

Economic Note

2019Q1 Retail Trade

22 May 2019

Lower retail price boost

- Solid start to the year for retail volumes.
- Lower retail prices boost retail sector volumes.
- Despite the strong Q1 retail trade print, we expect a sluggish outturn for Q1 GDP.

	Previous	Actual	Market
Total volumes (qoq)	1.7%	0.7%	0.6%
yoy	3.1%	3.7%	
Core volumes (qoq)	2.0%	0.7%	
yoy	4.5%	4.5%	
Total retail deflator (qoq)	0.1%	-0.6%	
yoy	1.0%	0.3%	

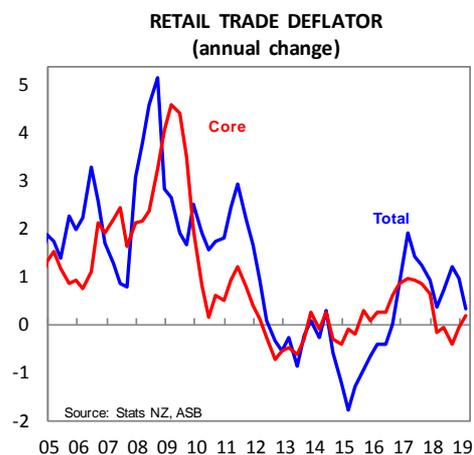
Summary & implications

Q1 retail volumes were in line with market expectations, with the impact of lower consumer prices clearly evident. The regional splits confirmed sales in the North Island continuing to outstrip those in the South Island, despite slowing annual growth in Auckland. Retail sales activity in Canterbury was weak. Our sector analysis also identified some winners and losers, with increasing fuel spending likely to weigh on future discretionary spending. Despite solid readings for total and core retail trade volumes, we still expect a sluggish outturn for Q1 2019 GDP. The outlook for retail spending remains finely balanced and our bias remains towards another OCR cut over the second half of 2019.

Details

Retail trade spending volumes increased 0.7% in Q1, in line with the market consensus (+0.6% qoq). On an annual basis, total volume spending growth eased to 3.3%. Core retail spending (excluding fuel and vehicle-related) volumes also managed a solid 0.7% quarterly increase, with annual growth easing to 3.9% yoy.

Lower retail prices boosted retail volumes. Quarterly growth in retail values was up just 0.2% qoq (+3.7% yoy) and core retail values were up a modest 0.5% qoq (4.2% yoy). This differed significantly from the strong Q1 outturn suggested by the Electronic Card Transactions data.



Largely reflecting lower fuel prices, prices from the retail sales deflator fell 0.6% qoq in Q1 (+0.3% yoy), versus the 0.1% qoq increase in consumer prices (+1.5% yoy). Core retail prices eased 0.2% qoq (+0.2% yoy). The 7% fall in fuel prices in Q1 looks to have had minimal impacts on fuel use, with fuel volumes up just 0.2% qoq (1.8% yoy). Despite weaker vehicle registrations, motor vehicle retail volumes climbed 1.5% qoq (1.5% yoy). More recent increases in fuel prices, +8% for Q2 according to our estimates, looks set to weigh on retail volumes in Q2.

Volumes in nine of the 13 core retail sub-groups rose. The boost to lower-income households from the 2018 Government’s Families Package continued to support pockets of the retail sector. To date, durables retailing looks to have held up well despite still-low house sales volumes. Department stores (+4.4% qoq), and hardware, building, and garden supplies (+3% qoq), both recovered from large 2018Q4 falls. There was some pullback in retail volumes in sectors that had received a strong Q4 boost, with falls for pharmaceutical and other store-based retailing (-5.7% qoq). Lower fuel prices likely supported discretionary spending, with further gains for clothing retail (+0.9% qoq, +7.3% yoy). The timing of Easter likely impacted on tourism numbers and likely dampened accommodation volumes, which were down 4.7% qoq (-1.3% yoy). This looks set to rebound in Q2. The dry and hot summer likely provided an offset, preventing larger falls in food & beverage service retail (-0.3% qoq).

