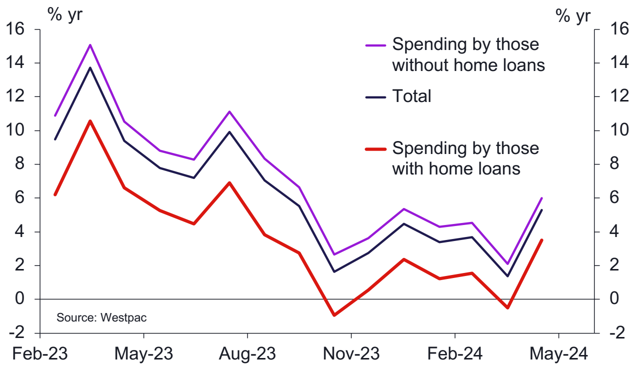
ECONOMIC BULLETIN

Retail Spending Pulse.

29 May 2024 | **Satish Ranchhod**, Senior Economist | +64 9 336 5668 | +64 21 710 852 | satish.ranchhod@westpac.co.nz

- **Despite a pickup in recent months, retail spending levels have effectively been tracking sideways.**
- **Under the surface, cost of living pressures are prompting households to wind back their discretionary spending, with a growing focus on necessities and value for money.**
- **There continues to be particular softness in Auckland and Wellington.**

Annual spending growth (rolling three-month averages)



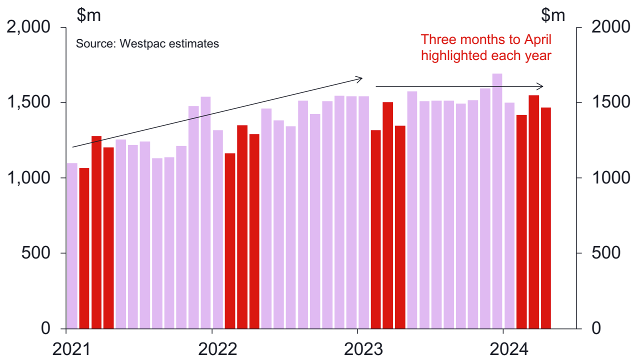
After trending down through the early part of the year, our tracker of spending on Westpac issued debit and credit cards has picked up sharply over the past month. Spending levels in the three months to April were up 5.3% on the same time last year.[1] That's the fastest spending growth we've seen in more than six months.

But while that resilience in spending may be welcome news for many New Zealand retailers, it needs to be taken with a grain of salt. As shown in the chart over the page, spending in the early part of last year was weak, in part due to severe weather events that impacted parts of the country. And the rise in spending compared to this time last year has been more of a normalisation, rather than a reacceleration in household spending appetites.

Looking at the underlying trend, spending levels have effectively been tracking sideways in recent months. That's despite the population rising 2.6% over the past year. And adjusting for the roughly 3% rise in retail prices over the past year, a lot of households will be finding their shopping trolleys are less full than they used to be.

1 This data excludes spending on non-chip EFTPOS cards. It also adjusts for the additional leap-day in February this year.

Spending tracking sideways in recent months despite strong population growth

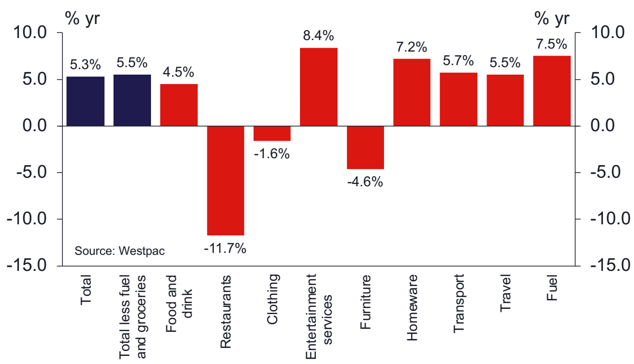


Households foregoing nice-to-haves in favour of value-for-money.

While overall spending levels have been tracking sideways, under the surface we're seeing some big changes in household spending.

As cost-of-living pressures have continued to bite and concerns about the labour market have increased, New Zealand households are increasingly choosing to go without luxuries or nice-to-haves. Instead, families are increasingly focusing on necessities and value for money.

