Economic Note

2020 Q3 Retail Trade Review

23 November 2020

Record retail rebound as households underpin the expansion

- Record Q3 broad-based surge in retail volumes as the economy bounced back from April lockdown, with households underpinning the economic rebound.
- Looking through the quarterly volatility suggests that COVID-19 and adjustments that households had to make could have triggered a more fundamental shifts in retail patterns. Durable and motor vehicle retail was particularly strong.
- The retail outlook is expected to remain mixed as households encounter retail tailwinds and headwinds.

Retail Sales: 2020Q3	Actual	Market	ASB
Total volumes (qoq)	28.0%	19.0%	20.0%
yoy	8.3%		
Core volumes (qoq)	24.1%		22.0%
yoy	7.7%		
Total retail deflator (qoq)	0.2%		
yoy	-1.0%		

Summary and implications

The record Q3 surge in retail volumes was considerably stronger than market expectations, posting a massive 28% qoq climb. Core volumes also rebounded strongly, with the level of total and core volumes hitting record highs in Q3. The strength was broad-based across industries and regions. NZ spent much of Q3 in Alert Level 1, with a period of higher alert levels either side of the quarter, and retail volumes could arguably have been even stronger if it were not for the mid-August outbreak in Auckland.

In addition to the shift to the less restrictive retail environment in Q3, pent-up demand, the front-loading of policy support measures, a resilient domestic economy and surging domestic tourism at a time when kiwis usually go overseas helped underpin Q3 lifts. Early signs suggest this strong pace of retail momentum has continued into the December quarter. The resurgent housing market, continued nest-building by households and resilient domestic demand should keep tills ringing. The strong Q3 print for retail trade suggests that the household sector will play a key role in underpinning the rebound in economic activity that will unfold over the second half of this year.

Strong retail trade figures and the resurgent housing market suggest that the NZ economy is in little need of additional policy stimulus. We expect 0.25% to be the low point in the OCR this cycle. While signs are looking good for now, we expect consumer spending growth to slow. Climbing joblessness, anaemic wage growth, increasing headwinds from fewer overseas tourists, a still uncertain economic outlook and stock shortages for retailers may still partly rain on the retail sector parade and dampen household exuberance.

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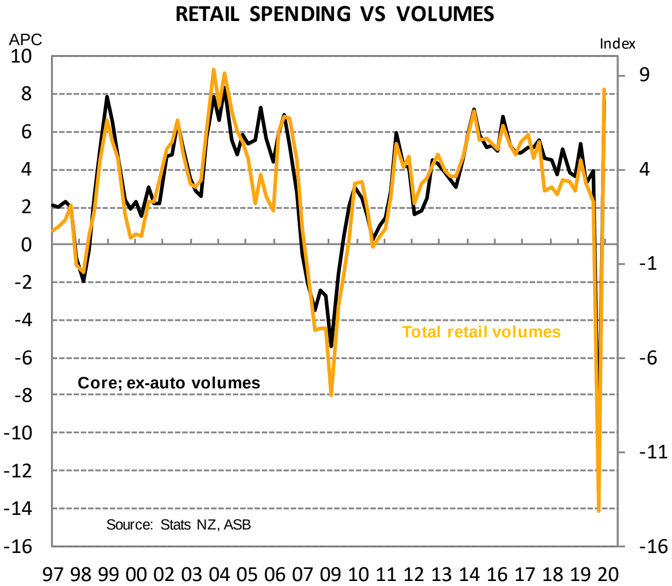
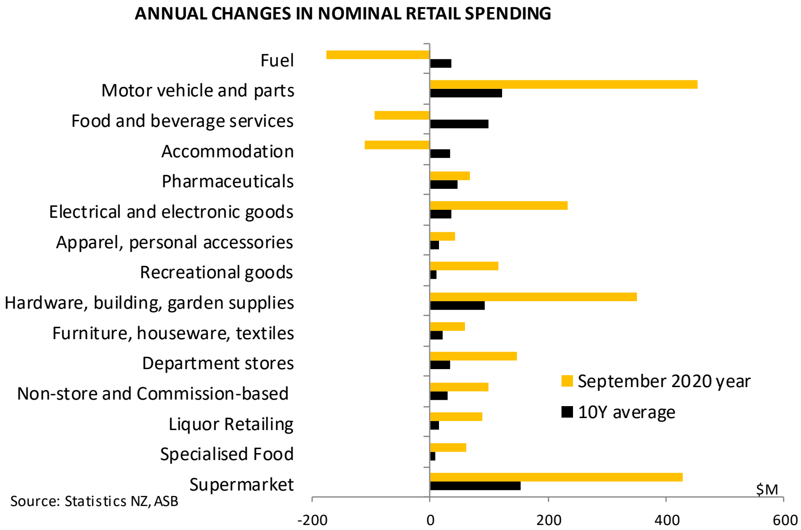
Record Q3 retail rebound

