

Economic Note

Q2 Retail Trade

22 August 2018

Resilient retail maintains high hurdle to OCR cut

- Retail sector resilient in Q2 despite weakening consumer sentiment and soft Q2 card spending.
- Nevertheless, annual retail volume growth falls to a 6-year low. Momentum for core retail remains reasonable.
- Q2 retail should underpin a solid Q2 GDP result that should surpass the RBNZ's +0.5% qoq pick. The hurdle to an OCR cut remains high.

Summary & implications

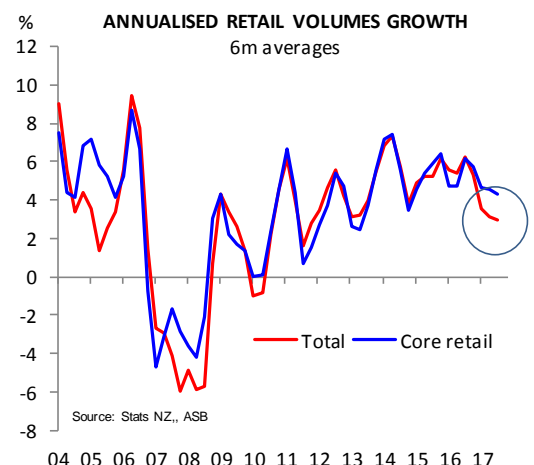
Q2 retail volumes were much stronger than expected and were not consistent with weaker prints for Q2 electronic card spending and consumer sentiment. The pace of growth in retail volumes has slowed compared to a year or so ago, with annual retail volume growth falling to a 6-year low. Core volumes have fared slightly better but some of the heat looks to have gone out of the retail sector. Today's Q2 retail trade surprise also served as a timely reminder of the difference between perceptions and actual outcomes, and also highlights the difficulties in relying on sentiment-based measures to provide an accurate steer of the state of the economy. Our outlook is for moderate rates of retail spending over the remainder of 2018, which should keep the notion of OCR cuts on the backburner.

Details

Retail trade spending volumes rose 1.1% qoq, stronger than the market consensus (+0.4% qoq). Core retail spending (excluding fuel and vehicle-related) also showed considerable vigour, with volumes up 1.4% qoq.

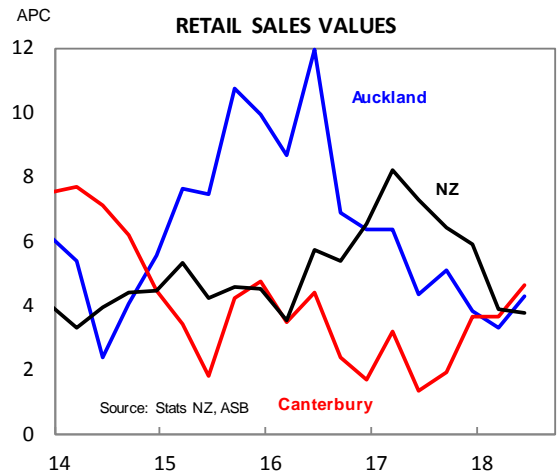
Recent quarterly retail trade out-turns have been volatile, with the strong Q2 result following a soft Q1 out-turn. On a trend basis, the pace of growth in retail volumes over 2018 has slowed. Annualised growth in retail volumes for the 1st half of 2018 was around 3% as opposed to the 6+% rates in the first half of 2017. Core volume growth has held up better, but was lower than in 2017H1 (4.3% versus 6.3%). Moreover, on an annual basis, total volume spending growth eased to 2.9%, the lowest since late 2012. Core spending volume growth was stronger, but at 4.3% yoy was the lowest in four years.

The retail figures confirmed that a low inflation backdrop remained in place. Increases for retail values (total retail+1.3% qoq, core retail +1.5% qoq) were not much more than for respective volume increases, with annual inflation from the overall retail and core retail deflators running at low rates (0.8% yoy and 0.1% yoy respectively).



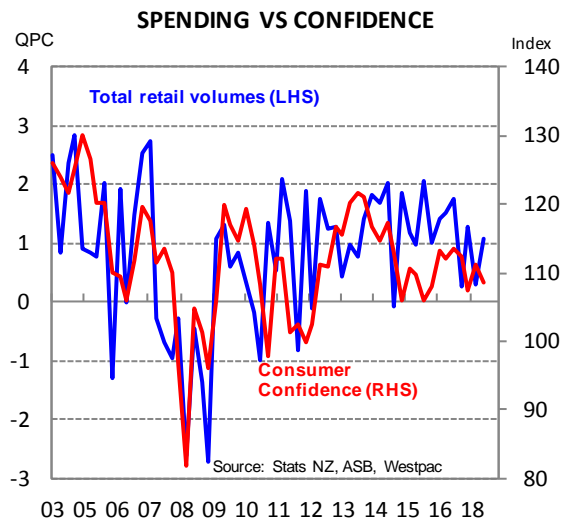
Q2 strength in retail volumes was broad based, with volumes in 11 of the 15 retail sub-groups rising. Recreational goods (+4.9% qoq), Hardware (+4.7% qoq), and accommodation retail (+3.2% qoq) all showed greater momentum, with electrical and electronics retail (+2.0% qoq) continuing its strong run. Fuel spending volumes fell as higher petrol prices likely softened demand. Liquor and supermarket grocery store volumes declined but this followed a period of recent strength. Vehicle retail volumes posted a modest 0.4% qoq rise.

There were regional contrasts. Annual growth in Auckland (+4.3% yoy) and Canterbury (+4.6% yoy) outpaced the nationwide 3.8% yoy rate. **This is not consistent with recent house price weakness in these areas and it highlights the importance of other supports** (including population growth, rising wages and employment) that should keep tills ticking over.



The Q2 retail figures were considerable stronger than indicated by electronic card spending values (which declined in Q2). **We note that of late the relationship between retail values and card spending has weakened, and until this relationship reasserts itself, we are likely to place less weight on card spending data to firm up our view on the state of the retail sector and retail momentum.**

The stronger Q2 retail sales print were despite recent weakness in sentiment measures. Not only have retail sector own-activity expectations from the ANZ business outlook been weak, but consumer confidence has been on a weakening trajectory. **Today's Q2 retail trade surprise serves as a timely reminder of the difference between perceptions and actual outcomes. It highlights the difficulties in relying on sentiment-based measures to provide an accurate steer of the state of the economy and hence the degree of medium-term inflationary pressure.**



The solid Q2 retail sales print is consistent with our +0.9% qoq pick for Q2 GDP. The RBNZ is more cautious (+0.5% qoq expected), with the Bank believing that the weaker housing market will dampen household spending. We remain constructive on the outlook for household spending. Household spending growth has undoubtedly slowed. However, the prospect of increased government support, increasing wages and higher producer incomes are expected to translate into still-reasonable rates of household income growth and consumer spending. **The hurdle to a near-term OCR cut by the RBNZ remains high.**

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