Westpac

Institutional Bank

14 May 2014

No longer in the driver's seat

NZ Retail Sales review, Q1 2014

- Retail sales growth slowed in the March quarter, rising 0.7%.
- This was a bit softer than expected, on its own suggesting modest downside risk to our forecast for 1.1% GDP growth.
- More broadly, the data support our view that consumer spending is becoming less of a driving force for economic growth, as interest rates rise and the housing market slows.

	Jun-13	Sep-13	Dec-13	Mar-14
Supermarket and grocery stores	0.6	0.0	-0.7	-0.7
Specialised food	0.3	0.8	-1.5	3.4
Liquor	-0.9	0.0	1.3	4.3
Non-store and commission-based	4.4	1.1	-8.1	-2.2
Department stores	5.3	-2.9	3.5	1.2
Furniture, flooring, houseware, textiles	3.5	3.8	-0.3	-2.4
Hardware, building, garden supplies	3.4	2.3	0.2	2.0
Recreational goods	1.7	2.0	7.7	-1.7
Clothing, footwear, and accessories	2.6	-7.5	9.5	0.0
Electrical and electronic goods	5.3	1.1	3.7	5.5
Pharmaceutical and other retailing	-2.9	1.2	1.2	0.9
Accommodation	2.4	-4.1	-0.6	1.9
Food and beverage services	3.9	0.1	-0.5	1.5
Core industries total	**2.0**	**-0.2**	**1.0**	**0.8**
Motor vehicles and parts	3.0	3.3	0.8	0.6
Fuel	-5.0	-0.9	5.7	-0.6
All industries total	**1.5**	**0.2**	**1.4**	**0.7**

Accelerating retail activity on the back of a rising housing market and the income growth generated by the Canterbury rebuild and high export prices has been one of the pillars of New Zealand's recent economic upturn.

We've been expecting that to gradually change this year. The housing market is slowing, interest rates are rising, and surveys suggest that consumers' spending appetites have stayed healthy rather than ravenous. Against that backdrop, we were expecting momentum in retail activity to slow.

Today's retail trade survey showed that retail momentum is indeed slowing. Indeed, headline retail sales growth undershot our expectations a little, suggesting modest downside risk to our forecast for 1.1% GDP growth in the March quarter. And the details show that consumers' willingness to spend more remains selective, with a strong element of bargain-chasing.

By category, the main areas of growth in sales volumes were discretionary food-related spending (specialised food stores, liquor stores, and food and beverage services), electrical and electronic goods (which racked up another 5.5% rise to be up a whopping 15.7% over the past year), and hardware and building supplies, which was up 2% over the quarter and 8.5% over the year. Department stores also did pretty well, with sales up 1.2% over the quarter and 6.2% over the year.

The surge in electronics spending shows that shoppers are still responding to bargains (and the high NZ dollar). Consistent with the rise of the NZ dollar against the yen, we've also seen vehicle-related spending rise 8% over the past year – though in the last two quarters growth in this sector has been surprisingly soft given continued strong rises in new car registrations.

While sales of cheap imported goods have rocketed, the NZ dollar may be hurting demand in other parts of the sector. Non-store retailing (which includes domestic online retailers) has fallen in the last two quarters after a period of very strong growth – New Zealand retailers may be losing market share to offshore competitors. Similarly, accommodation rose 1.9% in the March quarter but was flat on a year ago, as the high exchange rate has made overseas travel relatively cheaper.

Elsewhere growth in the March quarter was mostly soft, though some of this may simply be volatility. Spending on recreational goods retraced some of its December quarter surge (falling 1.7%) but is still up 7.1% over the past year. Spending on clothing and apparel has been extremely choppy, but on an annual basis the sector now seems to be seeing moderate growth (turnover rose 3.9% over the year).

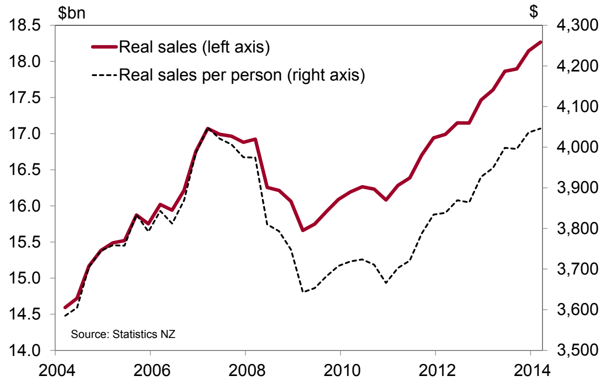
We were on the alert for direct signs that the recent slowdown in the housing market is affecting retail turnover. These were mixed. Most suggestively, spending on furniture and homewares has fallen for two quarters now, after consistent strong growth ever since late 2012. On the other hand, we've already noted continued strong growth in hardware spending. And across the regions, retail sales (by value) continued to rise strongly in Auckland, with other regions (particularly Canterbury) weaker.

Market implications

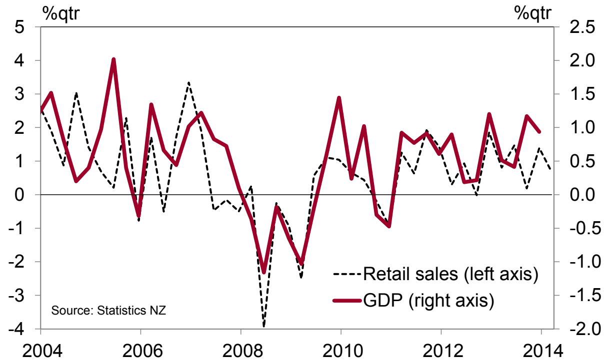
Financial markets responded modestly to the weaker than expected data, with interest rates down 1-2 basis points but the NZ dollar unchanged.

Today's retail trade survey adds to the range of developments – soft near-term inflation, a high NZ dollar, and signs of continuing slack in the labour market – pointing the RBNZ in a more dovish direction since its March *Monetary Policy Statement*. That won't deter the RBNZ from continuing to raise the OCR at the June MPS, but we expect the RBNZ will take the opportunity to moderate its projected path of future hikes.

Retail sales volumes, seasonally adjusted



Retail sales volumes and GDP growth



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