14 August 2013

Westpac Institutional Bank

Splashing the cash

NZ Q2 real retail sales rose 1.7%

- **Retail sales volumes rose 1.7% in the June quarter, lifting the annual growth rate from 3.5% to 4.2%.**
- **While rising house prices and Canterbury's post-earthquake recovery are likely to be supporting factors, spending growth is becoming increasingly widespread across regions and storetypes.**
- **Today's figures confirm that consumer strength offset agricultural weakness over the June quarter; if anything, the mix of spending suggests upside risk to our GDP forecast.**

In the latest Westpac-McDermott Miller confidence survey, consumers told us that they were more eager to spend than they have been for many years. Today's retail trade figures show that they meant it. The 1.7% rise in real retail sales for the June quarter was much in line with our forecast. But what blew us away was the 2.3% rise in ex-auto spending, the biggest quarterly increase since December 2006. Retail spending will provide a welcome boost to the June quarter GDP figures, given that agricultural output is likely to be a significant drag as a result of the drought. Our current pick is for 0.3% GDP growth, but we now see upside risk to this.

Details

Retail sales, adjusted for inflation, rose 1.7% in the June quarter, following a 0.9% increase in the March quarter (revised up from 0.5%). This was close to our forecast of 1.8%, and slightly above the median market forecast of 1.5%.

The big surprise for us was the 2.3% rise in the 'core' categories (excluding vehicles and fuel), compared to our forecast of 1.2%. In particular, we'd expected a drop in supermarket sales and a jump in fuel sales, based on the monthly electronic card spending figures, whereas the quarterly retail survey showed the opposite. Given that the line between supermarkets and petrol stations is becoming more blurry, some of this might just be an issue of classification.

But that doesn't account for the surprising strength across a range of storetypes. Spending rose in 11 of the 13 core categories, with the largest contributions coming from electronic goods (+5.5%), department stores (+5.4%), hospitality (+4.5%) and hardware and building supplies (+3.7%).

The continued strength in that last category (up 13.7% on a year ago), along with the geographical split of total spending, hints at how Canterbury's post-earthquake recovery is becoming a real force for growth. Statistics NZ warns against putting too much emphasis on the regional breakdown (and will publish a more detailed report on retail spending in Christchurch near the end of September), but for the record: core retail sales (in nominal terms) are up nearly 10% on a year ago in the Canterbury region, compared to 4.3% in Auckland and 3.8% nationwide.

Retail spending in nominal terms was up a more modest 0.9%, implying a 0.8% fall in retail prices. However, most of this was on the auto side, with a 1% fall in vehicle prices (probably due to the sharp drop in the yen) and a 2.6% fall in fuel prices that has since been more than fully reversed. Prices in the core categories were down 0.3%. As was already flagged by the Consumer Price Index, the rise in the New Zealand dollar over the last year has helped to suppress prices for imported and import-competing goods. This effect can only last for as long as the currency continues to rise at a rapid clip – the NZD trade-weighted index rose about 7% in the year to June. We certainly don't expect it to maintain that pace, and it may have even passed its peak.

Market implications

The NZ dollar rose 10pts to 0.7980 and the two-year swap rate rose 2 basis points to 3.47% after the release. As we expected, retail trade will be a substantial plus for June quarter GDP growth, helping to offset the large negative contribution from agriculture as a result of the drought earlier this year. If anything, the mix of today's retail figures – with a greater than expected skew towards the non-auto sectors, and hence a smaller imported component – suggests upside risk to our current forecast of 0.3% GDP growth in the June quarter.

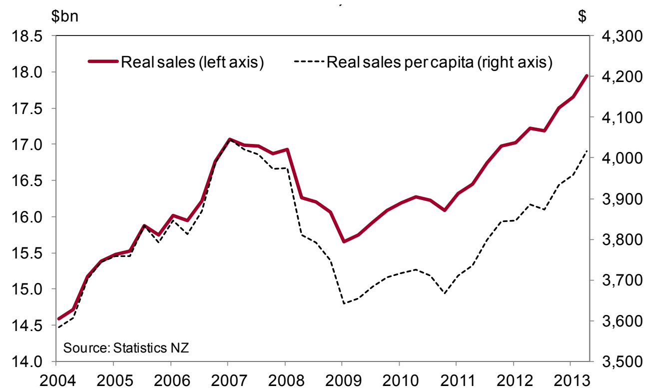
More generally, the retail survey provides more evidence that the New Zealand economy's upturn is now well-established and is becoming self-sustaining. Rising house prices and the Canterbury rebuild are important supporting factors, but it's becoming increasingly difficult to argue that these are the sole causes. The retail figures are also another blow to the Reserve Bank's assumption that consumers will be more cautious during this upswing, given already-high debt levels. While consumer strength isn't translating through to inflation pressures yet, thanks to the depressing effect of the high NZ dollar, our view has long been that this cycle will pan out no differently to previous cycles.

Michael Gordon
Senior Economist

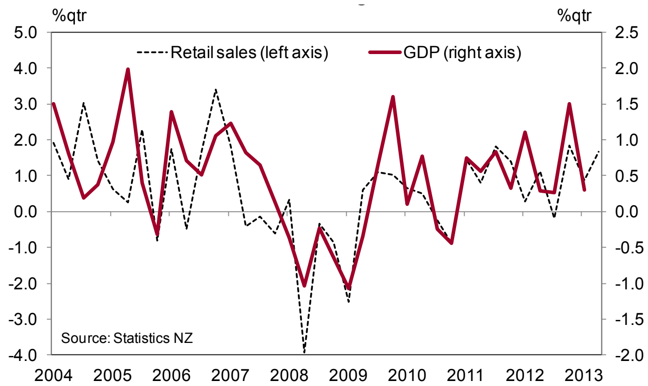
Seasonally adjusted real retail sales (quarterly % change)

	Sep-12	Dec-12	Mar-13	Jun-13
Supermarket and grocery stores	-1.3	0.7	0.5	0.8
Specialised food	-1.4	1.8	1.1	0.2
Liquor	-0.8	1.5	2.8	-1.1
Non-store and commission-based	4.7	-1.7	7.9	7.5
Department stores	1.6	2.8	1.0	5.4
Furniture, flooring, houseware, textiles	1.4	3.3	2.1	3.4
Hardware, building, garden supplies	4.7	3.3	1.5	3.7
Recreational goods	-2.9	-2.5	-0.5	1.1
Clothing, footwear, and accessories	0.6	-0.7	-1.2	2.8
Electrical and electronic goods	0.1	2.3	2.7	5.5
Pharmaceutical and other retailing	0.2	1.0	0.9	-3.0
Accommodation	-2.5	3.8	2.1	3.4
Food and beverage services	0.0	-0.4	0.6	4.5
Core industries total	**0.0**	**1.1**	**1.0**	**2.3**
Motor vehicles and parts	-0.9	2.0	1.1	3.0
Fuel	-1.0	7.7	-0.5	-5.0
All industries total	**-0.2**	**1.8**	**0.9**	**1.7**

Real retail sales, s.a.



Retail sales vs. GDP growth



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