

Shifting down a gear

NZ retail sales, June quarter 2019

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- Retail volumes rose by 0.2% in the June quarter.
- The pace of spending has taken a step down over the past year as the housing market and population growth have cooled.
- Spending growth is expected to remain moderate over the remainder of 2019, before picking up over 2020.
- Retail price growth remains muted due to competitive pressures.

Seasonally adjusted real retail sales (% change)

	Quarter		Annual
	Jun-19	Mar-19	Jun-19
Supermarket and grocery stores	-0.9	0.4	1.3
Specialised food	-1.8	1.7	0.1
Liquor	1.0	1.6	5.2
Non-store and commission-based retailing	-0.7	6.0	11.9
Department stores	-2.1	4.3	7.0
Furniture, floor coverings, houseware, textiles	-3.3	5.4	0.7
Hardware, building, and garden supplies	0.1	2.9	2.3
Recreational goods	6.2	3.2	8.9
Clothing, footwear, and accessories	0.0	-0.1	5.3
Electrical and electronic goods	5.0	0.3	12.9
Pharmaceutical and other store-based retailing	2.2	-5.3	1.0
Accommodation	1.4	-4.2	0.5
Food and beverage services	-1.0	-0.7	0.5
Core industries total	0.3	0.6	3.6
Motor vehicles and parts	0.1	1.4	0.4
Fuel	-0.8	0.0	0.8
All industries total	0.2	0.7	2.9

Spending growth has taken a stepdown

Retail volumes rose 0.2% in the June quarter. That's a very modest gain, especially as population growth is running at 0.4% per quarter.

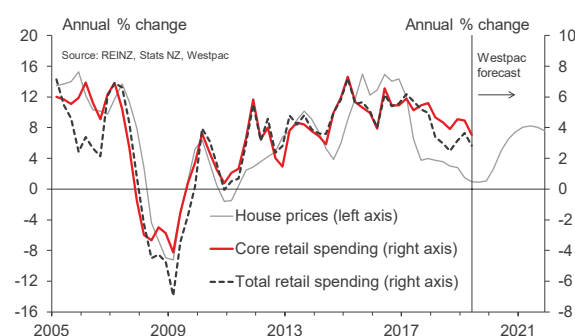
Spending patterns were mixed across categories. On the upside, there were gains in areas like electronics and recreational goods. However, spending on groceries and home furnishings fell over the quarter.

Looking back over the past twelve months, volumes were up 2.9%. That's a substantial slowdown from the pace in previous years, when growth got up to rates of around 6% per annum.

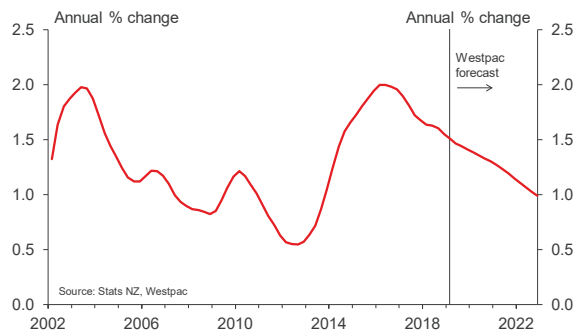
The big factor that has been weighing on spending appetites is the softness in the housing market. New Zealanders hold a large proportion of their wealth in housing assets. The subdued pace of house price growth has been a significant drag on both confidence and retail spending, particularly in Auckland.

The past year has also seen net migration and population growth slowing. After peaking at just over 2% in 2016, annual population growth has now slowed to around 1.6%.

Retail spending



Population growth



Ongoing softness expected

Retail volumes growth is expected to remain moderate over the remainder of 2019, with the ongoing softness in the housing market continuing to dampen confidence and spending appetites.

Retailing is set to pick-up again in 2020. Recent reductions in fixed mortgage rates likely herald a pick-up in the housing market and consumer confidence over the coming year. We're also seeing signs that wage growth is starting to lift. Nevertheless, spending growth is still likely to be more moderate than in recent years, as population growth is continuing to slow.

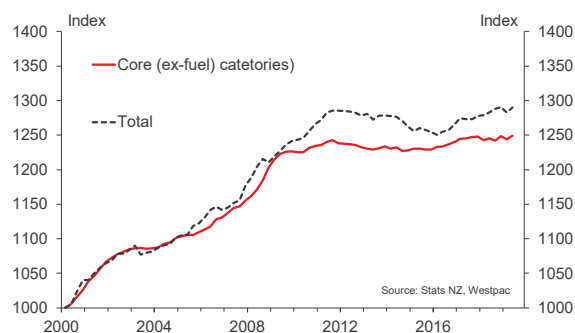
Price growth still muted

Retail price growth remains muted, with prices in core (ex-fuel categories) only increasing by 0.3% over the past year.

As we've previously highlighted, a range of factors has been limiting retail price increases. The most important of these has been strong competitive pressures, including those related to online trading which has essentially increased the presence of global retailers in the New Zealand market.

However, while price growth remains weak, increasing numbers of retailers are highlighting upward pressure on costs, particularly in relation to wages. That has seen pressure on margins and profitability.

Retail prices



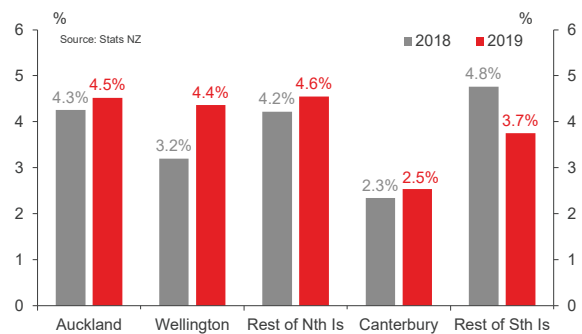
Regional breakdown

Spending growth has been strongest in North Island centres. Many regions in the central and lower North Island are enjoying a combination of strong export incomes, rapid house price growth and continued population gains – all of which are helping to boost spending. Spending has also been picking up in Wellington.

Spending in Auckland was up 4.5% over the past year. That's a little faster than we saw over 2018. However, it's still a substantially slower pace than we saw in previous years, when the combination of rapid house price growth and population gains provided a powerful boost to spending.

Spending growth in Canterbury remains more moderate than in other parts of the country. The region's economy is continuing its transition away from construction-led growth and house price growth remains muted. Those conditions are putting a dampener on economic conditions more generally. There has also been some cooling in spending growth in other parts of the South Island.

Nominal spending growth by region – year to June



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