ASB

Economic Note

2018Q1 Retail Trade

22 May 2018

Soft start to 2018 for the retail sector

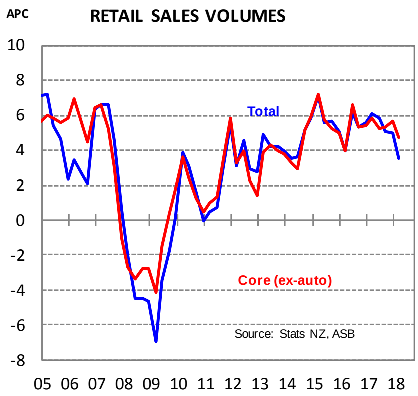
- Soft start to 2018 for the retail sector, with annual growth in retail volumes at a 4-year low.
- Moderate increases for core volumes, with few signs of inflation at the retail level.
- Going forward, we expect moderate rates of retail volume growth over the remainder of the year. We expect the OCR to move in August 2019.

	Previous	Actual	Market	ASB
Total volumes (qoq)	1.4%	0.1%	1.0%	0.7%
yoy	5.0%	3.6%		
Core volumes (qoq)	1.8%	0.6%		
yoy	5.6%	4.8%		
Total retail deflator (qoq)	0.3%	0.1%		
yoy	0.9%	0.3%		

Summary and implications

Q1 retail volumes rose just 0.1% qoq, considerably weaker than market expectations and our below-consensus pick, with annual growth in retail volumes slowing to a four-year low. Growth in core volumes was moderate and looks set to outperform that of the total retail sector for a while yet. **The retail trade data confirmed that the retail price backdrop remained benign. It also points to a sluggish start to 2018 GDP.** While there are a number of supports, there are some headwinds as well and we expect moderate rates of retail volume growth over the coming year. **A firmer inflation outlook will likely see the OCR move up, but not till August next year.**

Softt outturn for retail volumes



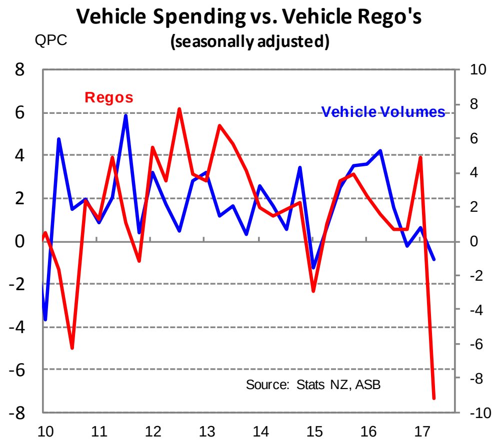
Retail trade spending volumes rose just 0.1% qoq, considerably weaker than market (+1.0% qoq) and ASB's forecasts (+0.7% qoq). Core retail spending (excluding fuel and vehicle-related) registered a modestly stronger 0.6% qoq increase, which followed the 1.8% qoq Q4 print. **On an annual basis, total volume spending growth eased to 3.0%, the lowest since March 2014. Core spending volumes advanced at a more robust 4.8% annual clip.**

Increases in retail volumes were mixed, with volumes rising in just 7 of the 15 retail sub-groups. Apparel volumes contracted 5% qoq following strong increases over the prior six months. Specialised food, food & beverage and hardware sales volumes fell over the quarter. Fuel spending volumes also fell. Motor vehicle retail volumes slid 0.9% qoq, somewhat stronger than implied by sharp falls in vehicle registrations. We

