![Westpac Institutional Bank]

14 May 2015

# Fired up

## NZ retail sales, March quarter 2015

- Real retail sales surged in the March quarter.
- The lift was unusually wide-spread, with the value of spending rising across store-types and regions.
- Spending was probably boosted by falling fuel prices. Excluding fuel, the value of spending rose the fastest since 2006.
- The combination of turbo-charged retail activity and low inflation is a conundrum for the Reserve Bank. Prospects of OCR cuts this year remains very uncertain.

**Seasonally adjusted real retail sales (% change)**

| | Quarter | | Annual |
|---|---|---|---|
| | Dec-14 | Mar-15 | Mar-15 |
| Supermarket and grocery stores | -0.8 | 1.2 | 2.2 |
| Specialised food | 0.1 | 4.0 | 7.1 |
| Liquor | 0.0 | 0.7 | 3.5 |
| Non-store and commission-based | 13.9 | 8.8 | 23.5 |
| Department stores | 2.0 | 4.0 | 10.8 |
| Furniture, flooring, houseware, textiles | 1.6 | 3.3 | 10.8 |
| Hardware, building, garden supplies | 2.9 | 3.9 | 9.1 |
| Recreational goods | 3.9 | 2.9 | 14.3 |
| Clothing, footwear, and accessories | 4.4 | 1.7 | 4.1 |
| Electrical and electronic goods | 5.0 | 8.9 | 19.2 |
| Pharmaceutical and other retailing | 0.3 | 1.4 | 2.1 |
| Accommodation | 5.5 | 7.1 | 14.2 |
| Food and beverage services | 2.6 | 1.2 | 9.3 |
| **Core industries total** | **1.9** | **2.9** | **7.5** |
| Motor vehicles and parts | 2.3 | 1.2 | 7.2 |
| Fuel | 1.0 | 3.5 | 7.0 |
| **All industries total** | **1.9** | **2.7** | **7.4** |

New Zealand retailers had a bumper March quarter. The value of spending rose 1.7%, which translated into a 2.7% lift in inflation-adjusted terms – the fastest quarterly growth in real spending since the current series began in late 2003.

Some of this strength will reflect a strong tourist season (no doubt reinforced by the Cricket World Cup) – there was a particularly strong lift in accommodation spending, though growth in food and beverage services was more muted.

However, we'd note that the much larger Rugby World Cup in late 2011 only saw real retail sales growth peak at 1.9%. And the lift in spending this time around has been far more pervasive. Apart from vehicle retailers and petrol stations, all store-types saw the value of spending rise. Overall, the value of core (ex fuel and vehicle) spending rose 3% in the quarter – the fastest since 2006, when nominal wage growth was much higher.

That said, some categories continued to do better than others. Accommodation aside, furniture and hardware stores made a predictably strong showing, reflecting the booming construction sector. Online retail continued to surge –non-store retailing saw sales values and volumes rise 8.8%. Consumers are also flocking to electronic retailers, department stores, and recreational goods stores.

On the prices side, the report was weak, but not alarmingly so. Retail prices fell a seasonally-adjusted 1% in the quarter, but to a large extent this is due to falling petrol prices. Core retail prices were up 0.1% (with food-related prices up, and prices elsewhere down) - weak, but no more so than over the past year.

## Implications

Today's outturn was even stronger than our top-of-the-market forecast, and suggests some upside risk to our 0.7% GDP growth in the March quarter.

Looking beyond the March quarter, it's likely that the momentum of retail activity will moderate somewhat, as was suggested by the electronic transactions data out earlier this week. For one thing, consumers enjoyed a one-off windfall from falling fuel prices in the quarter, and petrol prices are now rising again.

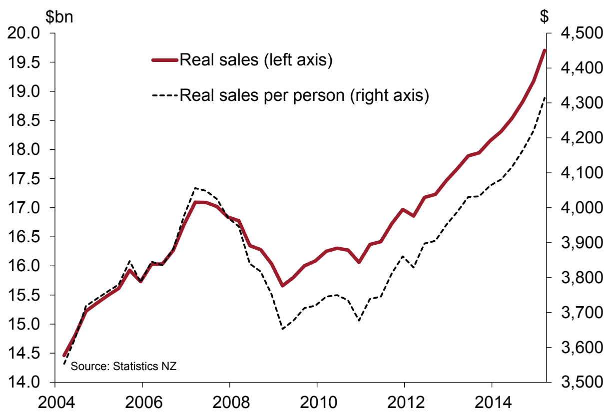
However, today's report leaves little doubt that consumers' spending appetites have perked up considerably. It's worth contrasting today's numbers with recent retail trade figures out of the US, which have left commentators puzzling why US consumers have been saving rather than spending the money freed up by cheap petrol.

For the Reserve Bank, that will intensify the conundrum it is currently facing. Yes, inflation is very weak, but the domestic economy is the strongest it has been in many years. In our view, prospects for OCR cuts this year remain a very close call.

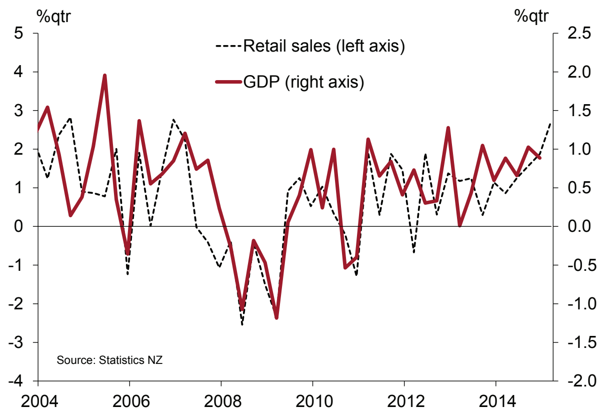
Possibly reflecting the report's mixed messages of strong growth but low inflation, financial markets' reaction to the surprise was relatively muted, with the NZ dollar settling 20-30 points higher.

**Felix Delbrück**
Senior Economist

**Retail sales volumes, seasonally adjusted**




**Retail sales volumes and GDP growth**



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