# Slow start to the year

## NZ retail sales, March quarter 2018

**Satish Ranchhod,** Senior Economist +64 9 336 5668

- Retail sales were weaker than expected in the early part of 2018, with spending essentially flat over the March quarter.
- We expect spending growth will remain modest through the remainder of this year.

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

| | Quarter | | Annual |
|---|---|---|---|
| | Dec-17 | Mar-18 | Mar-18 |
| Supermarket and grocery stores | 1.3 | 1.0 | 2.6 |
| Specialised food | 4.6 | -1.2 | 4.9 |
| Liquor | 3.5 | 2.8 | 13.4 |
| Non-store and commission-based retailing | 1.6 | 0.8 | 10.7 |
| Department stores | -0.4 | -0.3 | 3.2 |
| Furniture, floor coverings, houseware, textiles | 3.7 | 2.4 | 4.4 |
| Hardware, building, and garden supplies | -0.6 | -0.6 | 1.0 |
| Recreational goods | 0.5 | -1.9 | 0.3 |
| Clothing, footwear, and accessories | 1.7 | -5.0 | 2.6 |
| Electrical and electronic goods | 3.4 | 5.4 | 19.2 |
| Pharmaceutical and other store-based retailing | 3.4 | 2.7 | 7.1 |
| Accommodation | -1.4 | 1.2 | 0.8 |
| Food and beverage services | 3.9 | -1.1 | 4.5 |
| **Core industries total** | **1.8** | **0.6** | **4.8** |
| Motor vehicles and parts | 0.6 | -0.9 | -1.8 |
| Fuel | -1.0 | -2.1 | -4.2 |
| **All industries total** | **1.4** | **0.1** | **3.0** |

### Retail spending weaker than expected

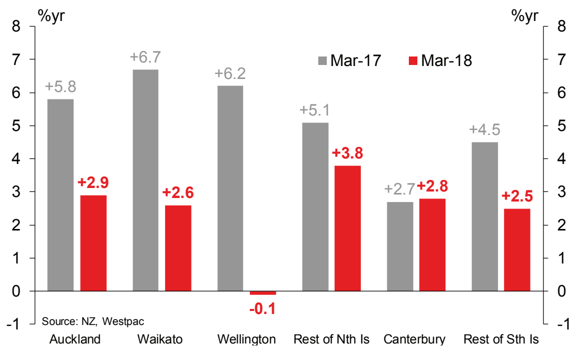
It was a soft start to the year for retail spending. After adjusting for price changes, retail spending was essentially flat over the March quarter. That was well below analysts' forecasts, including our own, for a gain of around 1.0%.

Much of the weakness in spending was concentrated on vehicle and fuel spending. These were dampened by falls in petrol prices and delays with vehicle importation.

Core spending (which excludes the vehicle and fuel categories) was also weaker than expected, rising only 0.6% over the quarter. Looking at the break down of sales, we did see increased spending on electronics and at supermarkets. However, this was offset by continued softness in spending on apparel, as well as reduced spending on hardware, recreational goods and dining out.

The cooling in spending growth over the past year has been widespread across the country. It's been particularly stark in areas like Nelson, Wellington and in Manawatu-Wanganui. We've also seen spending growth slowing in areas like Auckland and the Waikato. In contrast to other regions, spending growth in Canterbury has held up.

### Regional spending growth

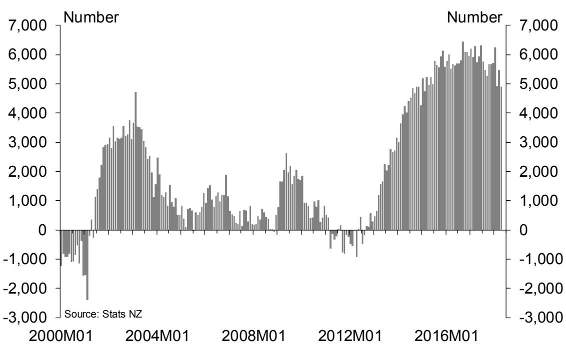


## Spending growth to remain soft through the remainder of 2018

The weak March quarter spending figures signal downside risk to our already soft forecast for 0.6% GDP growth in the March quarter.