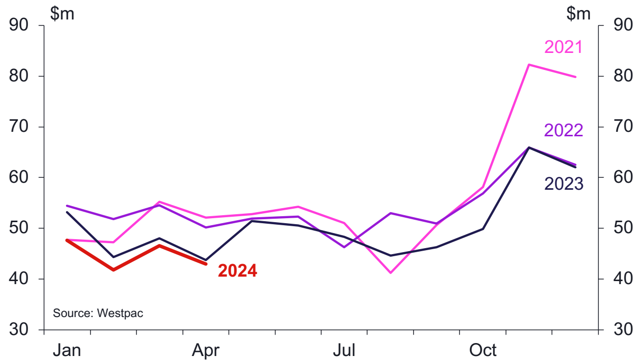
Annual spending growth (three months to April vs same time last year)



Those financial pressures have been particularly challenging for New Zealand's hospitality sector, with spending on dining out having now fallen below the levels we saw back in 2021. The hospitality sector was hit particularly hard by the Covid lockdowns. And like all parts of the economy, it has been confronted by large increases in staffing and operating costs more recently. Combined with softening spending appetites, it's unsurprising that many firms are reporting very tough operating conditions.

But it's not just the services sector that is struggling in the face of continued pressure on households' finances. Spending on apparel is running 2% below the levels we saw last year. And there's been an even sharper downturn in spending on household furnishings, which is now running at its lowest level in three years (that softness in durables spending has been compounded by the post-pandemic switch in spending, following the temporary boom in purchases of furnishings during the lockdowns).

Spending on furnishings and applicances



One area where spending has been more resilient is grocery foods, which accounts for around 20% of spending. Compared to this time last year, grocery spending is up 4.5%. However, even on this front, grocery retailers have told us that they're seeing a shift in households' preferences, with many families switching to lower cost options.

With a continuing squeeze on household finances, we expect that spending growth will remain muted through the middle part of the year. However, spending is likely to get a boost in the second half of the year as a result of tax cuts. The issue will be households' willingness to spend: with interest rates likely to remain high for some time yet and the labour market cooling, households may remain cautious about spending.

Regional trends.

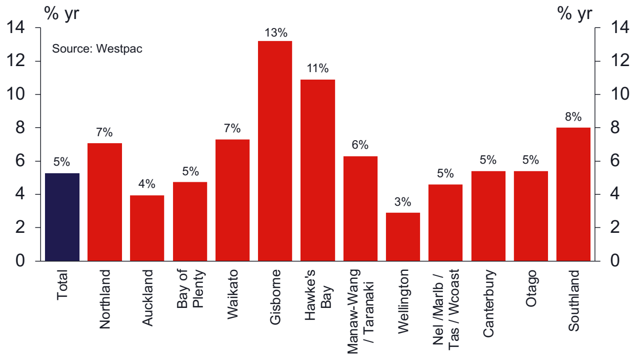
Looking across regions, some of our major metropolitan areas are continuing to underperform. There's been particular softness in Wellington, where spending levels are up just 3% over the past year – just keeping pace with inflation. The feedback we're hearing from businesses in the Capital has been grim, with cutbacks in the public sector flowing through to broader nervousness about economic conditions in the region.

Spending in Auckland has also been relatively subdued, rising 3.9% over the past year. At first blush, that may not sound 'low.' However, Auckland's population has grown by well over 3% over the past year. And combined with continued price rises, per-capita spending in our largest city is going backwards. In addition to a softening labour market, many Aucklanders have been grappling with large increases in housing costs. That includes high house prices and related high mortgage costs, as well as large increases in rents.

At the firmer end of the spectrum, we're continuing to see strong spending growth in the Hawke's Bay and Gisborne, where sales are up around 11% on this time last year. The recovery from last year's severe weather is continuing to boost activity, and our recent discussions with businesses in the region highlighted some firm trading conditions.

We're also seeing solid spending growth in Otago and Southland, supported by low levels of unemployment, as well as the recovery in international tourist numbers.

New Zealand spending growth by region (three months to April vs same time last year)



CONTACT

Westpac Economics Team | **westpac.co.nz/economics** | economics@westpac.co.nz

Kelly Eckhold, Chief Economist | +64 9 348 9382 | +64 21 786 758 | kelly.eckhold@westpac.co.nz

Satish Ranchhod, Senior Economist | +64 9 336 5668 | +64 21 710 852 | satish.ranchhod@westpac.co.nz

Darren Gibbs, Senior Economist | +64 9 367 3368 | +64 21 794 292 | darren.gibbs@westpac.co.nz

Michael Gordon, Senior Economist | +64 9 336 5670 | +64 21 749 506 | michael.gordon@westpac.co.nz

Paul Clark, Industry Economist | +64 9 336 5656 | +64 21 713 704 | paul.clark@westpac.co.nz

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