

Retail spending goes for gold

NZ retail sales, June quarter 2016

- Retail spending surged in the June quarter with gains spread across sectors and regions.
- Low inflation and low interest rates are helping households' budgets to stretch further. Spending has also been boosted by the strength in tourist arrivals and population growth.
- There have been stark divergences in spending across the regions over the past few years, with strength in Auckland, a levelling off in Canterbury, and not much at all happening in Wellington.

Seasonally adjusted real retail sales (% change)

	Quarter		Annual
	Mar-16	Jun-16	Jun-16
Supermarket and grocery stores	0.4	1.0	2.1
Specialised food	-3.2	3.3	0.5
Liquor	-0.4	2.4	5.0
Non-store and commission-based retailing	10.3	6.7	32.2
Department stores	0.9	3.1	7.5
Furniture, floor coverings, houseware, textiles	0.1	4.3	4.2
Hardware, building, and garden supplies	0.1	5.0	11.0
Recreational goods	0.5	-3.3	-9.5
Clothing, footwear, and accessories	2.0	2.8	6.6
Electrical and electronic goods	3.8	3.5	16.6
Pharmaceutical and other store-based retailing	1.6	5.2	7.6
Accommodation	0.8	-1.7	3.1
Food and beverage services	1.5	3.3	8.0
Core industries total	1.1	2.6	6.4
Motor vehicles and parts	0.6	2.6	5.3
Fuel	0.3	-1.0	3.8
All industries total	1.0	2.3	6.0

Spending sprints ahead in June

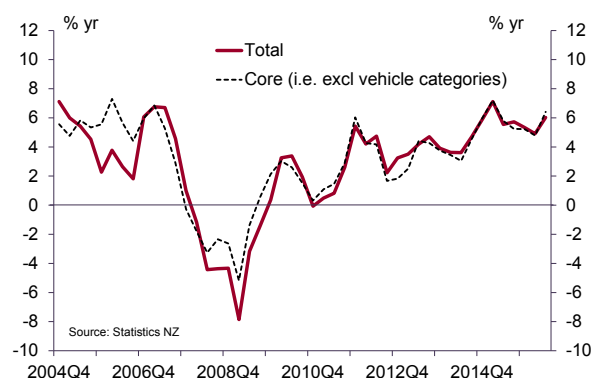
Retail spending surged in the June quarter, with a 2.3% gain in sales volumes. That's the strongest quarterly gain we've seen since 2006. This result comes on top of firm growth in recent quarters, and leaves spending volumes up a solid 6.0% over the past year.

Gains in spending were seen across most retail categories in June, with core retail spending (which excludes the volatile fuel and vehicle categories) up a strong 2.6%.

June saw a particularly strong increase in spending on building supplies. In part, this was due to a catch up following softness in March. However, spending is also likely to have been boosted by the strength of the housing market and the related increase in building activity.

There were also solid gains in categories such as food services, supermarkets, electronics, and in department stores.

Retail sales



Spending on steroids: Low inflation, low interest rates and growing consumer numbers

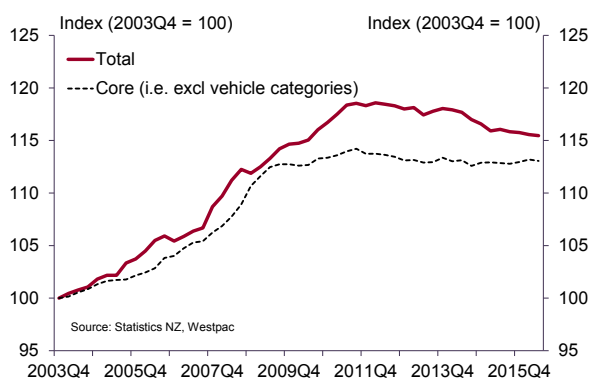
Part of the reason for the strength in spending is that the combination of low interest rates and softness in prices is allowing households' pay-packets to stretch further.

In terms of interest rates, the RBNZ yesterday cut the Official Cash Rate to a record low of 2%, and signalled more is in the pipe line. We expect another 25bp cut in November, and don't see rates rising for an extended period.

On the prices front, we estimate that retail prices were down 0.2% over the quarter, and were down 0.5% over the year. In fact, core retail prices have now been essentially flat for around six years.

Reinforcing the above factors is the number of consumers in the economy. Population growth has surged on the back of record levels of net migration. We've also had a very strong tourist season, with visitor arrival numbers up 6% over the past year. Combined, these conditions mean retailers are seeing more bodies in stores.

Retail prices



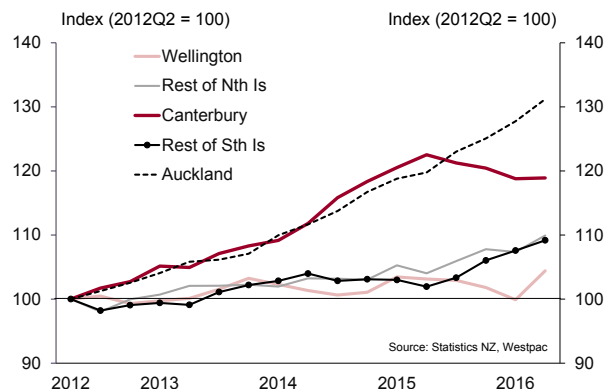
Auckland gets gold, Canterbury silver, Wellington gets participation award

Spending was up in all regions in June, with particularly strong gains in Auckland and Wellington.

Looking at trends in retail spending in recent years, there have been some stark divergences across the economy.

- Spending growth has been strongest in Auckland, consistent with increases in its population and housing market.
- There have also been ongoing gains in spending outside of the main centres in both the North and South Islands.
- Spending in Canterbury increased strongly in recent years, buoyed by increases in rebuild related spending and employment. But while rebuild spending remains strong, it has levelled off. And this has also been associated with some easing back in retail spending.
- Despite a solid gain in June, retail spending in Wellington has lagged the rest of the county in recent years. In fact, since 2012 nominal retail spending in Wellington has risen by only 4% - less than half the rate seen in other regions.

Sales by region (nominal)



Implications

Retail spending levels are expected to remain firm for some time. However, there are a couple of things to be mindful of.

First, the low interest rates that have helped to buoy spending have also seen households taking on increasing amounts of debt. While that's helping to support spending for now, it does portend some slowdown in spending over the latter part of the decade. Increases in debt can't boost spending indefinitely, with larger increases in borrowing now requiring households to commit a larger share of their income to debt repayment in the future.

It'll also be worth keeping an eye on population growth over the next while. Record high population growth has been masking softness in per-capita spend over the past year. However, net migration has now levelled off. In fact, in monthly terms, seasonally adjusted net migration actually peaked in November last year. While net migration is expected to remain elevated for some time, it will gradually ease back over the next few years. And as this occurs, the impact of the headwinds buffeting the economy (such as low dairy export prices) are likely to be more evident.

Putting it all together, this leaves us with a firm outlook for household spending over the coming year, but downside risk beyond that.

Satish Ranchhod
Senior Economist

Contact the Westpac economics team

Michael Gordon, Acting Chief Economist +64 9 336 5670

Satish Ranchhod, Senior Economist +64 9 336 5668

Anne Boniface, Senior Economist +64 9 336 5669

David Norman, Industry Economist +64 9 336 5656

Sarah Drought, Economist +64 9 336 5696

Any questions email: economics@westpac.co.nz

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