

# Retail sales rebound

## NZ retail sales, September quarter 2015

- Retail spending growth rebounded in the September quarter, boosted by spending on motor vehicles.
- Inflation remains low, which is helping to support spending.
- We expect to see a slowdown in spending over the coming year.

### Sales up, prices down

After stopping for breath in June, retail sales rebounded in September. Over the quarter, the volume of goods sold rose a strong 1.6%, leaving sales up 5.7% for the year. Spending in September was boosted by a pick-up in the volatile motor vehicle category. However, we also saw a solid 1% increase in core retail spending, including gains in spending on durable items (such as electronics) and food services.

At the same time, today's report highlighted that inflation in the economy remains subdued. We estimate that overall retail prices were down 0.3% over the quarter, and prices were down 0.1% when vehicles and fuel are excluded.

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

	Quarter		Annual
	Jun-15	Sep-15	Sep-15
Supermarket and grocery stores	0.2	0.7	1.6
Specialised food	-2.4	-1.4	0.5
Liquor	1.3	1.9	3.7
Non-store and commission-based retailing	8.2	8.7	46.0
Department stores	0.3	1.4	5.0
Furniture, floor coverings, houseware, textiles	-0.8	-1.1	1.3
Hardware, building, and garden supplies	0.1	0.3	6.5
Recreational goods	-1.3	-5.8	-2.5
Clothing, footwear, and accessories	-0.1	-0.1	3.9
Electrical and electronic goods	-0.2	6.6	20.6
Pharmaceutical and other store-based retailing	0.6	0.7	3.1
Accommodation	-2.4	-2.1	6.2
Food and beverage services	-0.2	2.4	5.4
<b>Core industries total</b>	<b>0.0</b>	<b>1.0</b>	<b>5.2</b>
Motor vehicles and parts	1.0	5.0	8.7
Fuel	-1.0	1.3	5.0
<b>All industries total</b>	<b>0.1</b>	<b>1.6</b>	<b>5.7</b>

### How long will the party last?

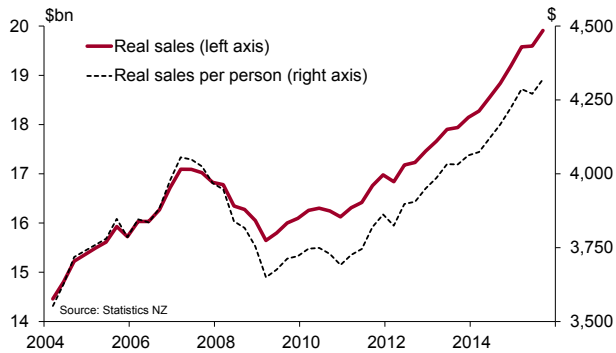
Over the past year retail spending has been boosted by a potent cocktail of low interest rates, softness in prices, strong population growth, and (until recently) the strengthening in the housing market. These factors have meant that headwinds for the economy, such as low dairy prices, haven't spoiled the party for households. The key question remains, how long can this last?

We do expect to see some slowdown in spending over the coming year. We've already seen some softening in the labour market. In addition, the economy will be facing a number of significant headwinds, including drought, the levelling off of the Canterbury rebuild, and a tough global trade environment.

There are two key things we're watching in regards to the strength of household spending. The first is the strength of the housing market. We've recently seen signs that housing demand has been cooling (especially in Auckland) as new lending restrictions and tax policies have come into force. It'll take a while before we get a clear read on just how stark the slowdown in the housing market is. Nevertheless, over time we do expect that softer housing market conditions will translate to lower spending on items such as home furnishing.

The second thing we're watching is migration flows. Strong population growth has provided a significant boost to spending over the past year. And while we do expect the strength in net immigration to be sustained for some time yet, it will eventually turn. Furthermore, with NZ's labour market showing signs of softening as Australia's labour market has picked up, we'll be keeping an eye out for signs that things are turning more rapidly than we have assumed on the migration front.

### Retail sales – total and per capita



### Regional spending

Spending was up in most regions, with particularly strong gains in Auckland and Waikato.

We are seeing signs that retail spending in Canterbury is losing momentum as rebuild spending has plateaued. While we expect the level of activity in Canterbury to remain elevated for some time, the days of very strong increases in spending are now behind us.

### Implications

The implications of today's data for monetary policy are mixed. The resilience in retail spending through mid-2015 is encouraging. But at the same time, inflation in the economy remains subdued.

On balance, today's data have not prompted us to change our views on a December rate cut from the RBNZ. We had expected to see continued strength in household spending, and today's data were only a little above our forecast.

However, the December rate decision will be a finally balanced one. The tone of recent data has been mixed. We've seen strength in household spending and gains in confidence. But at the same time there has been a softening in the labour and housing markets, as well a pull-back in commodity prices and softness in inflation. We'll be watching conditions closely (both domestically and off shore) ahead of the RBNZ's next policy announcement.

There was only a limited response in the NZD following today's data.

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