

# Sales firm, prices stagnant

## NZ retail sales, December quarter 2015

- Retail spending growth remains firm.
- Inflation remains low, helping households' budgets to stretch further.

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

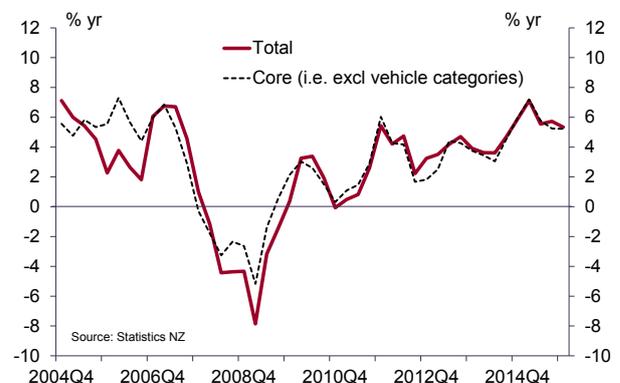
|   | Quarter    |            | Annual     |
|---|------------|------------|------------|
|   | Sep-15     | Dec-15     | Dec-15     |
| Supermarket and grocery stores                  | 0.6        | 0.1        | 2.1        |
| Specialised food                                | -1.0       | 2.2        | 0.8        |
| Liquor  | 1.8        | 1.7        | 6          |
| Non-store and commission-based retailing        | 7.2        | 3.9        | 31.9       |
| Department stores                               | 1.5        | 1.9        | 7.7        |
| Furniture, floor coverings, houseware, textiles | -0.9       | 0.8        | 2          |
| Hardware, building, and garden supplies         | 0.7        | 5.3        | 9.3        |
| Recreational goods                              | -5.4       | -2.5       | -6.8       |
| Clothing, footwear, and accessories             | 0.5        | 1.1        | 3.1        |
| Electrical and electronic goods                 | 5.9        | 2.7        | 15.8       |
| Pharmaceutical and other store-based retailing  | 0.5        | -0.3       | 2.8        |
| Accommodation                                   | -0.9       | 4.8        | 7.6        |
| Food and beverage services                      | 2.4        | 0.9        | 3.9        |
| <b>Core industries total</b>                    | <b>1.1</b> | <b>1.4</b> | <b>5.2</b> |
| Motor vehicles and parts                        | 4.0        | -1.7       | 5          |
| Fuel  | 1.7        | 3.7        | 6.9        |
| <b>All industries total</b>                     | <b>1.5</b> | <b>1.2</b> | <b>5.3</b> |

### Spending continues to grow...

It was a solid end to the year for retail spending. Over the December quarter, total sales were up 1.2%, leaving spending for the year up a healthy 5.3%. While that was a little lower than we and other forecasters were expecting, much of the surprise was due to the volatile vehicles category. Excluding that, spending rose by a firm 1.5%.

After adjusting for price changes, spending was up across 12 of the 15 retail categories in December. There was notable strength in spending on hardware (up 5.3%). We also saw solid gains in spending electronics and in department stores.

### Retail sales

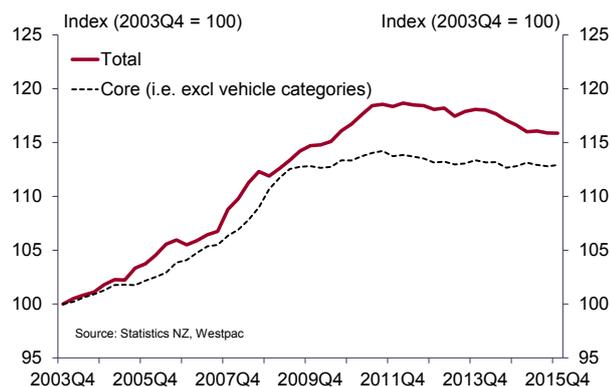


### ...while prices remain stagnant

But while spending has been increasing at a solid clip, prices are still very subdued. Over the quarter, we estimate that retail prices were flat. And for the year they're down by around 0.9%.

It's true that a lot of the softness in overall retail prices has been a result of falls in petrol prices. However, even excluding fuel, retail prices have been flat over the past year. That's despite firm growth in spending and a 14% decline in the NZD/USD since December last year.

## Retail prices



## Domestic and external factors are boosting spending

Combined with low borrowing rates, softness in prices is allowing household budgets to stretch further, providing a strong boost to spending. This has been reinforced by growth in population as a result of increases in net migration.

In addition to the above factors, New Zealand is enjoying a strong tourist season which has been supporting spending in areas such as accommodation.

The above factors are expected to continue providing some support for spending over 2016 (though the strength of spending will be challenged by the deterioration in the global economy and weakness in export prices).

## Regional spending

By region, spending was up strongly in Auckland. There were also solid gains in smaller regional centres in both the North and South Islands.

In contrast, December saw some pull back in spending in the Waikato and Wellington. Spending in Canterbury was also down for a second quarter, and it will be worth watching to see if this continues over the coming year. With reconstruction work now well advanced, the boost to spending and employment in the region will start to gradually wane over time.

## Implications

We've said for some time that despite middling growth, low inflation means that we will need to see OCR cuts over the coming months. Today's data, especially the low inflation readings, supports that view.

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