Economic Note

Q3 Retail Trade

26 November 2018

Higher fuel prices weigh on retail sector

- Retail sector volumes stall in Q3, with higher fuel prices weighing on wider retail volumes.
- Sector details were mixed, with retail momentum trending lower over 2018.
- Flat Q3 retail volumes suggest some downside risk to our +0.6% qoq Q3 GDP pick. Changes to the OCR look some way off.

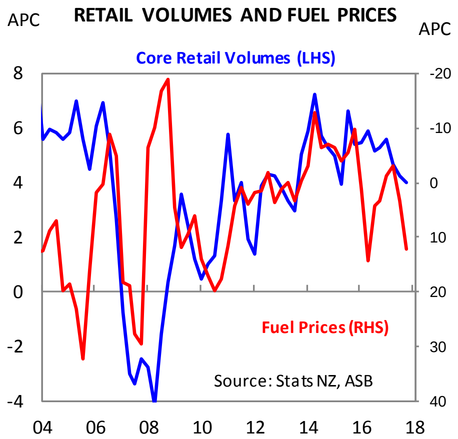
	Previous	Actual	Market	ASB
Total volumes (qoq)	1.1%	0.0%	1.0%	0.6%
yoy	2.9%	2.6%		
Core volumes (qoq)	1.3%	0.4%		
yoy	4.3%	4.0%		
Total retail deflator (qoq)	0.1%	0.6%		
yoy	0.7%	1.2%		

Summary & implications

Q3 retail volumes were considerably weaker than expected and were inconsistent with 2% qoq prints for Q3 electronic card spending and consumer sentiment. Rising fuel prices look to have weighed on retail sector volumes. The retail figures suggest quarterly economic momentum may have slowed after a strong Q2, and suggests some downside risk to our +0.6% qoq pick for Q3 GDP. We expect that the more recent falls in retail fuel prices, the tight labour market, continued government support, and increasing wages and higher producer incomes should translate into a reasonable Xmas for retailers. However, a nervous couple of months lie ahead. Changes to OCR settings look some way off and we do not expect any moves until 2020.

Details

Retail trade spending volumes were flat over Q3, considerably weaker than the market consensus (+1.0 % qoq) and our below-consensus +0.6% qoq pick. On an annual basis, total volume spending growth ticked up to 4.0%. Core retail spending (excluding fuel and vehicle-related) showed slightly more vigour, with volumes up 0.4% qoq (3.4% yoy). The figures were consistent with a selection of indicators, including the Q3 decline in house sales volumes, falling vehicle registrations and weaker consumer confidence, which had pointed to a softening in retail momentum.



Retail values rose just 0.6% qoq (4.0% yoy) and core values climbed 0.3% qoq (3.4% yoy). This was considerably weaker than indicated

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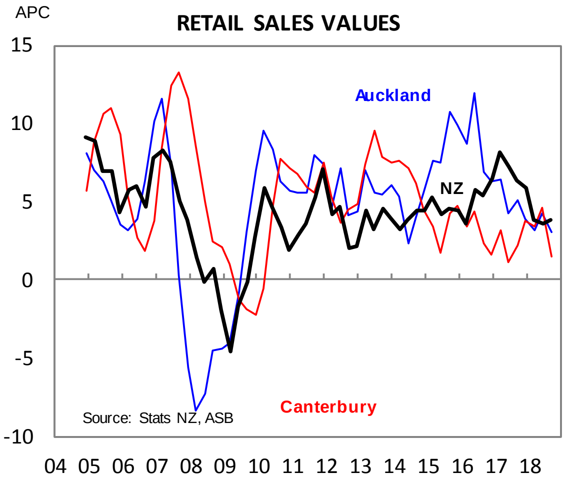
by electronic card spending values (which surged 2%+ qoq for both retail and core). The retail sales deflator rose by 0.6% qoq (+1.2% yoy). **The impact of rising fuel prices was clearly evident, with fuel spending values up 7.7% qoq (18.4% yoy). Higher spending on fuel looks to have dampened spending in other areas.** Prices fell 0.1% qoq for core retail sales (-0.4% yoy), considerably milder than the 0.9% qoq increase in consumer prices (+1.9% yoy) and suggesting core inflationary pressures remain low.

Q3 was a mixed bag, with volumes in eight of the 15 retail sub-groups rising. It looks as though the boost to lower-income households from the Government's Families Package provided a boost to pockets of the retail sector, with department store sales (+7.4% qoq) particularly strong. Fuel volumes actually rose in Q3, with higher fuel prices yet to impact on vehicle use. The 2.3% fall in motor vehicle retail volumes was consistent with lower vehicle registrations. Cooling house sales volumes translated into sluggish sales for furniture (-1.2%), but electrical retail volumes posted another solid increase (+1.0% qoq), as did apparel volumes. The booming inbound tourism market was evidenced by higher accommodation volumes (+1.6% qoq, 4.6% yoy) and liquor sales (+1.8% qoq), but food and beverage services volumes fell.

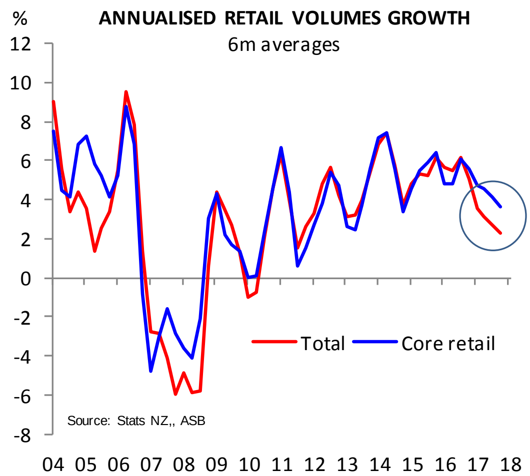
There were regional contrasts, with provincial retail significantly outperforming the major centres. Retail sales values were flat in Auckland, with annual retail value growth at just 3.1%, the lowest since 2009. Wellington retail values managed a moderate 0.5% qoq increase (+4.3% yoy). Retail values showed more vigour in other North Island centres, with strong. Waikato retail values surged 2.2% in Q3 (7.3% yoy), with particularly strong growth in the Bay of Plenty (6.6% yoy), Hawkes Bay (+5.8% yoy) and Manawatu (+5.7% yoy), Sales growth was ore sluggish in the South Island, with annual value growth down to 2.5% yoy. Retail sales values fell 1.5% qoq seasonally adjusted in Canterbury, and were up just 1.5% compared to a year ago, the lowest in two years.



On a trend basis, retail volume growth over the middle of 2018 looks to have eased further. Annualised growth in retail volumes for the middle six months of 2018 was around 2.3% as opposed to the 5-6% rates in the middle of 2017. Core volume growth (+3.6%) also slowed.

We believe that household spending growth will be increasingly driven by developments on the income side of the economy. Given recent sluggishness in nationwide residential property prices (the picture looks considerably brighter outside of Auckland and Christchurch) and the recent slide in global equity values, this is just as well.

Be that as it may, however, flat retail volumes growth suggests economic momentum slowed after a strong Q2, and suggests some downside risk to our +0.6% qoq pick for Q3 GDP. Easing retail fuel prices, the tight labour market, continued government support, increasing wages and higher producer incomes should translate into a reasonable Xmas for retailers, but a nervous couple of months lie ahead. Changes to OCR settings, either on the upside or downside, look some way off and we do not expect any moves until 2020.



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