

Economic Note

May 2021 NZ Electronic Card Transactions

10 June 2021

May spending surprises but higher retail prices may be the catalyst

- May card spending continues to surprise to the upside, demonstrating the resilience of the NZ consumer.
- It may, however, reflect the impact of higher retail prices which is likely to be weighing on the purchasing power of consumers.
- We remain positive on the outlook for retail spending over 2021, which will continue to support the NZ economy. However, rising retail prices and escalating costs may dampen the retail rebound we see unfolding.

ECT

	Actual	Market	ASB
Total retail ECT (mom)	1.7		-2.0
yoy	18.1		
Core retail ECT (mom)	1.8		
yoy	16.5		
Total ECT (mom)	2.3		
yoy	22.2		

Summary and implications

May card spending provided a major surprise to the upside, with broad-based spending increase demonstrating the many tailwinds supporting consumer spending, including strong household balance sheets, tight labour markets, increased household saving post-COVID-19 and improved job security. It may, however, reflect the impact of higher retail prices. While month to month volatility is to be expected, we remain positive on the outlook for retail spending over 2021, with robust consumer demand expected to support the economy. However, freight disruptions and higher costs are expected to face the retail sector and continue to push consumer prices higher, potentially dampening the retail rebound we see unfolding from the second half of 2021.

Larger than expected February fall for card spend

Retail electronic card spending rose a seasonally adjusted 1.7% in May 2021, following the ripper 4%+ April month. We had expected a May pullback, with the upside surprise yet more evidence of the resilience of the NZ consumer.

Excluding fuel and vehicle components, core spending rose 1.8% s.a. over May, with total card spending up 2.3% mom. Another interpretation is that retail prices are climbing sooner than previously expected, with higher retail prices potentially dampening subsequent retail volumes.

Smoothing through the volatility and taking a 3-month average showed retail spending advancing at a 2.5% clip (core 2.5% 3m3m, total 3.0% 3m3m). Looking at the major components (see below), hospitality (+6.0% 3m3m), durable (+4.7% 3m3m) and fuel retail (+5.3% 3m3m) were the upside standouts, However, the trend in consumable spending (-1.9% 3m3m) was considerably softer.

Base effects continued to boost annual comparisons. With May 2020 figures still depressed by COVID-19 restrictions (about the first half of the May 2020 month was at Alert Level 3 and the remainder at Level 2), spending levels for most retail categories were considerably higher than a year ago (retail +18.1% yoy, core +16.5% yoy, total +22.2% yoy). Hospitality spending was about 86% higher on low May 2020 levels, with spending on accommodation (+186% yoy) and travel agents (+1120%) rocketing. Consumable retail was a fraction lower than a year ago (-1.6% yoy).

The May monthly figures showed broad-based increases amongst the major components:

- Services retail surged 5.1% on the month (1.9% 3m3m, +27% yoy) and looks set to strengthen over the remainder of the year as the economy reverts more to pre-COVID19 spending patterns.
- There were further signs of a trans-Tasman bubble boost. May saw a 3.7% non-seasonally adjusted lift in hospitality spending to its highest level on record. The more detailed splits for the hospitality sector confirmed a base effect boost for food & beverages services retailing (up 76% yoy) and for accommodation services retail (up 176% yoy)
- Durable spending remained robust (2.4% mom, 4.7% 3m3m, 10.8% yoy). Booming dwelling construction, strong household balance sheets, and few overseas travel options continued to underpin strong furniture, electrical and hardware retail (+6.7% yoy), department stores (+5.7% yoy) retail, with strong growth in pharmaceutical store retail (29% yoy).
- Another strong month for apparel (+5.2% mom, 3.7% 3m3m, 45.5% yoy), likely due to the cooler weather and the increased willingness of NZ consumers to spend.
- Consumable retail rose 1.8% in seasonally adjusted terms (-1.9% 3m3m) following several weaker months.
- Fuel spending advanced 2.4% mom (+5.3% 3m3m, 39% yoy), with rising fuel prices expected to weigh on consumption purchasing power.

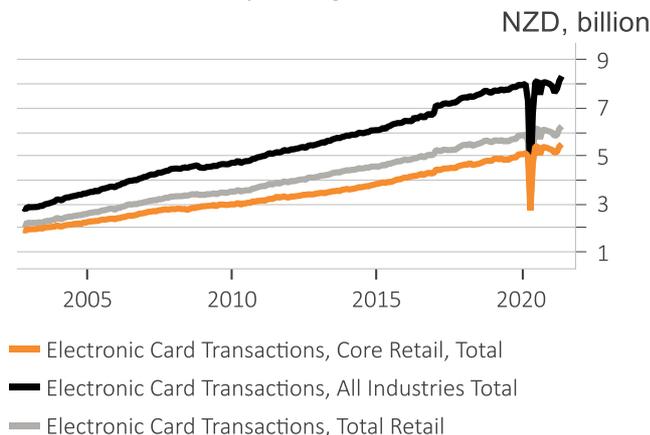
The retail outlook for 2021

Despite the May decline, we have an optimistic outlook for consumer spending over 2021. Household balance sheets have benefitted from the surge in asset prices as have increased saving by households (household deposits are \$20bn above pre-COVID levels). Tight labour markets, increased job security and the Budget-related surge in income support payments from July should bolster spending. **All-in-all, increased consumer demand will help support the NZ economy over the remainder of 2021.**

However, we remain wary. Part of the lift we are seeing in nominal spending may be due to higher retail prices.

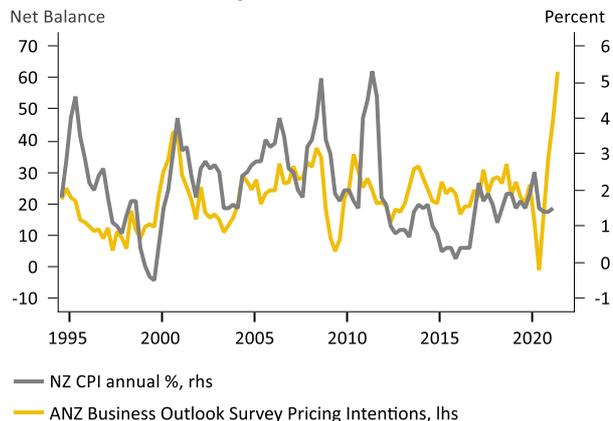
Surveyed cost and pricing intentions have rocketed since the start of the year and hit a record high according to the June ANZ business outlook. We expect rising retail prices to contribute to annual CPI inflation moving above 3% by the end of the year. **Rising costs and retail prices are bad news for retailers and consumers alike and may dampen the retail rebound we see unfolding over the remainder of 2021.**

NZ Electronic Card Spending, Levels, SA



Source: Macrobond, ASB

ANZBO Pricing Intentions and CPI Inflation



Source: Macrobond, ASB

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