

Economic Note

November 2021 NZ Electronic Card Transactions

10 December 2021

Sizeable November gain, but 2022 retail outlook cloudy

- Continued recovery from lockdown lulls, with a Black Friday boost for apparel and durable spending.
- Card spending on track to expand in the region of 12% in Q4 as restrictions are eased and the economy bounces back from Q3 Delta slump. This buoyancy should continue heading into early 2022.
- Beyond that, still-present COVID-19 restrictions, stock shortages, rising consumer prices, higher interest rates and receding housing market tailwinds should temper household spending activity.

ECT

	Actual	ASB
Total retail ECT (mom)	9.6	15.0
yoy	2.9	
Core retail ECT (mom)	9.6	14.0
yoy	2.4	
Total ECT (mom)	9.1	
yoy	1.2	

Summary and implications

November card spending posted its 2nd consecutive solid monthly gain, rebounding from August/September lockdown lulls. Black Friday sales look to be behind the surge in apparel and durable retail, but hospitality remained weak. Retail card spending is now just 2% below July record highs, and we expect further buoyancy in the months ahead, led by rebounding hospitality retail. Beyond that, however, soaring consumer prices, less supportive housing market conditions, the impact of rising interest rates and remaining COVID-19 restrictions should temper household spending growth over 2022. This should result in only a modest degree of NZ monetary tightening, and we expect the OCR to peak at 2% in late 2022.

Details - card spending jumps to record high.

Retail electronic card spending rose 9.6% mom in seasonally-adjusted terms in November (-2.9% yoy), a touch weaker than expected. Excluding fuel and vehicle components, core spending also rose 9.6% mom (2.4% yoy), whereas weaker growth in non-retail spending saw a more moderate 9.1% mom November climb in total card spending (1.2% yoy).

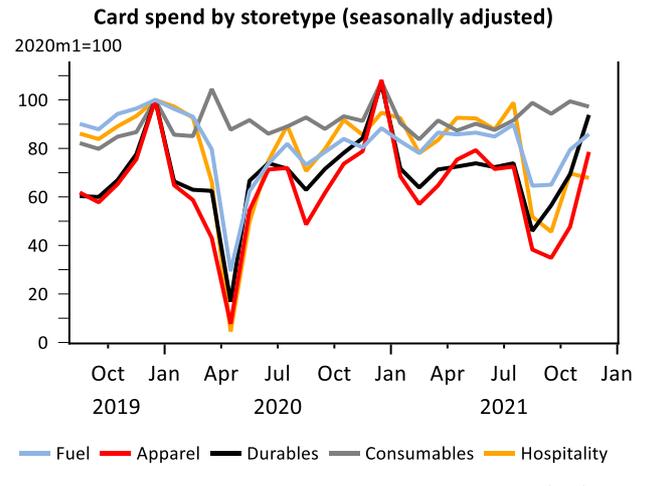
The November jump followed a 10.0% increase in October, but still left the level of retail card spending about 2.3% below July record highs. Core retail was about 2% below July levels, but due to the slower recovery in non-retail and services spending, total retail spending was 3% below July levels.

The lift in electronic card spending was a touch weaker than the circa 12% nationwide climb in MBIE card spending for

November (led by surging spending in Auckland, Northland and the Waikato), with our internal ASB card spending data showing a larger Black Friday induced lift.

Key details underpinning the November result were as follows (all figures below are mostly seasonally adjusted):

- Black Friday sales provided a boost to apparel (53.5% mom) and durable spending (22.9% mom), with the latter hitting a record high in November. We expect a weaker pace of spending growth for both in December.
- Given the impact of the global pandemic on seasonal patterns, Statistics NZ have continued not to publish monthly seasonally-adjusted estimates for hospitality spending. Sales for this component fell 2.8% in non-seasonally adjusted terms over the month (down a similar margin according to our seasonally adjusted estimates). Our estimates suggest hospitality spending is still close to 40% below July 2021 levels. We expect a traffic light boost to hospitality spending over the coming months.
- Due to the relaxation of restrictions and higher fuel prices, fuel spending advanced by 9.9% mom (6.9% yoy) but were about 5% below July levels. High fuel prices are likely to weigh on discretionary spending going forward.
- Supporting total card spending was a 13.3% lift in services spending (-9.4% yoy), although slower growth in non-retail (up 7.1% mom, -2.5% yoy) tempered overall spending.
- Consumable was flat (-0.6% mom) as consumers generally ran down precautionary stocks, ate out and bought take-aways. Consumable spending is still 4% above July 2021 levels.

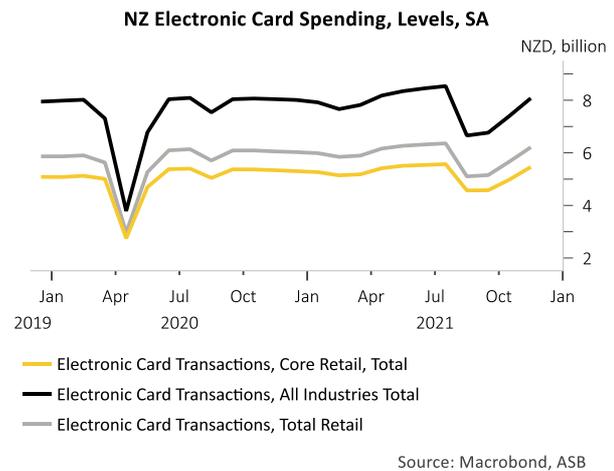


Q4 jump looms, but some clouds on the horizon for 2022

In early December NZ moved to the traffic light system, with the lower retail restrictions (in Auckland at least), pent-up demand, strong household balance sheets, rising household incomes, tight labour markets and few overseas travel options set to boost retail over the coming months. **We expect a circa 12% Q4 2021 climb in card spending and for a strong start to 2022 retail activity,** although shipping disruptions and stock shortages could temper this buoyancy.

The retail outlook for the remainder of 2022 does not look as bright.

Soaring consumer prices are likely to continue to significantly erode consumers’ purchasing power (we expect CPI inflation to moderately cool from its circa 6% 2021 peak) and obtaining some retail goods could prove problematic. Moreover, tailwinds from the housing market are rapidly fading (and turning into headwinds), interest rates are rising, and remaining COVID-19 restrictions will make conditions difficult for tourism/hospitality retail. **This should temper the amount of OCR hikes the RBNZ will have to deliver, and we expect the OCR to peak at 2% by the end of next year.**



ASB Economics & Research

Chief Economist

Senior Economist

Senior Economist

Senior Economist

Senior Economist, Wealth

Economist

Nick Tuffley

Mark Smith

Jane Turner

Mike Jones

Chris Tennent-Brown

Nat Keall

nick.tuffley@asb.co.nzmark.smith4@asb.co.nzjane.turner@asb.co.nzmike.jones@asb.co.nzchris.tennent-brown@asb.co.nznathaniel.keall@asb.co.nz**Phone**

(649) 301 5659

(649) 301 5657

(649) 301 5853

(649) 301 5661

(649) 301 5915

(649) 301 5720

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