Westpac

Institutional Bank

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Solid but not spectacular

NZ Retail Sales review, Q4 2013

- Retail sales rebounded less strongly than expected in the September quarter, rising just 1.2%.
- The details showed decent momentum in discretionary spending, but slower housing-related spending. A strong NZ dollar may also have hit turnover for some local retailers.
- Today's report suggests downside risk to our forecast for a 1.1% lift in GDP in the December quarter. It is unlikely to change the RBNZ's hiking plans, but will add to the sense that it can afford a steady approach.

	Mar-13	Jun-13	Sep-13	Dec-13
Supermarket and grocery stores	0.5	0.7	-0.1	-0.5
Specialised food	1.3	0.3	1.2	-3.5
Liquor	2.6	-1.2	0.1	0.1
Non-store and commission-based	7.9	5.7	2.1	-10.2
Department stores	0.1	5.7	-2.2	2.3
Furniture, flooring, houseware, textiles	2.4	3.5	3.7	0.7
Hardware, building, garden supplies	1.9	3.6	2.4	-0.2
Recreational goods	-1.8	1.4	1.5	8.6
Clothing, footwear, and accessories	-1.3	2.6	-7.8	9.9
Electrical and electronic goods	2.7	4.9	0.9	3.1
Pharmaceutical and other retailing	1.1	-3.0	1.2	1.0
Accommodation	1.4	2.3	-3.7	-2.4
Food and beverage services	0.7	4.0	0.2	-0.9
Core industries total	**0.9**	**2.1**	**-0.2**	**0.7**
Motor vehicles and parts	1.1	3.0	3.3	0.8
Fuel	-0.5	-5.0	-0.9	5.7
All industries total	**0.8**	**1.5**	**0.2**	**1.2**

After a slow September quarter, the tea leaves were pointing to a very strong rebound in retail spending in December. Electronic cards spending rose a whopping 1.7% in the quarter and car registrations saw a big lift as well – all against the backdrop of rising house prices, ongoing high dairy prices, and rising consumer confidence.

In the event, the lift in actual retail turnover was a little underwhelming.

A large chunk of the disappointment can be totted up to a surprisingly tepid rise in vehicle sales. That comes after a 10% rise over the previous year and may well prove temporary, especially in light of the continued rise in car registrations.

But 'core' (ex fuel and car) spending was also a bit softer than expected, increasing 0.7% against our expectation of a 0.9% rise. Annual momentum in core spending has now slowed to 3.7%, down from 4.4% back in June.

Overall, that suggests downside risk to our forecast of a 1.1% rise in GDP in the December quarter (in which a big lift in retail activity played a significant part). As we detail below, there were actually plenty of signs of rising discretionary spending in the report – in line with the improvement in consumer confidence that we saw late last year. However, there was weakness in housing-related spending, possibly reflecting the recent drop in housing turnover.

Details

Nine out of the 15 store types saw an increase in turnover in the quarter. Adjusted for inflation, spending on recreational goods rose a massive 8.6%, while spending on department stores, apparel, and electrical/electronic goods all rebounded from their September quarter soft patch. Meanwhile spending at petrol stations (which Statistics NZ don't seasonally adjust in their estimates) was up 5.7% in the quarter, much as expected.

Weakness was concentrated in four main areas. Food-related spending (supermarkets, food stores, bars and restaurants) saw surprising declines. Spending on accommodation was down 2.4%, on top of a 3.7% fall in the September quarter. Non-store and commission-based retailing (which includes electronic retailing), a big growth area over the previous year, unexpectedly plunged 10%. And housing-related spending (furniture, hardware and so on) also slowed noticeably after a strong run of increases.

The last of these may be a sign of greater caution following the RBNZ's introduction of mortgage lending restrictions, in line with the steep drop in house sales we saw over the December quarter. Geographically, weakness in retail sales growth (by value) was concentrated in the northern North Island, while the rest of the country, including Canterbury, saw solid gains.

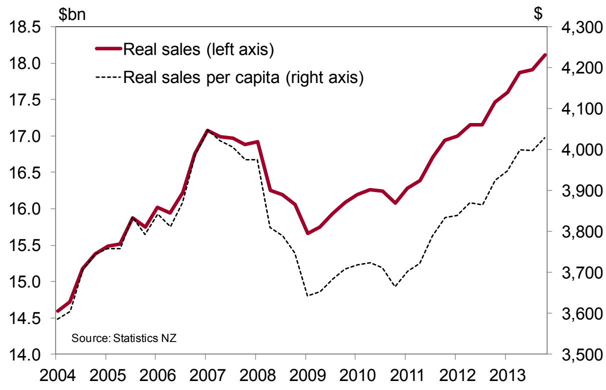
To some extent, the rebound in the NZ dollar may have played a role in the drop in non-store and accommodation-related spending, by discouraging purchases from local vendors (though New Zealand actually saw a net gain in visitor numbers over the quarter). If so, strong consumer appetites may end up making less of a contribution to GDP than we previously thought.

Market implications

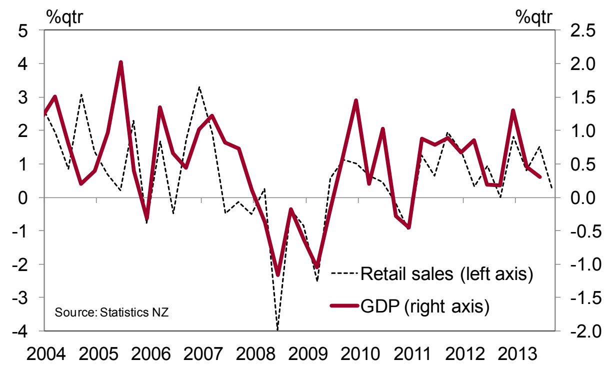
Financial markets' response to the disappointing news was negligible, with the NZ dollar falling 20 points against the US dollar but unchanged against the AUD.

Given the range of other evidence that the economy is now in an expansion phase, and that spare capacity in the economy is being used up, today's data won't deter the RBNZ from its plans to raise interest rates to more normal levels. Equally, though, the report helps bolster the argument that the Reserve Bank can afford to do so at a measured pace. We expect 125 basis points of rate rises this year, beginning with 25 basis points in March.

Retail sales volumes, seasonally adjusted



Retail sales volumes and GDP growth



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