

A tale of two regions

NZ retail sales, December quarter 2014

- Real retail sales accelerated further in the December quarter, rising 1.7%.
- Although retail prices were stagnant, there was a genuine lift in the dollar value of sales, spread across a wide range of industries.
- However the gains continue to be geographically concentrated, with Auckland and Canterbury enjoying the lion's share.
- The report reinforces the message that New Zealand's domestic upswing is well-entrenched. It will encourage the Reserve Bank to maintain its on-hold stance.

Seasonally adjusted real retail sales (% change)

	Quarter		Annual
	Sep-14	Dec-14	Dec-14
Supermarket and grocery stores	1.6	-1.2	0.6
Specialised food	2.0	-0.7	9.4
Liquor	2.1	-0.1	5.5
Non-store and commission-based	1.6	14.2	14.8
Department stores	2.4	1.3	6.2
Furniture, flooring, houseware, textiles	5.9	0.9	5.2
Hardware, building, garden supplies	1.6	2.3	8.7
Recreational goods	4.0	5.2	11.1
Clothing, footwear, and accessories	-0.6	4.2	1.4
Electrical and electronic goods	0.9	3.4	14.0
Pharmaceutical and other retailing	0.4	0.0	4.0
Accommodation	-5.0	4.6	10.4
Food and beverage services	3.0	3.0	10.1
Core industries total	1.5	1.5	6.0
Motor vehicles and parts	1.9	3.4	5.7
Fuel	2.3	0.4	5.4
All industries total	1.6	1.7	5.9

New Zealand's retail upswing gathered force in the December quarter. Real retail sales rose 1.7%, the fastest quarterly growth since mid-2012. The strength was pervasive, with 9 out of 15 storetypes reporting rising real sales and a majority reporting growth well in excess of 1%. These included construction-related sales (hardware and building supplies, up 2.3%), recreational and electronic goods (up 5.2% and 4.2%, respectively) and hospitality (food and beverage services, up 3%, and accommodation services, up 4.6%). Car and clothing sales were also up strongly, after what had been a fairly slow year.

And this was no longer just a story of consumers chasing bargains and falling prices giving them more bang for their buck. The lift in sales volumes reflected a solid 1.6% increase in the value of spending – and again, the spending was widely spread over store types.

Clearly, the factors currently favouring New Zealand consumers – decent real income growth, low mortgage rates and rising house prices – are now translating into stronger retail spending, with strong population growth and recovering tourist numbers adding to the favourable mix.

Equally, there's no denying that retail price inflation remains very subdued. Overall, retail prices were roughly flat over the quarter and are 1% down on a year ago. A 1.3% drop in petrol prices helped push retail inflation down, but there were also continued steep falls in prices for electronic goods and at non-store retailers. Compared to a year ago, 9 storetypes have seen prices decline.

And while it was a good quarter for a wide variety of retailers, the gains remain geographically very segmented. Spending growth (by value) was concentrated in Auckland (up 2.7%) and Canterbury (2.5%). Elsewhere growth was very modest at best, actually falling 1.9% in the Waikato and down for a fourth quarter in a row in Wellington. These numbers reflect the location of head offices rather than retail outlets, so they need to be taken with a grain of salt, but they suggest that the upswing in New Zealand domestic demand remains largely confined to the hotbeds of housing market and construction activity.

Implications

Today's outturn was even stronger than we had expected, and on its own suggests some upside risk to our forecast for 1% GDP growth in the December quarter. Financial markets responded to the positive surprise by pushing the NZ dollar and 2-year swap rates modestly higher.

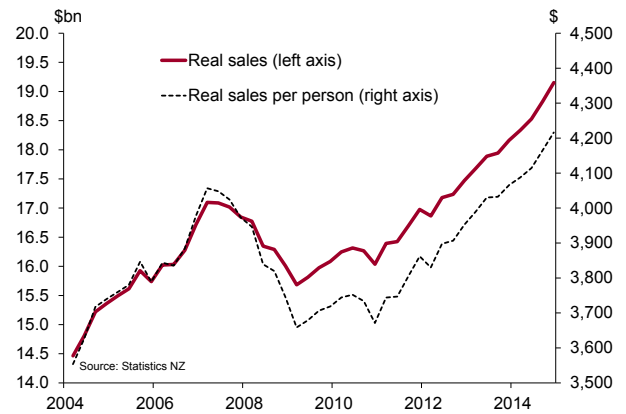
The retail trade survey suggests that the economy has begun 2015 on a powerful groundswell of domestic demand. We expect this to build further as construction activity continues to ramp up and as the combination of low interest rates and lower petrol prices further stimulates consumer sentiment. That will help cushion the economy over the next six months as New Zealand's dairying regions navigate the challenges of a low dairy payout and the recent very dry weather.

For the Reserve Bank, today's result will reinforce its view that the economy is growing strongly, albeit in markedly 'two-speed' fashion, against the backdrop of very low inflation. As such it should reinforce the Reserve Bank's current on-hold stance.

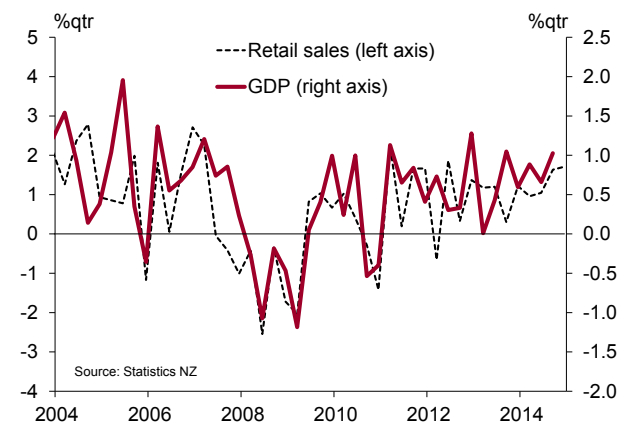
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Retail sales volumes, seasonally adjusted



Retail sales volumes and GDP growth



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