



ECONOMIC BULLETIN

Retail Spending Pulse.



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

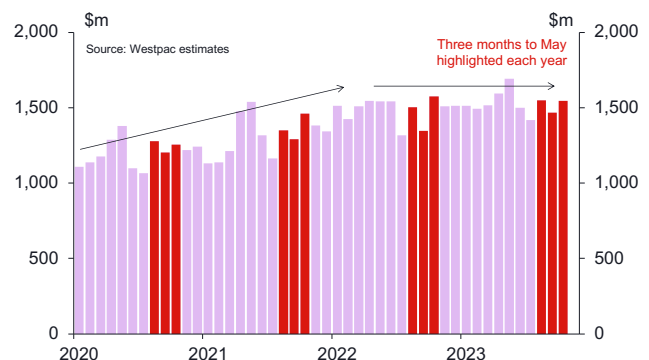
- Retail spending levels have remained stagnant for more than 18 months now.
- Cost of living pressures and increasing concerns about the economic landscape have seen many households keeping their wallets shut.
- Retailers are reporting a squeeze on margins and weak forward orders.

Retail spending levels continuing to track sideways.

Spending on Westpac issued debit and credit cards in the three months to May was up 3% on the same time last year.¹ However, even that modest rise overstates the strength in spending growth, as spending this time last year was impacted by severe weather that affected parts of the country.

Stepping back and looking at the longer-term trend, we get a clearer picture of what's been happening in the retail sector: spending levels have essentially been stagnant for more than 18 months now. That's despite retail prices rising by more than 3% and New Zealand's population growing by more than 2%. Putting that all together, while overall spending levels may have held up, many New Zealand families are taking fewer items home.

Spending tracking sideways in recent months



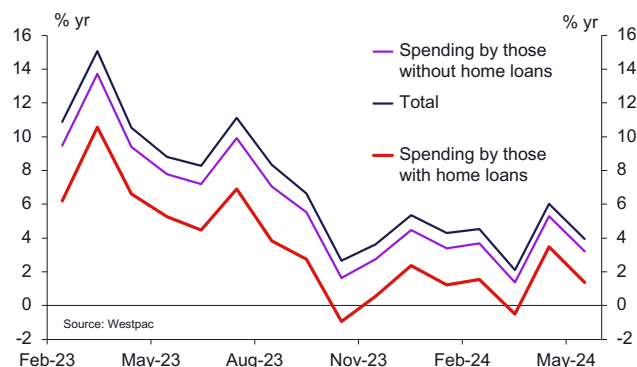
Financial pressures and nervousness about the outlook weighing on spending appetites.

The big issue that is continuing to weigh on spending are cost of living pressures. Although inflation has cooled over the past year, households are continuing to face large increases in living costs, especially in relation to

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

items such as rents and insurance. In addition, many New Zealand families are also dealing with the impact of high mortgage costs. In fact, while spending by those households without mortgages is up nearly 4% over the past year, spending by those with mortgages is up just 1%, well below the rate of inflation.

Annual spending growth (rolling three-month averages)

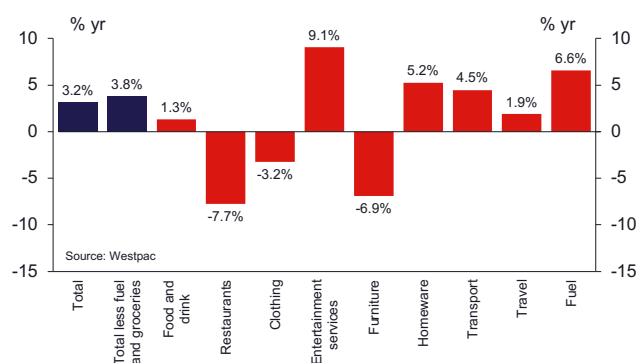


Reinforcing households' reluctance to spend has been the cooling in the economy and related nervousness about the labour market. As our recent **Westpac McDermott Miller Employment Confidence survey** has shown, New Zealanders are increasingly concerned about their job security. We're also hearing a growing number of anecdotes about lower wage settlements.

The combination of continued financial pressures and mounting concern about the economic outlook has seen increasingly numbers of New Zealanders choosing to leave their wallets in their back pockets. Discretionary spending on items like furnishings or dining out has been dropping back.

Even in sectors where spending has held up, retailers are reporting a shift in spending appetites in response to the squeeze on disposable incomes. For instance, in the grocery sector retailers have reported that many families are 'trading down' when doing their weekly shop, with a greater focus on value for money and reduced spending on 'nice to haves'.

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



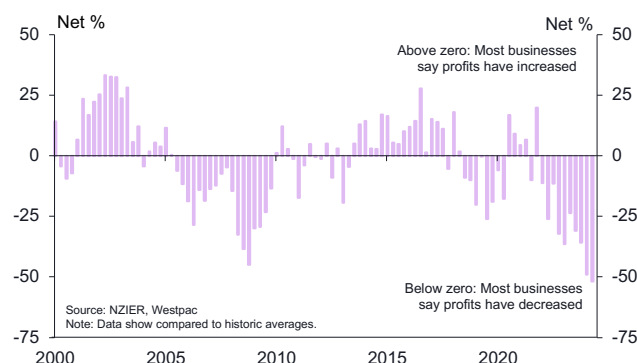
Looking ahead, many New Zealand families will get a boost to their disposable incomes from adjustments to tax brackets and other policies targeting the cost of living that are now being rolled out. While we haven't seen households increasing their spending ahead of those changes, we expect to see some pick up in the second half of the year, especially as those policies are targeted at low to middle income families.

New Zealand retail margins being squeezed.

Compounding the pressure on local retailers has been competition from large online retailers and distributors, like Amazon, Temu and AliExpress. Low online prices and a wide range of options have seen increasing numbers of New Zealander switching their spending away from local stores and websites. That's been a particular drag on purchases of items like apparel, with spending in local stores down 5% over the past year. That switch in New Zealanders' spending habits means that even the flat levels of spending seen over the past year likely overstates the conditions many domestic retailers are facing.

Against this backdrop, it's not surprising that large numbers of retailers are reporting that margins are being squeezed. In addition to sluggish sales and weak forward orders, retailers are continuing to report pressure on operating costs. Those conditions have also seen them scaling back their plans for hiring and capital expenditure.

Retailers' profitability squeezed



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