Looking at the household sector more broadly, we anticipate a continued slowdown in spending growth over the remainder of 2018. Much of the strength in spending over the past year came on the back of migration-led population growth. Net migration remains at elevated levels, and is continuing to add to demand. However, migration flows have actually been gradually easing back for around a year now. In fact, today's figures for the year to April showed that the net inflow of people into the country has slowed to its lowest level in two years. We expect that net migration will continue to slow as many of those who arrived in recent years on temporary visas depart. This signals a drag on retail spending.

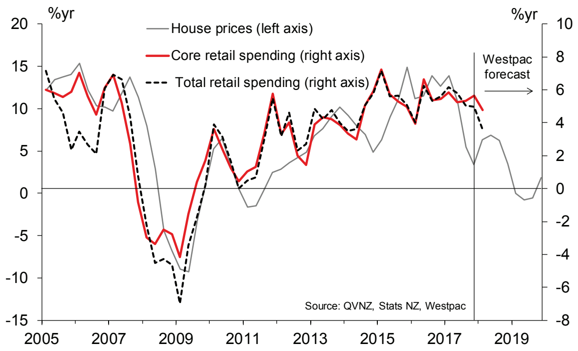
**Net migration (monthly)**




A more immediate drag on household spending is the slowdown in the housing market. Although we saw a brief resurgence in the housing market in the early part of 2018 as mortgage rates fell, that strength has now dissipated. House sales have fallen in recent months and price growth has slowed, especially in Auckland. With a range of significant government policy changes targeting the housing market being introduced (such as the extension of the 'bright line' test for taxing capital gains which came into effect at the end of March), we expect to see house price growth remain weak for some time.

The cooling in the housing market that is already underway will be a significant drag on spending. Households hold a large proportion of their wealth in both owner-occupied and investment housing. Consequently, changes in house prices have a significant impact on spending appetites. A slowdown in the housing market is likely to be a particular drag on spending on items like household furnishings, which tend to be closely linked to house sales.

**Retail spending and house prices**

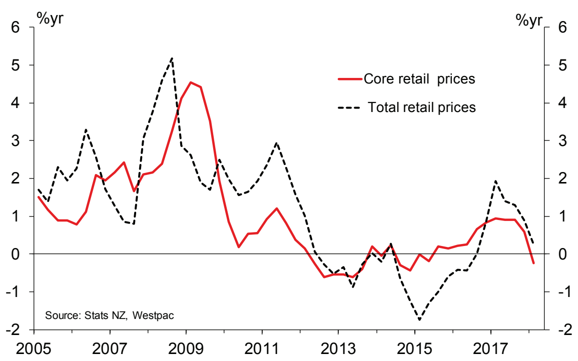



## Price growth weak

Price growth across the retail sector remains weak. Over the past year, overall retail prices rose a muted 0.3%. And if we exclude the vehicle and fuel categories, core retail prices actually fell 0.2%.

Over the coming year, we expect to see some lift in retail price inflation, underpinned by recent increases in oil prices and the drop in the NZ dollar. Nevertheless, price inflation in the retail sector is expected to remain relatively modest for some time yet. Several factors are continuing to weigh on prices, including strong competitive pressures in the retail sector and changes in technology (such as the increasing prevalence of online trading).

**Retail prices**




**Satish Ranchhod**
Senior Economist

# Contact the Westpac economics team

**Dominick Stephens,** Chief Economist +64 9 336 5671

**Michael Gordon,** Senior Economist +64 9 336 5670

**Satish Ranchhod,** Senior Economist +64 9 336 5668

**Anne Boniface,** Senior Economist +64 9 336 5669

**Paul Clark,** Industry Economist +64 9 336 5656

**Any questions email:** economics@westpac.co.nz

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