

# Mid-year cheer

## NZ Retail sales review, Q2 2014

- Retail sales picked up the pace again in the June quarter, rising 1.2%.
- The rebound was stronger than expected, and matches other evidence that the consumer sector has perked up again after a slow start to the year.
- For the Reserve Bank, this reinforces the medium-term case for more OCR hikes, but is unlikely to cause it to rethink its current 'on pause' mode.

Evidence has been building that New Zealand's consumer sector is showing new signs of life after a slow start to the year. The housing market seems to be enjoying a modest resurgence on the back of strong migration, an easing in key mortgage rates, and reviving high-LVR lending. Monthly consumer confidence has perked up again, and electronic cards spending has also been running at a slightly stronger pace in the last few months.

Today's retail trade survey reinforces that message, and indeed paints a slightly rosier picture of the retail sector in the first half of the year than we previously thought. After revisions, it now appears that growth slowed from 1.3% to 0.8% in the March quarter, but then re-accelerated to a 1.2% pace.

The positive tone extended to the survey details. The surprises were concentrated in some of the key 'core' categories – particularly durables spending and hospitality related spending. There was also a strong lift in vehicle-related sales, though this had been well heralded by car registration data and didn't come as a surprise.

The overall message from the industry breakdown is that while consumers continue to be responsive to bargains, there was a genuine lift in spending appetites in the June quarter, probably supported by reviving tourist demand. Particularly big lifts in the quarter were in the aforementioned vehicles category (volumes up 3.6%, prices down an estimated 0.7%), recreational goods (volumes up 3.3%, prices flat in the quarter and down on a year ago), electronic goods (volumes up 2.9%, prices down another 2.2%). But there was also a massive 6% lift in accommodation (building on the previous quarter's 3.4% gain), a 2.7% rise in food and beverage services, and a 2.7% rise in specialised food retailing.

### Seasonally adjusted real retail sales (quarterly % change)

	Sep-13	Dec-13	Mar-14	Jun-14
Supermarket and grocery stores	0.1	-0.7	-0.5	0.1
Specialised food	0.8	-1.7	4.0	2.7
Liquor	0.0	1.6	3.6	0.0
Non-store and commission-based	2.1	-8.7	-0.9	-1.1
Department stores	-1.8	2.3	1.7	0.9
Furniture, flooring, houseware, textiles	3.9	-0.4	-2.1	-0.1
Hardware, building, garden supplies	2.2	0.1	2.2	1.5
Recreational goods	1.6	8.4	-2.3	3.3
Clothing, footwear, and accessories	-8.0	10.0	-1.0	-2.2
Electrical and electronic goods	1.2	3.8	5.3	2.9
Pharmaceutical and other retailing	1.1	1.2	0.9	1.2
Accommodation	-2.9	-1.6	3.4	6.0
Food and beverage services	0.4	-0.6	1.8	2.7
<b>Core industries total</b>	<b>-0.1</b>	<b>0.9</b>	<b>1.0</b>	<b>1.2</b>
Motor vehicles and parts	3.3	0.8	0.6	3.6
Fuel	-0.8	5.7	-0.6	-3.3
<b>All industries total</b>	<b>0.3</b>	<b>1.3</b>	<b>0.8</b>	<b>1.2</b>

Across the retail sector as a whole, consumers continue to enjoy falling prices – on average prices were down 0.2% in the quarter – but despite this dollar spending picked up, with total retail values up 1.0% and ‘core’ values (excluding cars and petrol) accelerating from 0.9% to 1.3%.

Signs of a direct impact of the housing market on retail activity remain mixed, but on balance today’s data support the idea that the housing market has stabilised, albeit at a slower pace than last year. Spending on hardware, building and housing supplies was up 1.5% in the quarter - but the annual trend has slowed from 14% a year ago to 6.1%. And spending on furniture and homewares was roughly flat after two quarters of declines.

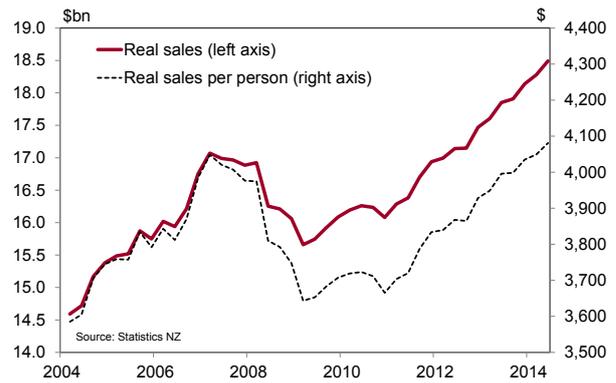
By region, retail sales (by value) remained widely divergent, reflecting New Zealand’s multi-speed economy. They continued to run at a solid pace in Auckland (up 1.2%), picked up noticeably in the Waikato and Canterbury after a weak March quarter (both up 2.9%), but stayed soft elsewhere, with the rest of the South Island up just 0.3%, Wellington down 0.6%, and the rest of the North Island down 0.2%. (A health warning: the regional breakdowns are based on where the head offices are, not on the location of actual retail outlets.)

## Market implications

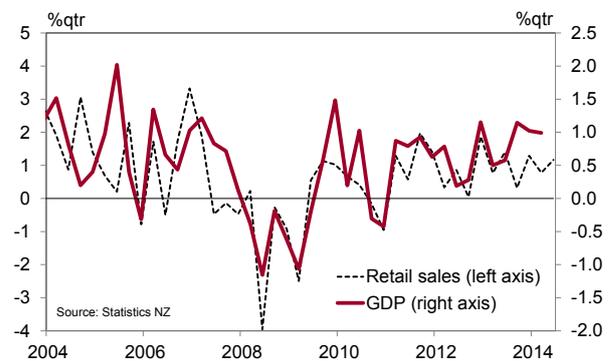
Markets reacted to the positive news by sending the NZ dollar 30 basis points higher, and lifting interest rates 1 basis point.

In our view, the data certainly reinforce the case for further OCR hikes over the next few years. However they are unlikely to bump the Reserve Bank off its current pause setting – after all today’s numbers predate the falls in dairy prices and payout forecast downgrades we’ve seen over the past month. What’s more, the data suggest that retailers are still operating in an environment of widespread price weakness. We continue to expect the RBNZ to keep the OCR on hold until January next year.

## Retail sales volumes, seasonally adjusted



## Retail sales volumes and GDP growth



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