

Economic Note

August 2021 NZ Electronic Card Transactions

10 September 2021

Lockdown hit to card spend (hopefully) expected to be short-lived

- August card spending plummets as NZ enters lockdown. Given the timing of the lockdown, August falls were not as sharp as in the April 2020 lockdown. Consumable retail spending was again the major standout.
- The relaxation in restrictions in much of the country and hopes that Auckland will soon follow suit point to a swift rebound in card spending. Despite this, a large Q3 contraction in retail activity and GDP looms.
- Looking through the near-term volatility, the household sector is in generally solid shape, with a robust medium-term outlook for household spending. We expect OCR hikes from next month as the RBNZ looks through near-term weakness and focuses on the positive medium-term economic outlook and rising inflation.

ECT

	Actual	Market	ASB
Total retail ECT (mom)	-19.8	-	-22.0
yoy	-11.4		
Core retail ECT (mom)	-17.9		-19.0
yoy	-10.4		
Total ECT (mom)	-21.8		
yoy	-11.9		

Summary and implications

The community delta variant outbreak and subsequent shift to Alert Level 4 on August 17 triggered a sharp fall in non-essential retail (about two-thirds of total retail) and overall card spending. Falls were broad based across most sectors, although given the timing of the lockdown (mid-month), falls were not as sharp in the April 2020 lockdowns. Consumable retail bucked the downward trend. With most of the country now down to Delta Alert Level 2 and some light at the end of the tunnel for Auckland we expect to see a rebound in non-essential card spending in the coming months, notwithstanding the impact of stricter delta variant restrictions on hospitality retail. Climbing COVID-19 vaccinations in NZ, strong household balance sheets, rising household incomes and pent-up demand should provide considerable support to domestic household spending beyond that. At this stage, we expect OCR hikes from October and a 1.50% OCR endpoint from late next year.

Lockdown hit to August card spend, but subsequent rebound expected

Retail electronic card spending plummeted a seasonally-adjusted 19.8% in August (-11.4% yoy), in line with expectations. It was the largest monthly decline since April 2020 and the first drop in six months. Given the lockdowns occurred in the middle of the month, the fall was not as sharp as the 47% mom decline in April 2020. Excluding fuel and vehicle components, core spending slumped 17.9% s.a. over August (-10.4% yoy), whereas larger falls in non-retail spending saw total card spending fall 21.8 % s.a. (-11.9% yoy).

With earlier readings showing strong momentum, the 3-monthly rate in card spending fell a more modest 3.0% in the three months to August (core -2.7% 3m3m, total -4.3% 3m3m). **Even though we expect a rebound in the September month, card spending is likely to be down around 5% over Q3. Combined with the circa 1.5% quarterly climb we expect for consumer prices, this points to a sizeable Q3 decline in retail volumes (and economy-wide GDP).**

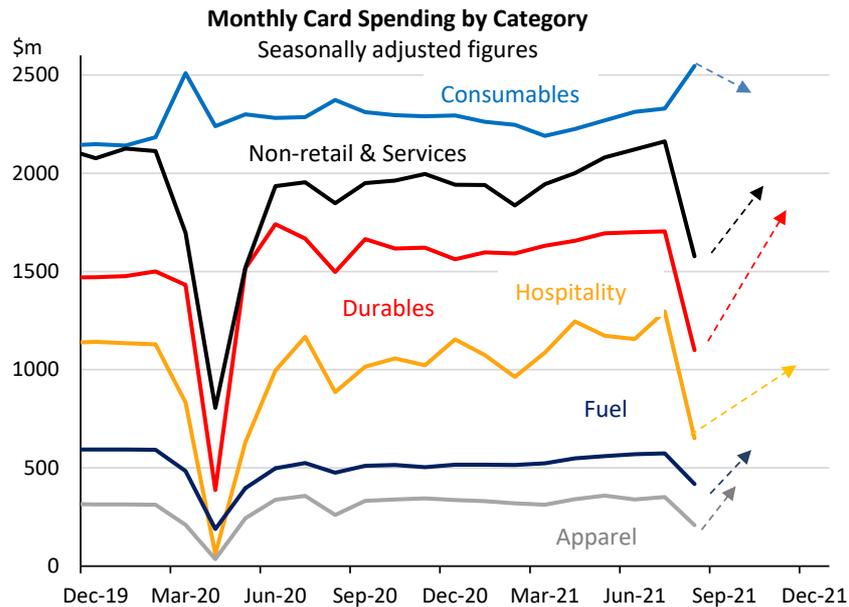
The August monthly figures highlighted a generalised lockdown impact amongst the components:

