

Payback

NZ Q3 retail retail sales rose 0.3%

- Retail sales slowed unexpectedly sharply in the September quarter – retail sales volumes rose just 0.3%, and ‘core’ volumes (excluding vehicles and fuel) fell 0.1%.
- This jars with other evidence, but may simply be payback for an equally surprising surge in the June quarter.
- Overall the balance of evidence suggests solid momentum in consumer spending – but not as spectacular as June’s retail trade report might have led to believe.

Most indicators for consumer spending suggested that the upswing in retail activity that we saw in the first half of 2013 had continued into the September quarter. Consumer confidence held up at fairly high levels. ‘Core’ electronic cards spending (excluding vehicles and fuel) continued to rise, albeit at a slower pace, as rising petrol prices ate into consumers’ pockets. And retailers reported rising levels of confidence.

Against that background today’s weak retail trade numbers came as surprise, particularly as the softness was so pervasive – both sales volumes and dollar spending fell across a wide range of store-types.

The most likely explanation is that today’s numbers were ‘payback’ for equally surprising strength in the Retail Trade Survey three months ago. In June, core retail volumes surged 2.1%, a much stronger result than other indicators were suggesting at the time.

Of course, this does still mean that the underlying trend in consumer demand was probably less exuberant than we might have thought based on the June data. The report did suggest that rising house prices and the Canterbury rebuild have continued to boost spending – housing-related sales and the Canterbury region were two notable exceptions to the pervasive weakness. However it seems that this strength hasn’t spread to other areas quite as much as the June numbers suggested. Over the year to September, annual growth in core retail sales volumes was 3.9% - still a substantial step up from a year ago, but well shy of the Rugby-World-Cup boosted surge we saw in late 2011.

Details

Adjusted for inflation, retail sales rose just 0.3% in the June quarter, following a 1.5% surge in June (revised down from 1.7%). This was well below the market’s (and our) expectation for a 0.9% rise, and lower than trends in electronic cards spending over the quarter had suggested.

The downside surprises were widespread, with 8 of the 12 surveyed store-types reporting declines. There were particularly large falls in clothing (in part reflecting the warm winter), accommodation (down 4.4%, more surprising given

Seasonally adjusted real retail sales (quarterly % change)

	Dec-12	Mar-13	Jun-13	Sep-13
Supermarket and grocery stores	0.6	0.5	0.7	-0.1
Specialised food	1.5	0.4	0.5	2.2
Liquor	1.2	3.0	-1.2	0.0
Non-store and commission-based	-1.1	7.3	8.1	7.4
Department stores	2.7	0.4	5.2	-2.4
Furniture, flooring, houseware, textiles	3.0	1.9	3.9	4.7
Hardware, building, garden supplies	3.5	1.4	3.8	3.0
Recreational goods	-2.5	-0.5	1.0	-0.6
Clothing, footwear, and accessories	-0.7	-1.8	1.8	-6.8
Electrical and electronic goods	1.9	2.5	5.2	-0.8
Pharmaceutical and other retailing	0.9	1.4	-3.0	0.7
Accommodation	3.7	1.6	2.1	-4.4
Food and beverage services	-0.3	0.6	4.3	0.5
Core industries total	1.0	0.9	2.1	-0.1
Motor vehicles and parts	2.0	1.1	3.0	3.3
Fuel	7.7	-0.5	-5.0	-0.9
All industries total	1.8	0.8	1.5	0.3

recent trends in guest nights) and department stores (down 2.4%). But supermarkets, petrol stations, recreational and electronic goods retailers also saw falls in turnover.

What's more, the widespread weakness in volumes reflected weakness in dollar spending – across the 'core' industries prices were flat on average over the quarter. (As expected, a 4.8% rise in fuel prices saw total retail sales values increase 0.6%).

The only store-types to report major increases in spending were car retailers (up 3.3%, roughly as expected), housing-related stores (furniture and homewares was up 4.8%, hardware and building supplies up 3%), and non-store retailers, a category which largely comprises online sales (this category continued to gain market share, rising 7.5%).

Statistics New Zealand warn against reading too much into the regional breakdown, but the numbers suggest that Canterbury continues to be the major force for growth in retail activity. Sales values in the region rose 2.1% in the quarter, far outstripping any other major region. Sales also accelerated in Wellington (rising 0.7%, the fastest since late 2011, when the numbers were boosted by the Rugby World Cup), but slowed in Auckland and actually fell in the rest of the North Island.

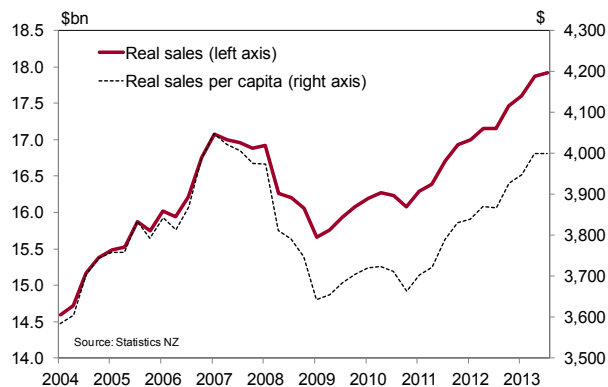
Market implications

Financial markets took the disappointing data in their stride – the NZ dollar briefly fell 25pts but soon regained its previous level.

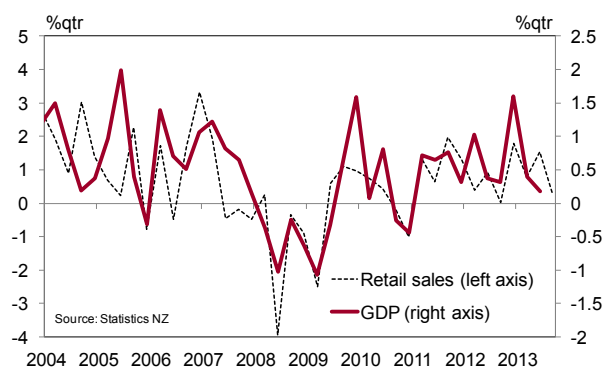
The retail trade survey is one input into GDP, and by itself today's report suggests some downside risk to our 1.2% forecast for September quarter GDP growth. However, it's worth remembering that other factors are likely to have boosted production in the quarter – notably a post-drought rebound in agricultural output. This is the flipside of the June quarter, when retail activity rose 1.5% but the effects of the drought depressed GDP growth to just 0.3%.

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Real retail sales, seasonally adjusted



Retail sales volumes vs GDP growth



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