dip recession' in the second half of last year. Today's release does not in itself strengthen the case for this, though it probably won't hurt it either. The retail trade survey was dramatically overhauled in October – services are out, online retailers are in, and many industries have been redefined and reweighted. This has dramatically changed the history of this series: the 0.7% rise in Q3 sales volumes under the old survey design has become a 0.4% decline under the new one.

The tricky part is that the retail component of GDP will still be based off the old survey design for a while longer. Stats NZ will provide a comparable retail figure at a later date – we'll hold fire on our GDP forecasts for now, though we don't expect this will change the overall story on household behaviour. The lack of meaningful income growth, and flat to falling house values, constrained households' willingness to spend over the second half of 2010.

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Seasonally-adjusted Real Retail Sales (qtr % chg)

	Mar-10	Jun	Sep	Dec
Supermarket and grocery stores	–1.8	0.8	0.0	1.9
Specialised food	–1.6	2.4	–2.6	0.5
Liquor	–3.9	–0.7	–5.3	1.2
Non-store & commission-based	–3.5	–5.8	–4.5	–3.2
Department stores	1.5	0.3	–0.6	0.2
Furniture, flooring, houseware, textiles	1.6	3.6	–1.9	–9.4
Hardware, build & garden supplies	2.8	–1.3	1.0	–3.3
Recreational goods	–1.6	–4.0	0.3	0.8
Clothing, footwear, and accessories	1.6	5.6	0.8	2.3
Electrical and electronic goods	3.0	4.3	3.9	–1.6
Pharmaceutical & other retailing	2.7	0.3	–1.0	–2.0
Accommodation	4.6	6.2	–0.4	–1.0
Food and beverage services	–1.3	–2.0	0.1	0.6
Core industries total	**0.3**	**0.2**	**0.0**	**0.0**
Motor vehicles and parts	4.1	4.0	1.7	–8.2
Fuel	–1.4	–4.0	–5.1	6.4
All industries total	**0.4**	**0.6**	**–0.4**	**–0.4**