Mark Smith – Senior Economist (649) 301 5657 mark.smith4@asb.co.nz

Nick Tuffley – Chief Economist (649) 301 5659 nick.tuffley@asb.co.nz

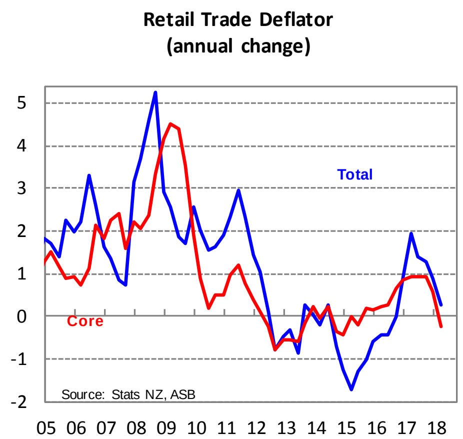
know this was likely related to disruptions caused by the presence of stinkbugs in vehicle imports, and will be closely watching forthcoming motor vehicle registrations for signs of a rebound. Conversely, electrical and electronic goods retail (+5.4% qoq) volumes rose despite mixed signs emanating from the housing market. The warm and dry summer likely contributed to another strong quarter for liquor retail (+2.8% qoq). Supermarket and grocery stores, plus pharmaceutical and other store-based industries, both recorded notable increases.



The regional breakdowns showed annual retail spending growth within a -0.1% to 5.8% range, with Tasman (+5.8% yoy), the BOP (+5.1% yoy), Hawkes Bay (+5% yoy) and Marlborough (+5% yoy) taking the top spots. Nelson (-3.2% yoy), the West Coast (-1.2% yoy) and Wellington (-0.1% yoy) were the regional laggards. Annual spending growth in Auckland (+2.9% yoy) remained below the 3.4% nationwide average for the fifth consecutive quarter. Canterbury (+1.4% qoq sa) and Southland (+2.3% qoq) topped seasonally-adjusted Q1 increases, with Taranaki and Nelson both seeing the largest falls (both -1.4% qoq sa).

But signs of retail price inflation scant

Despite the Q1 CPI print delivering a moderate 0.5% qoq (+1.1% yoy) increase, retail price inflation remained low, with prices from the retail deflator rising just 0.1% qoq and with annual inflation at just 0.3% yoy. **Retail prices were softer for the core retail sector, with our estimates suggesting a 0.4% qoq fall in prices and with prices 0.2% lower than a year ago. This clearly suggests that consumers are shopping around and are weighing their purchases towards items that have not experienced price rises.** Indeed, we believe that consumer resistance towards marked price increases will likely help to temper the retail price increases we see emerging over the next year.



The upshot and implications over 2018

The Q1 result confirmed a soft start to the retail sector over 2018 and is consistent with our expectation of a sub-trend outcome for Q1 GDP. There are a number of supports to the retail sector. The prospect of increased government support, increasing wages and higher producer incomes are expected to translate into still-solid annual rates of nominal consumer spending going forward. Low retail prices (if sustained) may well entice reluctant consumers to open their wallets. There are also some headwinds. The sluggish housing market, likelihood we are close to peaks for residential building and extended duration of the retail upswing do not point to boom times for the retail sector, however. **These influences are expected to contribute to moderate rates of retail spending volumes over 2018. Moderate rates retail activity is expected to keep OCR hikes on the backburner despite prospective increases in consumer prices on the horizon.** We do not expect the next OCR hike until August 2019.

ASB Economics & Research

			Phone
Chief Economist	Nick Tuffley	nick.tuffley@asb.co.nz	(649) 301 5659
Senior Economist	Mark Smith	mark.smith4@asb.co.nz	(649) 301 5657
Senior Economist	Jane Turner	Jane.turner@asb.co.nz	(649) 301 5957
Senior Rural Economist	Nathan Penny	nathan.penny@asb.co.nz	(649) 448 8778
Senior Economist, Wealth	Chris Tennent-Brown	chris.tennent-brown@asb.co.nz	(649) 301 5915
Economist	Kim Mundy	kim.mundy@asb.co.nz	(649) 301 5661
Data & Publication Manager	Judith Pinto	judith.pinto@asb.co.nz	(649) 301 5660

www.asb.co.nz/economics

@ASBMarkets