Retail trade spending volumes bounced 28.1% qoq in Q3 (core +24.1% qoq), which was considerably stronger than market expectations (19% qoq) and our +20% qoq Q3 pick. This was by far the largest quarterly increase for both total and core volumes, pushing both higher than year ago levels (8.3% yoy and 7.7% yoy respectively) and taking the level of total and core volumes to a record high.



Retail values climbed 28.1% in Q3 (7.4% yoy), with the 24.7% qoq climb in core values (+8.2% yoy) in line with the quarterly climb in retail Electronic Card Transaction spending. The retail trade deflator managed a 0.2% quarterly climb (-1.0% yoy), lower than the 0.7% qoq rise in consumer prices (+1.4% yoy) as consumers substituted expenditures to relatively less expensive items.

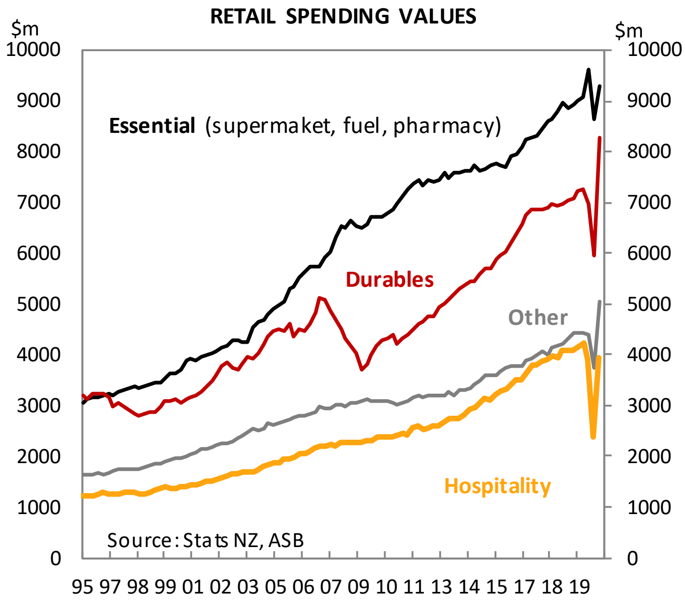
Volume increases were generalised across most retail store-types, with activity up in 14 of 15 retail sub-groups and 11 of 12 core sub-groups. Of note, 12 of the 15 industries had higher volumes than a year ago, pointing to a broad-based lift in retail activity.



