

Pulling back

NZ retail sales, June quarter 2015

- Retail spending growth slowed sharply in the June quarter, dampened by the rebound in petrol prices.
- At this stage we are seeing a softening in spending – not a collapse.
- However, we do expect to see a more pronounced weakening in demand in the economy over the coming months.

Seasonally adjusted real retail sales (% change)

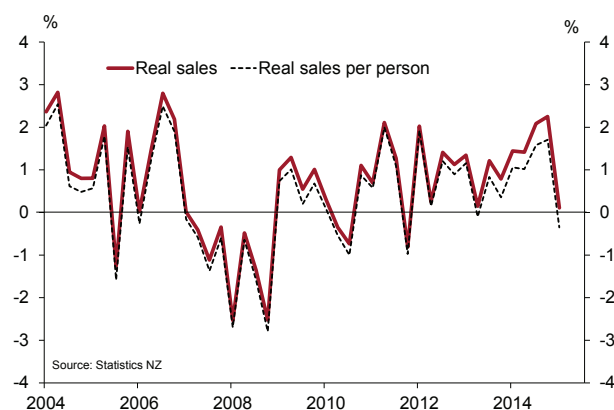
	Quarter		Annual
	Mar-15	Jun-15	Jun-15
Supermarket and grocery stores	1.2	0.3	2.4
Specialised food	3.0	-2.3	2.9
Liquor	0.9	1.1	4.3
Non-store and commission-based	8.3	8.1	36.0
Department stores	3.4	0.5	8.4
Furniture, flooring, houseware, textiles	2.8	-0.2	9.9
Hardware, building, garden supplies	3.3	0.3	8.1
Recreational goods	2.0	-0.4	9.6
Clothing, footwear, and accessories	1.4	0.0	4.9
Electrical and electronic goods	7.5	-0.2	14.1
Pharmaceutical and other retailing	1.5	0.7	2.7
Accommodation	5.4	-1.7	4.8
Food and beverage services	0.7	-0.6	6.1
Core industries total	2.5	0.1	6.2
Motor vehicles and parts	0.8	0.6	5.0
Fuel	2.7	-0.9	5.1
All industries total	2.3	0.1	5.9

Retail spending growth slowed sharply in the June quarter, with volumes rising by only 0.1%. This followed a solid 2.3% gain in the March quarter that was boosted by both earlier falls in petrol prices as well as a strong tourist season associated with the Cricket World Cup and early Chinese New Year. However, as the boost from these factors has dissipated, we've seen spending growth falling back again.

The question is, how concerned should we be about this weakness in household spending?

Looking at the underlying details of the June quarter spending figures, we do see some signs that demand has softened. On a per-capita basis, real spending fell by 0.3% over the June quarter (its first fall in two years).

Retail sales volumes (quarterly growth)



Nevertheless, at this stage, we're looking at a softening in spending, rather than a collapse. Despite higher petrol prices eroding households' disposable incomes, core retail volumes (i.e. spending excluding vehicles and fuels) actually held up. Notably, there has been resilience in spending on durable items such as household furnishings. There's also been a sharp pick-up in non-store spending (i.e. internet retailing).

But looking forward, we're more concerned. The headwinds for the economy have been increasing with a weaker outlook export earnings and a levelling off of construction activity in Canterbury. In addition, consumer confidence has fallen, and the labour market has softened. Combined, these factors do signal that a slowdown in household spending is on the cards.

At the same time, today's report highlighted that inflation in the economy remains subdued. Overall retail prices were flat over the quarter, and prices were down 0.3% when vehicles and fuel are excluded.

Satish Ranchhod

Senior Economist

Westpac economics team contact details

Dominick Stephens, Chief Economist
+64 9 336 5671

Michael Gordon, Senior Economist
+64 9 336 5670

Felix Delbrück, Senior Economist
+64 9 336 5668

Satish Ranchhod, Senior Economist
+64 9 336 5669

David Norman, Industry Economist
+64 9 336 5656

Any questions email:
economics@westpac.co.nz

For email address changes contact:
WNZResearch@westpac.co.nz

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