

Payback

NZ Q1 real retail sales fell 1.5%

- **Real retail sales fell 1.5% in the March quarter, as payback for the temporary spending boost provided by the Rugby World Cup in the previous two quarters.**
- **Setting that aside, there are signs that domestic spending has accelerated a little, in line with the pickup in the housing market.**
- **The scale of the pullback in spending is unlikely to come as a surprise to the Reserve Bank.**

Summary

Retail spending fell back to normal levels in the March quarter, unwinding the boost that was provided by the Rugby World Cup (RWC) in the previous two quarters. Stripping out the effects of the tournament, retail spending by New Zealanders appears to have picked up the pace a little in the last year, in keeping with the modest recovery in the housing market over that time. The outturn seems to have come as a surprise to some forecasters, but we suspect that it was much in line with the Reserve Bank's and Treasury's thinking.

Details

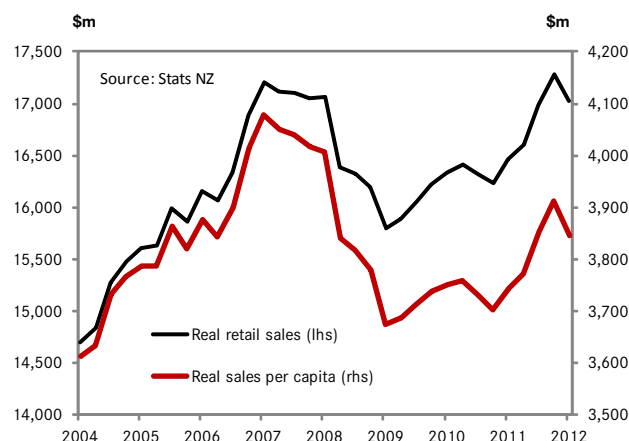
Real retail sales fell 1.5% in the March quarter, following the RWC-driven gains of 2.3% in September and 1.8% in December. The latter was revised down from 2.2% growth, partly a reflection of the seasonal adjustment getting a better grip on the one-off impact of the RWC. Core sales (excluding vehicles and fuel) were down 2.5%.

Not surprisingly, the largest declines were in those categories that appeared to benefit most from the tournament. Supermarkets and grocery stores received the biggest boost in the previous two quarters, and this was more than reversed in the March quarter – in fact, spending fell to its lowest level in three years. However, we've had qualms about this portion of the retail survey for some time – for instance, total supermarket sales are far more volatile than the quarterly sales figures reported by Woolworths, which makes up about a third of the market. Varying response rates may be an issue here.

There were also substantial falls in the tourism-linked sectors: accommodation fell 5.0%, while cafes, restaurants and bars fell 0.6%. Both groups also saw downward revisions to the December quarter, based on updated tax return data.

In contrast, indicators of domestically-oriented spending were relatively robust. The durable goods categories – department stores, furniture, recreational and electronic goods – largely held on to the solid gains that were seen in the December quarter.

Real Retail sales (s.a)



Strength in these groups is often associated with housing turnover, as people use the occasion to buy new household items or replace old ones.

There is little evidence that retailers were relying on discounting to sustain sales in these categories. Department store prices rose 2.0%, furniture prices rose 1.1%, and electronic goods prices fell by a less-than-usual 1.8%. A 0.7% price increase for vehicles and parts failed to deter a 5.7% increase in sales volumes.

Cantabrians replacing quake-damaged items may have also contributed at the margin. The regional breakdown (for nominal sales only) suggests that there was further catch-up in the Canterbury region in the March quarter (+1.0% compared to -0.8% nationwide). However, a second whopping increase in sales in the Waikato region (now up 21%yr!) serves as a reminder that the regional breakdown should be treated with caution. Statistics NZ will publish a more detailed review of retail spending in Christchurch in late June.

Implications

The 1.5% decline was weaker than the market median forecast of -0.5%. However, the median hides a lot: one group of forecasters was much in line with our -1.4% pick, while another group expected an increase in spending on top of the sharp gains of the previous two quarters. Given that all but one in this group were overseas-based, perhaps we can infer that less rugby-mad nations underestimated the scale of the RWC?

More importantly, we believe that today's outturn was in line with official estimates of the impact of the RWC (and implicitly, the underlying pace of consumer spending growth). Neither the

RBNZ nor the Treasury publish forecasts of retail sales, but they have given estimates of RWC-related activity – for instance, the RBNZ estimated a \$925m nominal increase in tourist spending. If we draw a straight line between the June 2011 and March 2012 quarters as a proxy for ex-RWC spending, that would imply a boost to retail spending of about \$500m; services such as transport could easily account for the remainder. Therefore, we can assume that the RBNZ would have expected a substantial drop in today's retail figures.

Another perspective on underlying growth is that retail sales were up 3.5% on a year ago, an improvement on the roughly 1%yr pace seen in the first half of 2011, ahead of the RWC. The lift in house prices over the last year will have given consumers some comfort, and should continue to do so over the next year. That said, we expect only modest house price gains compared to the previous decade's boom; household spending growth will continue to be more reliant on income growth than on wealth effects.

Seasonally adjusted real retail sales (quarterly % change)				
	Jun-11	Sep-11	Dec-11	Mar-12
Supermarket and grocery stores	-0.1	3.5	1.4	-7.4
Specialised food	-4.6	7.0	8.8	0.0
Liquor	2.6	3.1	0.3	2.1
Non-store and commission-based	-4.3	4.7	2.0	0.0
Department stores	1.7	0.9	6.3	-1.9
Furniture, flooring, textiles	1.0	-4.4	9.5	2.2
Hardware, building, garden supplies	-1.4	1.0	2.4	-0.3
Recreational goods	5.2	0.9	-0.7	4.6
Clothing, footwear, and accessories	0.4	2.2	0.2	-1.5
Electrical and electronic goods	9.3	3.0	8.5	-1.3
Pharmaceutical and other retailing	4.0	2.4	0.1	2.6
Accommodation	-0.1	6.2	0.6	-5.0
Food and beverage services	0.6	1.7	1.2	-0.6
Core industries total	1.0	2.5	2.3	-2.5
Motor vehicles and parts	4.2	1.8	-3.9	5.7
Fuel	-4.1	1.2	4.4	-1.9
All industries total	0.9	2.3	1.8	-1.5

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