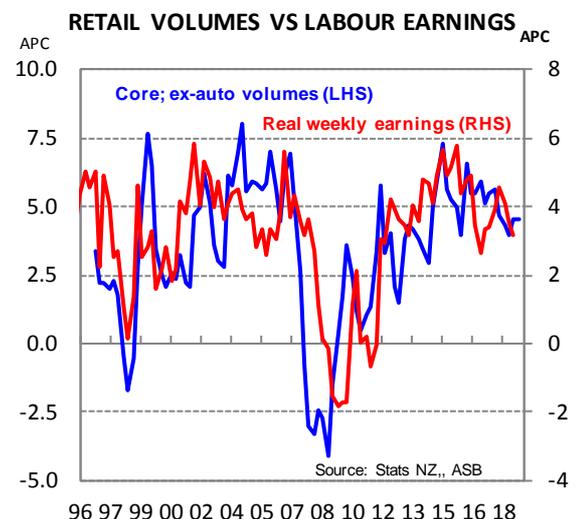
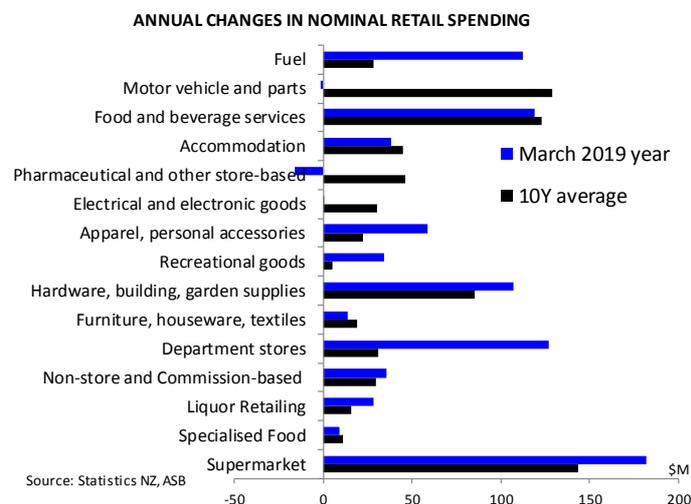
Looking at retail sales growth over the last 12 months shows there have been winners and losers. Supermarket and department stores have done very well, hardware sales have continued to grow despite the soft Auckland housing market, and food & beverage sales growth have been well above their decade averages. The climb in fuel prices is also meaning consumers are paying more for fuel. Parts of the retail sector have found the going considerably tougher, with electrical retail and vehicle sales little changed on 12 months prior.

The regional data also highlighted contrasts. North Island retail sales growth (+0.5% qoq, 4.4% yoy) considerably outstripped that in the South Island (0.2% qoq, 1.9% yoy). Sales growth in Auckland (0.3% qoq, 3.6% yoy) was weaker than for other North Island centres. Canterbury retail (-0.5% qoq, -0.1% yoy) underperformed. The regional figures showed stronger growth in provincial centres, consistent with strong producer returns. They also confirmed stronger retail growth in areas currently experiencing stronger housing markets – the East Coast and Lower North Island, and upper South Island.

Despite the solid Q1 retail trade figures, we still expect a sluggish quarter for GDP, and we have pencilled in a 0.4% qoq increase, consistent with the May Monetary Policy Statement pick. Based on domestic data alone, the hurdle to a near-term OCR cut looks high.

All up, we hope that the forthcoming expansion in economic activity will be driven from increasing earnings rather than the return to consumption-led growth. We remain positive on the outlook for producer incomes. Supporting NZ consumer demand are historically-low retail borrowing rates and the Government’s Families Package, although low deposit interest rates represent a cut to incomes for savers.

However, consumer spending faces a number of headwinds, with growth likely to slow. These include, the cooling demand for labour, high fuel prices, slowing growth in tourism numbers, the less supportive nationwide housing market backdrop (although some regional housing markets continue to look robust), and low nominal wage growth. Our bias remains towards another OCR cut over the second half of 2019. We have pencilled in an August cut, with the risk of a later move.



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