ASB

Economic Note

Q2 2021 NZ Retail Trade Review

24 August 2021

Strong retail sector momentum continues heading into lockdown

- Stronger-than-expected lift in Q2 retail volumes to fresh record highs, with the consumer driving the domestic expansion.
- Trans-Tasman bubble boost and strong durable retail evident.
- A Q3 pullback in retail trade activity is highly likely given the delta variant outbreak in NZ. We are hoping the dip is short-lived and have pencilled in a strong retail rebound by the end of the year.

Retail Sales: 2021	Q1	Q2	Market	ASB
Total volumes (qoq)	2.8%	3.3%	2.5%	2.0%
yoy	6.6%	33.3%		
Core volumes (qoq)	3.5%	3.4%		2.5%
yoy	5.4%	30.2%		
Total values (qoq)	2.9%	4.0%		
Total values (yoy)	6.2%	37.1%		
Total retail deflator (qoq)	0.2%	0.7%		
Total retail deflator (yoy)	-0.4%	3.0%		

Summary and implications

The Q2 Retail Trade Survey saw stronger-than-expected climb in both retail and core volumes, with total volumes one-third higher than depressed June 2020 levels. Increases were generally broad-based across retail store-types and regions, with a trans-Taman bubble boost evident and with durable retail particularly strong. Retail prices shifted up noticeably and look set to firm further. The strong outturn for retail trade has increased our confidence the NZ economy has retained considerable momentum heading into the second half of 2021 and suggests clear upside risk to our +0.8% qoq Q2 GDP pick. With NZ now in a nationwide lockdown a Q3 pullback in retail volumes (and GDP) is to be expected. The near-term outlook is uncertain, but we are hoping the dip is short-lived, with a strong retail rebound pencilled in by the end of the year. Our base case is that the RBNZ withdrawals monetary stimulus from October to reduce the economy overheating, with an OCR endpoint of 1.50% by late next year.

Strong momentum continues in Q2 retail trade figures

Retail trade spending volumes surged 3.3% qoq in Q2 (core +3.4% qoq), which was stronger than ASB and market expectations. With Q2 2020 volumes significantly hampered by the Alert Level 4 lockdowns, annual growth in core (+30.2% yoy) and total retail (33.3% yoy) volumes jumped. Core and total volumes hit record highs as did per-capita retail volumes. **Of note for 2021 has been that retail spending activity has maintained considerable momentum, still running at a 7% to 8% annualised rate in the first half of this year. This is unsustainable and will need to slow.**

Also surprising was the resilience of retail stock levels, which ticked up in June (+0.4% in non-seasonally adjusted terms) despite the strong Q2 retail outturn and anecdotes of growing stock shortages. This should support Q2 GDP.

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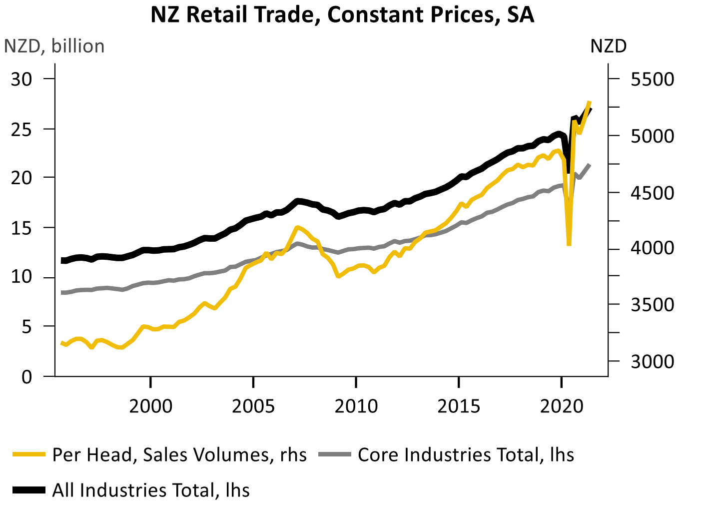
Retail and core values both climbed 4% in Q2 (+37.1% yoy and 32% yoy, respectively). This was a shade below the respective 4.5% to 5.5% Q2 increases in core and retail Electronic Card Transaction spending data.

