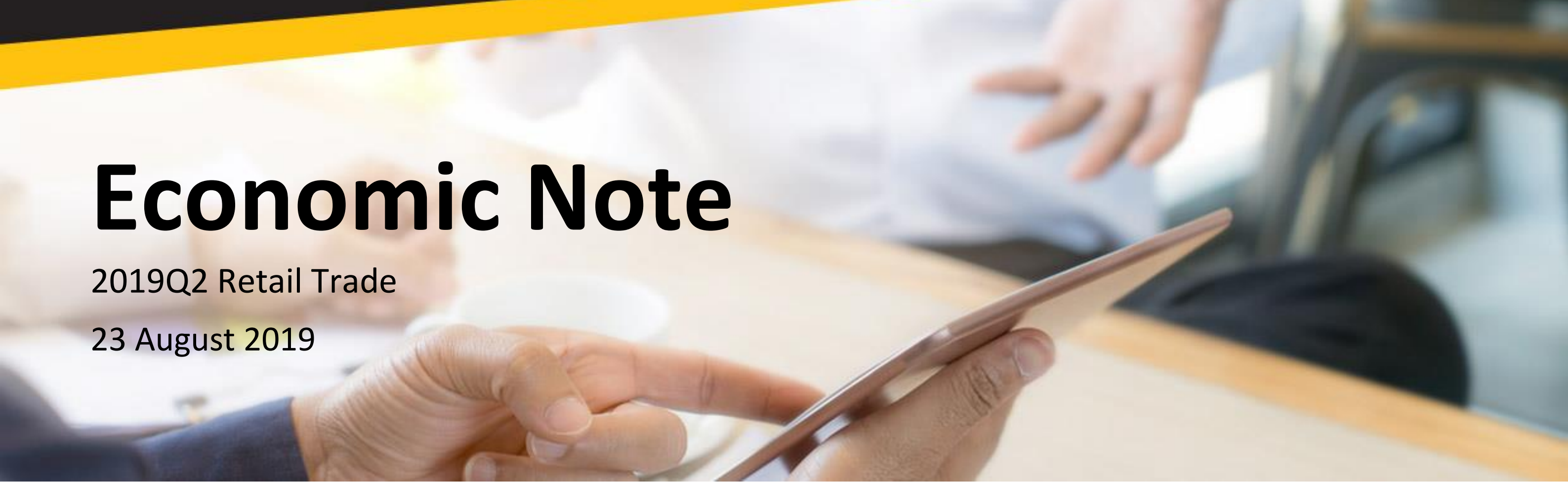

Economic Note

2019Q2 Retail Trade

23 August 2019

Mid-year retail malaise looks set to continue

- Mid-year lull in retail volumes after a solid start to 2019.
- Mixed bag for retail sector volumes. Weakening sentiment points to further weakness ahead.
- We have shaded down our Q2 GDP pick to +0.6% qoq and expect the OCR to move lower.

Retail Sales	Previous	Actual	Market	ASB
Total volumes (qoq)	0.7%	0.2%	0.3%	0.2%
yoy	3.6%	2.8%		
Core volumes (qoq)	0.6%	0.3%		0.3%
yoy	4.5%	3.5%		
Total retail deflator (qoq)	-0.6%	0.5%		
yoy	0.3%	0.6%		

Summary & implications

Q2 retail volumes lifted in line with market expectations, confirming a mid-2019 lull in retail spending. Annual growth in both retail volume and value growth slowed, with the deceleration appearing regionally broad-based. Soft Q2 retail trade figures point to a deceleration in the pace of retail momentum, and broader economic activity, and we have shaded down our Q2 GDP pick to 0.6% qoq. The RBNZ will be hoping for signs that the 50bps of OCR cuts in August will be the catalyst to boost domestic demand. We are looking to signs of a rate-cut boost in business and consumer sentiment. If these do not emerge, and growth momentum remains weak, the OCR will move lower. We expect a further 25bp cut in November, with the risk of further cuts in 2020.

Details

Retail trade spending volumes increased 0.2% in Q2, in line with our pick and slightly below the market consensus (+0.3 % qoq). On an annual basis, total volume spending growth eased to 2.9%. Core retail spending (excluding fuel and vehicle-related) volumes managed a modest 0.3% quarterly increase, with annual growth easing to 3.6% yoy.

Higher fuel spending boosted retail values (up 0.7% qoq,+3.4% yoy). Core values rose 0.7% qoq (3.9% yoy). This compared to modest 0.2% quarterly lift for Electronic Card Transactions data. Prices from the retail trade deflator rose 0.5% qoq (0.6% yoy), close to the 0.6% qoq advance in consumer prices (+1.7% yoy). Core retail prices rose 0.4% qoq (+0.3% yoy).

