

Economic Note

June 2021 NZ Electronic Card Transactions

12 July 2021

Card spending accelerates in June quarter as consumers support the expansion

- June card spending continues its strong recent run, buoyed by strong hospitality and services retail.
- Spending up 4.5% to 5.5% over the June quarter for total and retail spending as consumers continue to support the expansion. Some of the increase looks to have been due to higher prices.
- We remain positive on the outlook for retail spending and the economy in general over 2021. OCR hikes are coming.

ECT

	Actual	Market	ASB
Total retail ECT (mom)	0.9	-	1.0
yoy	4.0		
Core retail ECT (mom)	0.6		0.5
yoy	3.3		
Total ECT (mom)	1.6		
yoy	5.4		

Summary and implications

Card spending followed its strong recent run, supported by strengthening hospitality, services, consumable and fuel retail. It was stronger than MBIE data showing falls in overseas card spending as the trans-Tasman travel bubble was paused late in June. Retail spending accelerated in the June quarter, with the consumer still providing vital support to the domestic expansion. What's more, we remain positive on the outlook for retail spending over the second half of 2021. This, stretched labour market capacity and higher consumer prices all point to the OCR moving up soon. ASB expects a November hike.

Larger than expected February fall for card spend

Retail electronic card spending rose a seasonally-adjusted 0.9% in June, close to our expectations. Excluding fuel and vehicle components, core spending rose 0.6% s.a. over June, whereas stronger spending on services saw total card spending advance at 1.6% s.a. clip.

The climb in June spending followed a number of **strong months and was generalised across most sectors, notwithstanding a pullback in apparel retail and slowing growth in durable retail.** It was stronger than the MBIE card spending data showing falls in overseas card spending as the trans-Tasman travel bubble was paused late in June following COVID-19 outbreaks in Australia. Card spending for the Wellington region was lower as restrictions were temporarily tightened.

Smoothing through the volatility and taking a 3-month average showed retail spending advancing at a strong 4.5% clip in the June quarter (core 5.5% qoq, total 4.5% qoq). This was the strongest quarterly increase since the

September 2020 quarter rebound. Increases were generalised. The strongest quarterly growth rates were for the hospitality (+18.9% qoq) and apparel (+9.6% qoq) sectors, whereas consumable spending (2.7% qoq) was not quite as strong as the other categories.

The June monthly figures were generally strong amongst the components:

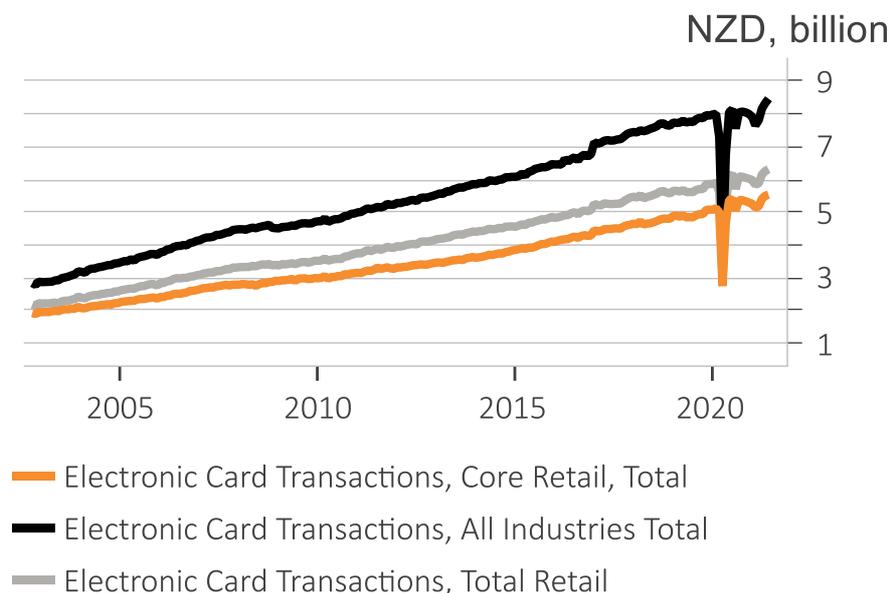
- Services retail surged 2.3% on the month (6.0% qoq, +7.6% yoy) and looks set to strengthen over the remainder of the year as the economy reverts more to pre-COVID-19 spending patterns.
- Continuing on with its strong recent run, hospitality spending rose 2% mom (18.1% qoq, 17.3% yoy). This was despite the pausing of the Trans-Tasman bubble and the tightening of COVID-19 restrictions in Wellington. The more detailed splits for the hospitality sector confirmed strong growth in food & beverages services retailing (up 15% yoy) and accommodation services retail (up 37% yoy).
- Apparel retail fell 5.1% mom, but this followed a strong run for the sector (9.6% qoq, 0.3% yoy). Cooler weather looks set to entice NZ consumers to spend more wrapping up.
- Durable spending remained elevated, climbing 0.4% mom (3.9% qoq, -2.2% yoy). Booming dwelling construction, strong household balance sheets, and few overseas travel options should support durable retail.
- Consumable retail rose 1.8% in seasonally-adjusted terms (2.7% qoq, 1.8% yoy).
- Fuel spending advanced 1.8% mom (+3.9% qoq, 15.2% yoy), consistent with the 4% 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. Tight labour markets, increased job security and the Budget-related surge in income support payments from July should bolster spending. Household balance sheets have benefitted from the surge in asset prices as have increased saving by households (household deposits are close to \$20bn above pre-COVID levels). **All-in-all, increased consumer demand will help support the NZ economy over the remainder of 2021.**

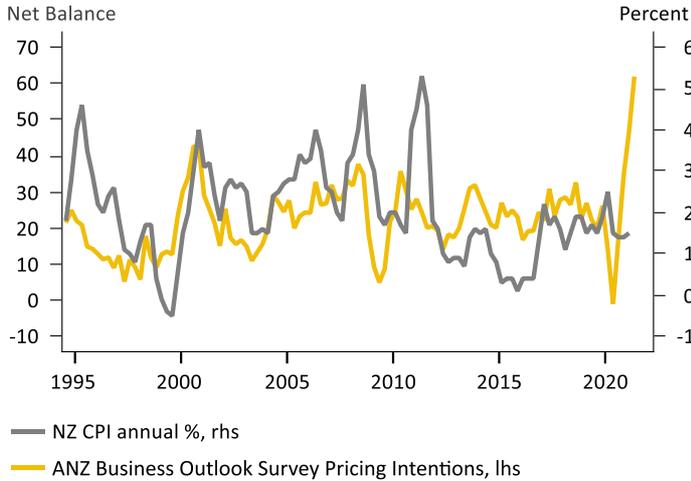
Not all of this extra spending will result in more goods or services. More of the lift in nominal spending underway looks to be due to higher retail prices. Surveyed cost and pricing intentions have rocketed in recent months and we expect this to be reflected in retail prices, with annual CPI inflation on track to hit 3%.

NZ Electronic Card Spending, Levels, SA



Source: Macrobond, ASB

ANZBO Pricing Intentions and CPI Inflation



Source: Macrobond, ASB

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