- Consumable retail rose 9.3% in seasonally-adjusted terms (6.5% yoy) as consumers stock-piled on the essentials; The lift was not as marked as in the early 2020 lockdowns, suggesting consumers may have learnt a thing or two;
- It may be an essential service, but the lockdowns saw a huge pullback in travel, with fuel spending down 27.2% mom (-11.8% yoy);
- Given the impact of the global pandemic on seasonal patterns, Statistics NZ has not published seasonally-adjusted estimates for hospitality spending. Still, the 47.6% non-seasonally adjusted decline (-26.7% yoy) suggests this is one of the key sectors that will bear the brunt of the lockdowns. The newly-introduced delta variant restrictions could temper the post-lockdown rebound from this sector;
- Durable spending fell 35.5% mom (-26.9% yoy). Booming dwelling construction, strong household balance sheets, and few overseas travel options should support a bounce in durable retail;
- Apparel retail plummeted 40.7% mom (-21.2% yoy). The shift to lower Alert Levels should trigger a rebound in the coming months;
- Weighing on wider total card spending was a 24.3% fall in non-retail industry spending (-11.4% yoy) and a 41.7% decline in services (-25.4% yoy). With the delta variant looming, the eventual return to pre-COVID-19 spending patterns remains some way off.

While trying to forecast the trajectory of a viral outbreak (let alone its economic impact) is inherently tricky, we are hoping that NZ's previous success in containing the outbreak will be repeated and this will trigger a Q4 rebound in non-essential card spending, retail volumes (and wider GDP). Sustaining the current strong pace of Covid-19 vaccinations in NZ provides grounds for optimism. However, a look across the Tasman highlights the risks. Even if NZ manages to bring the latest outbreak under control, the stricter Delta Alert restrictions could temper the rebound from some key sectors (particularly hospitality and accommodation retail). With shipping disruptions still an issue, stock shortages and soaring freight costs could temper the rebound in retail trade activity.

Supports to household spending remain, with OCR soon to head up

Given the medium-term policy mandate we expect that the RBNZ will 'look through' near-term volatility and focus further ahead. Here there is more cause for optimism. **As we noted earlier, key supports to consumer spending – strong household balance sheets, rising household incomes, tight labour markets and few overseas travel options – remain and should return momentum in household spending to a solid clip.** This, increasing capacity constraints and higher near-term inflation (we expect annual CPI inflation approach 5% by late 2021) should prompt the RBNZ to shortly start to remove monetary stimulus. We have pencilled in 25bp hikes in October, November and February 2022, with an OCR endpoint of 1.50% by late 2022. The RBNZ will be closely watching the housing market and household spending for guidance on how much (and how quickly) policy support should be withdrawn.



Source: Statistics NZ, ASB

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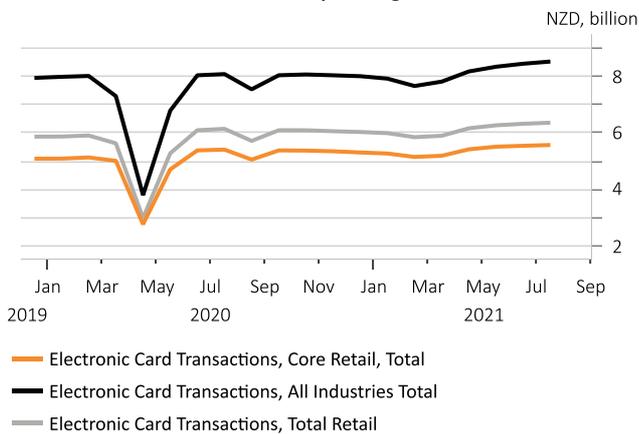
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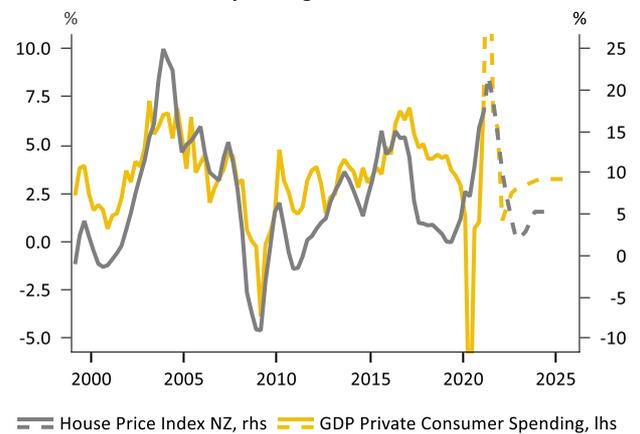
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NZ Electronic Card Spending, Levels, SA



Source: Macrobond, ASB

NZ Consumer Spending and House Price Growth



Source: Macrobond, ASB