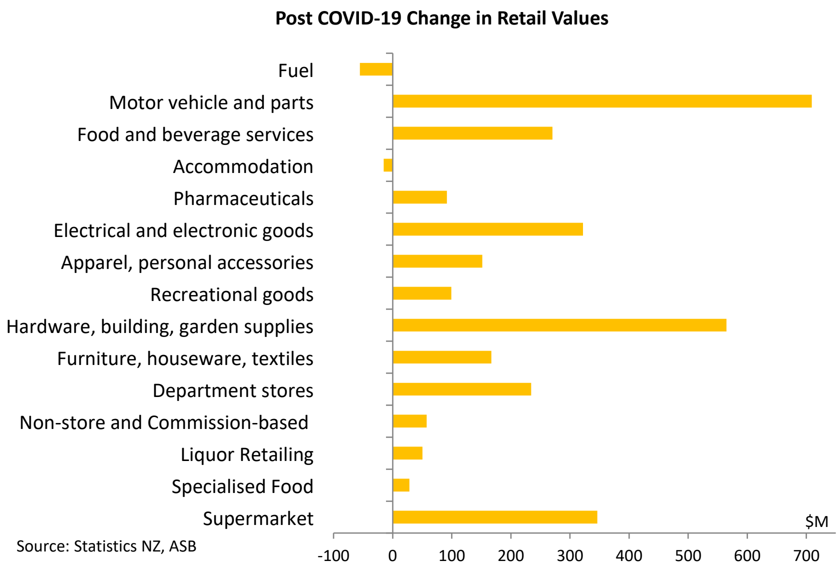


Source: Macrobond, ASB

Retail prices ratcheted higher, with prices from the retail trade deflator up 0.7% in Q2 (3.0% yoy) and core prices up 0.4% qoq (1.6% yoy). **Higher costs and reduced resistance to paying higher prices are likely to see retail prices expand strongly over the remainder of 2021, eroding the purchasing power of consumers.**

The sector splits showed a mixed Q2, with volumes in 12 of the 15 total retail store-types increasing, but with the bulk of the lift likely reflecting the trans-Taman bubble boost evident and still-strong durables retail:

- The trans-Tasman bubble saw a jump in visitor numbers (to their highest levels since early 2020) provide a boost to tourism-related spending, with accommodation retail (11.4% qoq) and food & beverage service volumes (5.6% qoq) up strongly. With NZ now in lockdown, tougher times beckon.
- Consumers' love affair with consumer durables continued. Q2 saw strong quarterly increases for electrical goods (+6.9%), hardware (+2.6% qoq), and furniture (+4.8% qoq), with volumes for all 3 at record levels.
- Auto sales volumes rose 3.1 in Q2, well below the 11% Q2 rise in car registrations over the quarter, but up strongly since late 2019 (see chart).
- Apparel (+5.5% qoq) volumes rebounded after their Q1 dip, but specialised goods retail dipped for a 2nd consecutive quarter (-1.1 qoq).
- Supermarket volumes were little changed (+0.4% qoq), with liquor sales down 0.6% in Q2. Both sectors are likely to fare considerably better with NZ now in lockdown.
- Despite a 6% rise in fuel prices over the quarter, fuel volumes climbed 1.6% in Q2.



Source: Statistics NZ, ASB

Broad-based strength by region

The Q2 increase was regionally broad-based with all 16 regions seeing a seasonally-adjusted increase in sales values. The trans-Tasman bubble likely boosted spending in tourism regions, including the West Coast (+25.1% qoq) and Otago (+13.8% qoq). The return to lockdown suggests the buoyancy from these regions will be short-lived.

The retail outlook for 2021 and broader implications

The Q2 increase in retail volumes is consistent with our core view that the NZ economy maintained considerable momentum heading into the second half of this year. It suggests clear upside risk to our +0.8% Q2 pick for GDP, with consumers still in the vanguard of the expansion. The recent delta variant outbreak and subsequent lockdown is expected to dampen total retail volumes and GDP in Q3. We expect a modest quarterly contraction in both but estimates remain highly uncertain and dependent on the course of the viral outbreak in NZ.

What about beyond then? We are confident NZ retail spending activity will rebound after the Alert levels have been relaxed. The household sector has been remarkably resilient thus far, notwithstanding some weakness in various pockets. Household incomes look set to be further boosted by increasing income support payments, rising wages and strong producer incomes. **Surging house and equity prices have substantially bolstered household balance sheets by at least an extra $500bn since late 2019 according to our estimates.**

We expect OCR hikes from October as the RBNZ seeks to cool household spending to a more sustainable pace and reduce economic overheating. The outlook is inherently uncertain, with a number of different paths for the economy and OCR settings. **Households in general look to be well placed to cope with rising interest rates, with our estimates suggesting household cashflows will be roughly $2.6bn lower each year with each percentage point increase in household interest rates** (roughly 1 percent of nationwide household disposable incomes). However, highly indebted households will struggle and the RBNZ will remain watchful for signs of stress as it moves to withdrawal stimulus.

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