

# Economic Note

July 2021 NZ Electronic Card Transactions

10 August 2021

## Benefit boost for July card spending

- July card spending registers solid increases, likely helped by rising income support payments.
- Spending growth accelerates to a 6% to 7% 3-monthly pace as consumers continue to drive the domestic expansion.
- Despite the prospect of higher interest rates, we remain positive on the outlook for retail spending.

### ECT

	Actual	Market	ASB
Total retail ECT (mom)	0.6	-	1.0
yoy	4.7		
Core retail ECT (mom)	0.5		0.5
yoy	4.5		
Total ECT (mom)	0.9		
yoy	6.0		

## Summary and implications

Card spending followed its strong recent run in July and looks to have been underpinned by the July increases in income support payments announced in Budget 2021. The pace of retail spending has accelerated in recent months, and OCR hikes look to be increasingly necessary to slow the pace of household spending to a more sustainable rate. ASB expects 75bp of OCR hikes over 2021, with the reasonable possibility of a 50bp hike in August. We remain positive on the outlook for retail spending over the second half of 2021, but the RBNZ will remain watchful.

## Solid July increase for card spend

**Retail electronic card spending rose a seasonally-adjusted 0.6% in July, the fifth consecutive monthly increase and in line with our expectations.** Excluding fuel and vehicle components, core spending rose 0.5% s.a. over July, whereas stronger non-retail spending saw total card spending advance at 0.9% s.a. clip.

**The July month saw the start of a once in a generation increase in income support payments for low-income earners. This looks to have provided a boost to a few categories, including consumable and apparel spending.**

**Smoothing through the volatility showed retail card spending advancing at a strong 5.9% clip in the three months to July (core 5.6% 3m3m, total 7.2% 3m3m). This was the strongest quarterly increase since the September 2020 quarter rebound and highlights the considerable momentum evident in household spending.**

Even after adjusting for higher retail prices (we expect annual CPI inflation to strengthen to 4% in the second half of this year), retail volumes look to be running at a much faster pace than the supply potential of the economy. **Hence the need to rein in consumer spending to reduce the extent of economic overheating and place household spending**

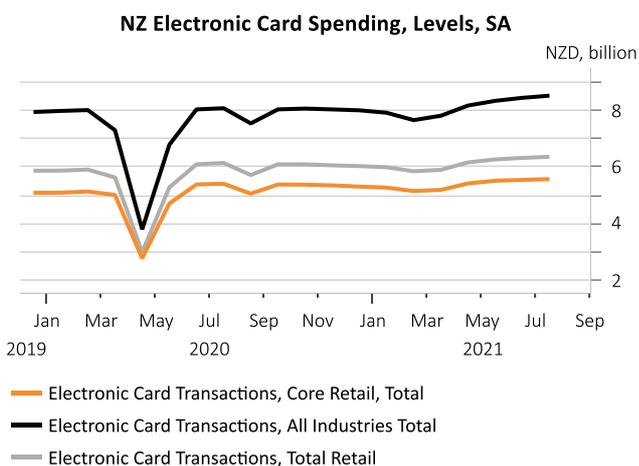
**on a more sustainable trajectory.**

The July monthly figures highlighted contrasts amongst the components:

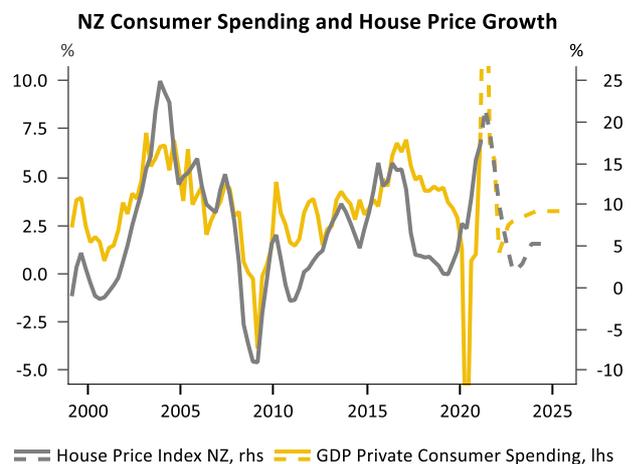
- Consumable retail rose 0.6% in seasonally-adjusted terms (3.9% 3months/prior 3 months, 2.9% yoy). Higher food prices likely accounted for the bulk of this.
- Given the impact of the global pandemic on seasonal patterns, Statistics NZ have not published seasonally adjusted estimates for hospitality spending. Still, the +12.6% non-seasonally adjusted rise (+10.6% yoy) was notable given falls earlier reported in overseas card spending (down close to 7% in the July month). It likely reflected the July school holiday boost and the increased willingness of local consumers to spend.
- Apparel retail rebounded 3.6% mom, likely due to cooler weather and higher income support payments and follows a strong run for the sector (7.9% 3months/prior 3 months, 0.8% yoy).
- Durable spending remained elevated, climbing 0.3% mom (4.6% 3months/prior 3 months , 3.1% yoy). Booming dwelling construction, strong household balance sheets, and few overseas travel options should support durable retail.
- Supporting wider total card spending was a 2.4% jump in non-retail industry spending (up 10.8% 3months/prior 3 months, 10.2% yoy). This category of spending remains below pre-pandemic levels.
- Services retail eased a seasonally adjusted 0.5% on the month (7.0% 3 months/prior 3 months, +5.5% yoy), but looks to remain well supported as the economy reverts more to pre-COVID-19 spending patterns.
- Fuel spending advanced 0.9% mom (+3.9% 3months/prior 3 months, 9.8% yoy), below the 3% increase in fuel prices over the month. Higher fuel prices are expected to weigh on consumption purchasing power going forward.

**The retail outlook for 2021**

**We have retained an upbeat outlook for consumer spending over 2021, with retail volume growth on track to approach 7% over 2021.** Strong household balance sheets, rising household incomes, tight labour markets and few overseas travel options should keep the domestic retail sector ticking over, notwithstanding the hit to hospitality and accommodation retail from fewer inbound tourists. **Record low interest rates have also provided significant support, but this needs to be quickly dialled back to prolong the expansion. ASB expects 75bps of OCR hikes by the end of the year, with the reasonable possibility of a 50bp hike in August. The RBNZ will be closely watching the housing market and household spending in general for guidance on how much policy support needs to be withdrawn.**



Source: Macrobond, ASB



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