Westpac Institutional Bank

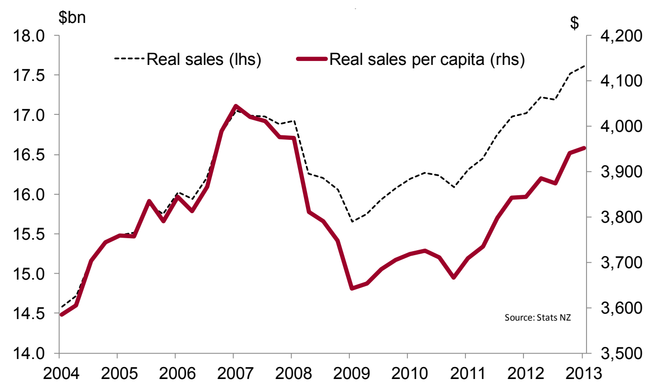
Onward and upward

NZ Q1 real retail sales rose 0.5%

- **Retail sales volumes rose 0.5% in the March quarter, lifting the annual growth pace from 3.2% to 3.5%.**
- **Rising house prices and Canterbury's post-earthquake recovery are the likely drivers of the steady growth in retail spending.**
- **The outturn was softer than we expected, but consistent with our view of GDP growth for the quarter.**

The rise in retail sales volumes for the March quarter was less than we expected, but it was consistent with our view on the broader economy: March quarter GDP growth will be positive but less than the blockbuster gains seen in the December quarter. We expect the strengthening housing market and the Canterbury rebuild to drive further growth in retail spending over the next couple of years, although we look for the knock-on effects of the drought to act as a mild drag on spending through mid-2013.

Real retail sales, s.a.



Details

Real (inflation-adjusted) retail sales rose 0.5% in the March quarter, compared to our forecast of 1.1% and the median market forecast of 0.8%. The 0.6% rise in ex-auto sales was right in line with our expectations; the shortfall for us was on vehicle and parts sales, which rose 1.1%. That was less than implied by vehicle registrations, though this is admittedly a tenuous indicator of quarterly changes. The broader picture is still one of a solid upswing in vehicle sales, up nearly 10% on a year ago.

Sales volumes rose for 10 of the 15 surveyed storetypes. Aside from vehicles, the largest positive contributions came from pharmaceuticals (up 2.2%), hardware and building supplies (up 1.2%) and liquor stores (up 4%). The largest decline was in clothing and footwear, down 2.4%. The monthly electronic card spending figures show that clothing sales were particularly soft in March, reflecting the unusually dry and warm weather at the time, but that sales rebounded in April as the rain kicked in again.

The continued strong growth in hardware and building supplies (up 10% on a year ago), along with the geographical split (total spending rose fastest in the Canterbury region), highlights how the Canterbury rebuild is gathering momentum and making a meaningful contribution to growth at the national level. Statistics NZ will publish a more detailed review of retail spending in Christchurch near the end of June.

By value, total sales were up 0.9% for the quarter, with higher prices accounting for 0.4% of the increase (mostly due to a 2% rise in fuel prices). While retail price inflation has been subdued since the Global Financial Crisis, there is limited evidence that retailers are having to resort to increased 'discounting' in order to drum up sales. The most notable price declines in the March quarter were for electronics stores (down 2.4%) and department stores (down 0.8%), around average for these storetypes. Both will have been affected by falling prices for electronic goods, which are a global phenomenon driven by technological change more so than weak demand.

Market implications

The NZ dollar fell about 20 points to 0.8245 after the release, but recovered later in the day. The rise in retail sales was less than we expected, but not by enough to trouble our forecast of 0.8% growth in March quarter GDP. The strengthening economy, the Canterbury rebuild and rising house prices have underpinned growth in retail spending to date, and we expect each of these influences to strengthen over the next year or so.

The key point of difference right now between our forecasts and the RBNZ's is the linkage from house prices to household spending. The RBNZ is assuming that consumers will take a more cautious approach than in past cycles; we believe that the relationship will reassert itself. There is already evidence that consumer behaviour is changing – households can no longer be described as 'deleveraging', as debt is now rising faster than incomes. Today's retail figures won't do much to persuade the RBNZ that consumer spending is on the verge of breaking out, but we expect the pace to pick up over the next year.

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