The 5% rise in fuel prices in Q2 looks to have had dampened fuel use, with fuel volumes down 0.8% qoq (0.8% yoy). Consistent with sluggish motor vehicle registrations, motor vehicle retail volumes barely budged (0.1% qoq, 0.4% yoy). **It was a mixed bag for core retail, with volumes in six of the 13 core retail sub-groups falling.** There was some pullback in retail volumes in sectors that had received a strong Q1 boost. Department store (-2.1% qoq), and furniture,

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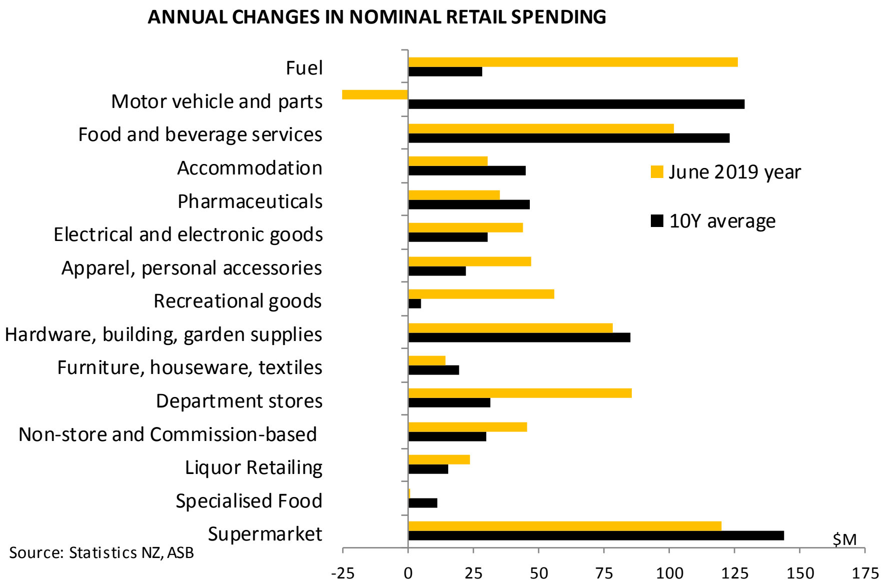
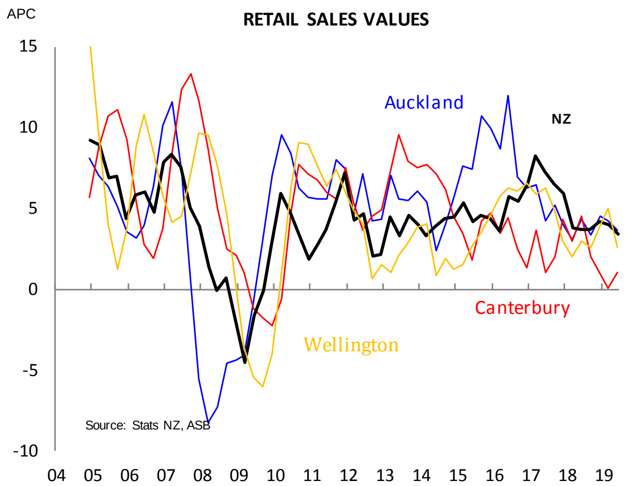
floor coverings, houseware, and textile retail (-3.3% qoq), was particularly weak, as was specialised food (-1.8% qoq).

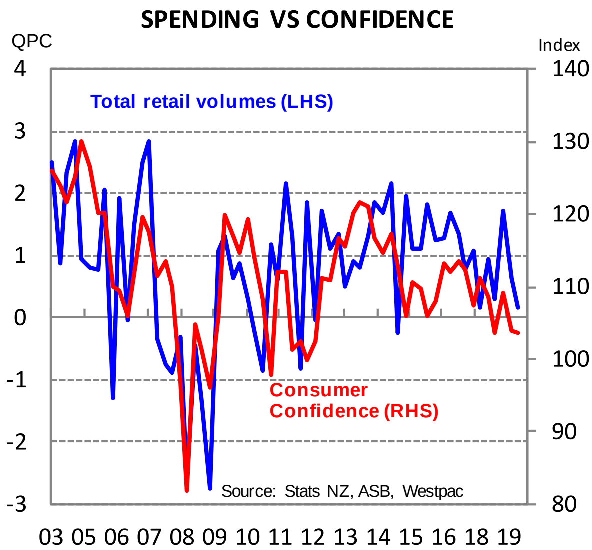


Rising fuel prices likely dampened discretionary spending, with the second sluggish quarter for clothing retail (+0.0% qoq, +5.3% yoy). The later timing of Easter this year supported accommodation volumes, although the Q2 1.4% qoq rebound was modest in relation to the Q1 fall. Accommodation volumes were flat on a year ago, suggesting the best times for the tourism sector look to be behind it. There were some pockets of strength. Recreational goods (+6.2% qoq) and electronic goods retail (+5.0% qoq) volumes strengthened. The recent weakening in consumer sentiment suggests this boost may be fleeting.



The regional data also highlighted contrasts, despite both North Island (+3.7% yoy) and South Island (+2.3% yoy) retail values advancing at the same 0.7% qoq pace. Sales growth in Auckland (3.7% yoy) was in line with that of other North Island centres, although it was noteworthy to see (previously strong) Wellington retail dip. Canterbury retail was strong in Q2 (1.3% qoq, 1.0% yoy), following a number of weak quarters. Retail in provincial areas was patchy, with strong sales growth in some areas (likely reflecting strong producer income growth) but not in others.

Soft Q2 retail trade figures point to a deceleration in the pace of retail momentum (and likely broader economic activity) and we have shaded down our Q2 GDP pick to 0.6% qoq accordingly.



The Q2 numbers have a historical feel to them given recent events, but they will nonetheless characterise a weak starting point for retail spending (and likely GDP). The RBNZ will be hoping for signs that the 50bps of OCR cuts will be the catalyst to boost domestic demand. **We are not so sure and will be looking at business and consumer sentiment for signs of a rate cut boost. If this does not eventuate and domestic spending remains in the doldrums, the OCR will likely move lower.** We expect a 25bp cut in November and risks around our expectation of a 0.75% OCR trough are tilted to the downside.

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