- The relaxation of lockdown restrictions and the opening of non-essential retail store-types during the lower Alert Levels had the most impact on the store-types that were hardest-hit in Q2. Q3 saw massive climbs in food & beverage services (Q3 + 65.5% qoq, Q2 -38.4% qoq) and liquor outlets (Q3 + 60.9% qoq, Q2 -30.7% qoq).
- The border restrictions may have substantially cooled overseas tourism, but it also likely helped support domestic tourism with accommodation volumes up 66.2% in Q3 after their 38.3% Q2 fall.
- Easing restrictions and pent-up demand resulted in sizeable lifts for hardware (40.0% qoq) and specialised food (33.4% qoq), with the easing of COVID-19 restrictions supporting department store (35.7% qoq) and apparel retail (38.6% yoy).
- Auto volumes rebounded 47.7%, in line with the 50% climb in car registrations over the quarter, and the highest level on record, with low interest rates and the recycling of funds earmarked for overseas trips likely spent here instead.
- Retail volumes hit record highs for appliance and electrical and electronic retail volumes (23.1% qoq) and recreational goods volumes (37.1% qoq) as kiwis focused on nest building and preparing for the next lockdown.
- The shift down in Alert Level restrictions also promoted an increase in vehicle use, with fuel volumes up 36.5% qoq.
- Supermarket volumes were down 2.9% qoq in Q3, with consumers running down stocks from panic-buying earlier in the year.

The sizeable Q3 bounce for retail trade volumes suggests some upside risk to our current +11% qoq Q3 GDP pick, with increased household spending helping to drive the rebound in economic activity from the Q2 lull. We will firm up our GDP pick in the next few weeks, but it is expected to show a record Q3 rebound after a record Q2 12.2% qoq fall.

Looking through the quarterly volatility suggests that **COVID-19 and adjustments that households had to make could have triggered a more fundamental shifts in retail patterns.** Durable spending types remain at (or close to) record highs for most store-types, with electric and electronic goods retail volumes a whopping 28% higher than this time last year. Many NZ households may have also done their dash on durable spending for a while. Food & beverage services and accommodation retail remain below pre-COVID-19 levels and may take some time to recover given the weak outlook for household incomes.



Early signs suggest this strong pace of retail momentum has continued into the December quarter. NZ households may have repaid some consumer and credit card debt over the April lockdowns and aggregate household balance sheets having benefitted from the recent surge in house prices and equities. Moreover, NZ looks to have endured the COVID-19 maelstrom better than most, and there is hope it can avoid the fate of some Northern Hemisphere economies who have had to reimpose restrictions, choking their economic recoveries.

Increases in retail values were regionally broad-based, with quarterly increases ranging from 21.6% qoq (Auckland), to 46.9% qoq (Marlborough). The lift in Alert Level restrictions likely contributed to the under-performance in Auckland retail (+3.6% yoy vs 7.4% yoy for NZ). There were sizeable increases for Otago (39.3% qoq, which includes Queenstown) and the Hawke Bay (31.6% qoq) consistent with anecdotes of a school-holiday boost for domestic tourism. Looking at the annual changes in spending, strength was regionally broad-based, with middle of the county seeing the strongest annual increases. Otago (-0.3% yoy, which includes Queenstown) and the tourism-dependent West Coast (-1.4% yoy) were the only two regions to record an annual fall in retail values, a reminder of the hit to economic activity from border restrictions.

Retail stocks were down heavily over the quarter, falling $8bn compared to this time last year. Falls were generalised, with 10 of the 15 retail sectors had lower stock levels compared to this time last year, with the largest fall coming from motor vehicles and parts retailing (-11% yoy, $203m), followed by department stores (-8.1% yoy, $89 million). Well-publicised stock issues for retail goods may result in retail shelves not being as chokka as previously, with commensurately higher retail prices the likely consequence.

Nevertheless, we do not expect the retail floodgates to remain open for long. Prospects for household incomes are not as upbeat given climbing joblessness, anaemic wage growth, increasing headwinds from little overseas tourism, slowing net immigration and overall population growth. The NZ household sector is barely saving (household saving was just $736m in the March 2020 year) with little to fall back on if needed. Not all consumers will benefit from the buoyant housing market as the dream of homeownership becomes less attainable to would-be homebuyers. Sizeable falls in deposit interest rates have also significantly eroded interest incomes for savers. A re-emergence of COVID-19 in NZ remains a clear risk.

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