

Ending the year on a high note

NZ retail sales, December quarter 2017

23 February 2018

- Retail sales rose strongly in the final quarter of 2017.
- We expect spending growth will remain firm in the near term before slowing through the latter half of 2018.

Seasonally adjusted real retail sales (% change)

	Quarter		Annual
	Sep-17	Dec-17	Dec-17
Supermarket and grocery stores	0.8	1.4	2.5
Specialised food	0.3	5.8	8.1
Liquor	3.5	3.6	14.4
Non-store and commission-based retailing	7.4	1.9	17.3
Department stores	1.8	-0.2	3.4
Furniture, floor coverings, houseware, textiles	-2.2	3.6	3.2
Hardware, building, and garden supplies	0.5	-0.8	2.5
Recreational goods	-1.1	1.8	-1.1
Clothing, footwear, and accessories	4.3	4.0	11.2
Electrical and electronic goods	4.5	2.6	15.5
Pharmaceutical and other store-based retailing	0.5	3.3	5.0
Accommodation	-5.1	-2.3	-0.8
Food and beverage services	-2.6	3.7	8.3
Core industries total	0.6	1.8	5.6
Motor vehicles and parts	-0.2	2.1	9.2
Fuel	-0.9	-0.7	-2.1
All industries total	0.3	1.7	5.4

A solid end to 2018

Households ended 2017 with a bang. Retail spending rose 1.7% in the December quarter to be up 5.4% over the year. That was a bit above our own forecast and market expectations.

Underpinning the rise in overall spending was a solid 1.8% lift in core categories. That included a 3% increase in spending on hospitality (that was likely encouraged by the hot summer weather), as well as gains in food and grocery sales. There were also solid gains in categories such as clothing and electronics. Some of the strength in the quarter may have been related to the increased prevalence of 'Black Friday' sales in New Zealand.

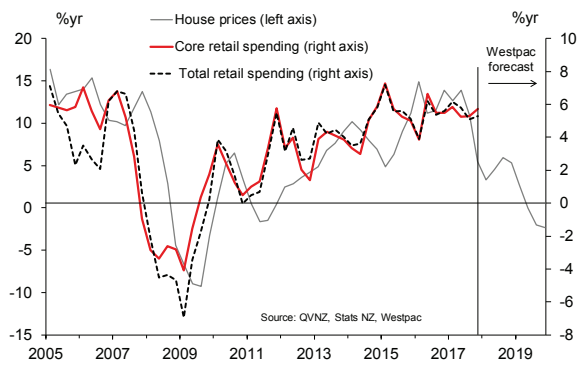
Growth to remain firm in the near term before slowing later in 2018

We expect that spending growth will remain firm through early 2018, supported by the recent falls in mortgage rates and associated second wind in the housing market. Increases in Working for Family payments in April will also provide a boost.

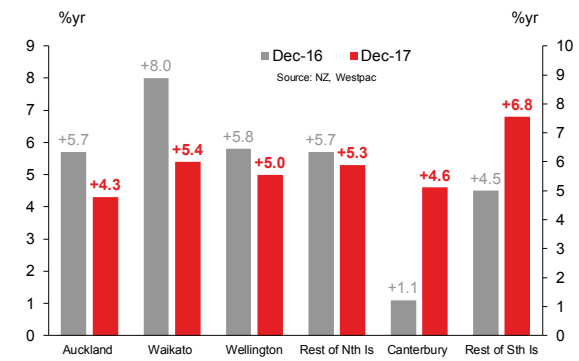
However, spending growth looks set to slow through the back half of 2018 and in 2019. Spending by New Zealand households is closely related to the strength of the housing market. And even accounting for its recent lift, the housing market is looking a lot softer than it did last year, with sales well down from their earlier peaks and price growth having flattened off. Looking to the next few years, the new Government is planning on rolling out a suite of regulatory changes that will weigh 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 years.

A further factor that will dampen spending growth over time is the slowdown in net migration. Strong net migration delivered a powerful boost to demand in recent years. However, while net migration remains elevated, it peaked back in July and has been gradually winding back. We expect this will continue for some time.

Retail spending and house prices



Regional spending growth



Price growth still moderate

The December quarter saw retail price inflation easing back. Looking at core spending categories, prices were up 0.6% over the past year (down from 1% in the year to September).

Looking at the longer-term trend in prices, while the inflation environment has firmed over the past couple of years, it remains subdued. 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). We expect the retail-pricing environment to remain subdued for some time yet.

Market reaction

While today's result was a little stronger than expected, market reaction was very limited.

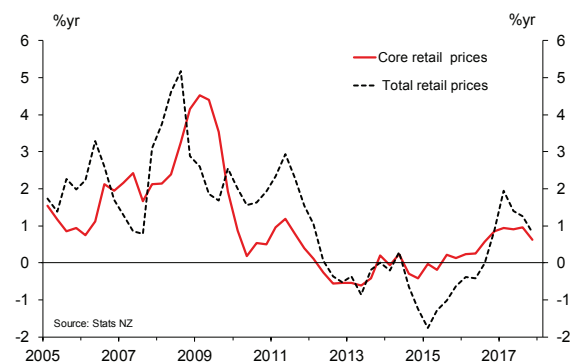
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Retail prices



Regions

The past year saw widespread increases in spending. Much of this has been in major urban centres where population growth has been strongest. However, smaller regions have also seen solid increases.

We've also seen continuing solid growth in online spending.

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