

# Spending losing steam

## NZ retail sales, September quarter 2017

24 November 2017

- Retail sales growth pulled back in September as earlier boosts to spending faded.
- We expect spending growth will remain modest over the coming year.

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

|  | Quarter    |            | Annual     |
|--|------------|------------|------------|
|  | Jun-17     | Sep-17     | Sep-17     |
| Supermarket and grocery stores           | 0.4        | 0.5        | -0.6       |
| Specialised food                         | 2.4        | -0.5       | 1.3        |
| Liquor                                   | 3.0        | 3.4        | 10.9       |
| Non-store and commission-based retailing | 0.8        | 8.1        | 15.1       |
| Department stores                        | 2.2        | 2.0        | 4.7        |
| HOusehold furnishings                    | 0.0        | -2.6       | 4.6        |
| Hardware, building, and garden supplies  | 2.7        | 0.4        | 2.5        |
| Recreational goods                       | 1.1        | -1.1       | 1.3        |
| Clothing, footwear, and accessories      | 1.7        | 4.2        | 8.0        |
| Electrical and electronic goods          | 3.2        | 5.1        | 18.7       |
| Pharmaceutical and other                 | -0.3       | 0.1        | 4.0        |
| Accommodation                            | 5.3        | -4.4       | 3.9        |
| Food and beverage services               | 4.3        | -3.1       | 5.4        |
| <b>Core industries total</b>             | <b>1.9</b> | <b>0.5</b> | <b>4.5</b> |
| Motor vehicles and parts                 | 1.1        | -0.8       | 7.7        |
| Fuel                                     | 1.2        | -0.9       | -5.5       |
| <b>All industries total</b>              | <b>1.8</b> | <b>0.2</b> | <b>4.1</b> |

### Spending was up only modestly in September...

After solid gains earlier in the year, retail spending growth slowed sharply in September, with volumes rising only 0.2% over the quarter. That still leaves sales volumes up a solid 4.1% over the past year. However, we think a period of subdued spending growth is on the cards over the coming year.

### ...as early temporary boosts to spending faded

Looking first at the details of spending in the September quarter, some of the softness we saw was due to declines in the volatile vehicle and fuel categories. However, even looking at core spending (which excludes those items), there was a sizeable slowdown in spending growth – core spending growth slowed from 1.9% in the June quarter to 0.5% in September.

In part, this quarter's slowdown reflected a normal pullback following earlier temporary boosts to spending levels. In particular, through the middle part of this year we saw a large increase in spending in the hospitality sector associated with high profile sporting events like the Lions tour. Looking at other categories, spending was more mixed, with strong gains in areas like electronics and apparel, but falls in spending on recreational goods and furnishings.

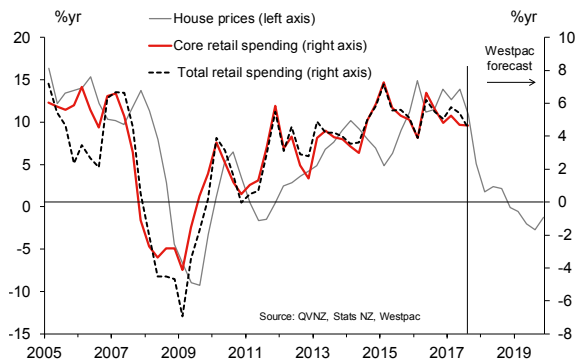
### Growth to remain soft over the coming year

Putting the normal quarter-to-quarter swings to one side and instead looking at the drivers of spending, it appears that New Zealand is in for a period of softer retail spending growth over the coming year. Spending by New Zealand households is closely related to the strength of the housing market. This is a particularly large driver of spending on durable household items like furnishings. However, New Zealand's housing market is looking a lot softer than it did this time last year. Sales are down 15% since last October. At the same time, the double-digit house price growth we saw in previous years has given way to a period of quite subdued gains. A range of factors has contributed to this slowdown. This includes the creep higher in mortgage rates in late 2016 and early 2017, as well as the tightening in lending restrictions by the RBNZ. Pre-election uncertainty also appears to have had a dampening impact.

Looking to the next few years, we think New Zealand is in for an extended period of weak house price inflation. In part, this is due to expected increases in mortgage rates. In addition, the new Government is planning on rolling out a suite of regulatory changes over the coming years that will dampen housing market conditions, such as the planned extension of the 'bright line' test for taxing capital gains on investment properties. This will have a marked dampening impact on households' spending over the coming quarters.

A further factor that will dampen spending growth over the coming year is the slowdown in net migration. Strong net migration and the resulting gains in the population delivered a powerful boost to demand in recent years. However, net migration has turned and is set to fall sharply over the coming years, with many of those who arrived on temporary visas in previous years now departing.

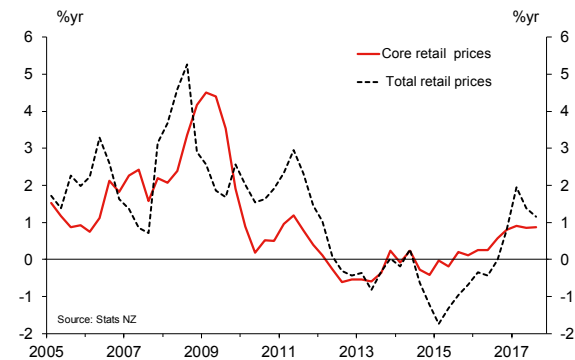
### Retail spending and house prices



### Price growth still moderate

Retail price inflation has firmed over the past year. Nevertheless, the pricing environment remains well contained. Looking at spending in core categories, retail prices were up 1.2% over the past year. That is a step up from what we saw though 2015 and 2016, but it is still a fairly modest rate of price growth. Several factors have contributed to this, including strong competitive pressures in the retail sector, and changes in technology (such as the increasing prevalence of online trading).

### Retail prices

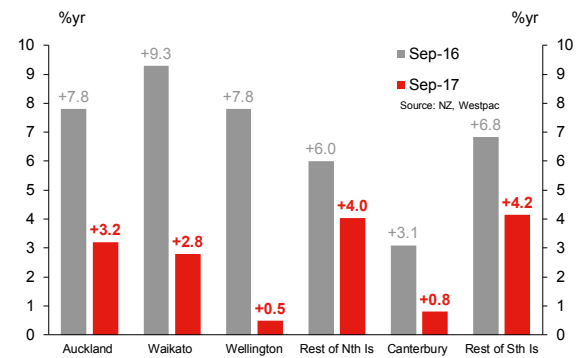


### Regions

Spending growth has softened in all regions over the past year. The biggest step-downs were in North Island regions, including Auckland and Wellington.

However, it's important to remember that much of retail spending is shifting to online platforms which have seen solid growth over the past year.

### Regional spending growth



### Market reaction

Market reaction today's report was very limited. The result was close to analysts' expectations.

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