

# 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,

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.

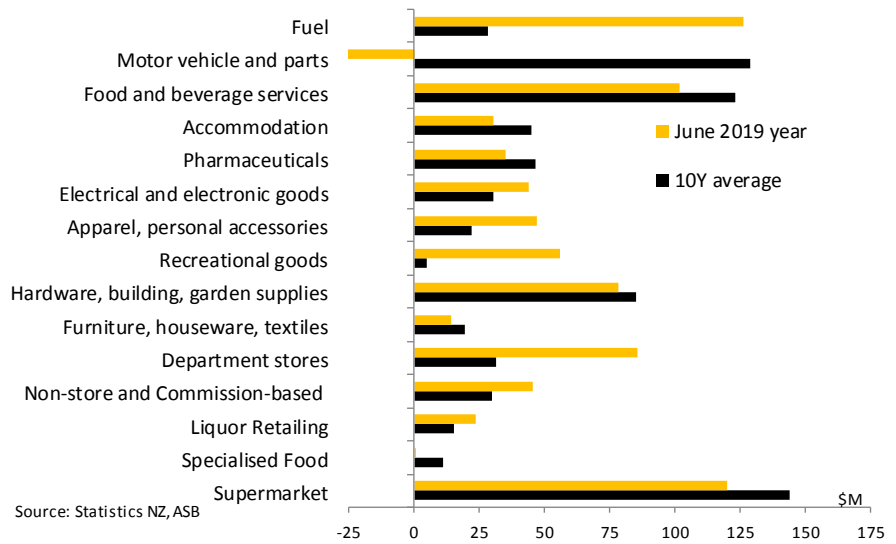
The recent weakening in consumer sentiment suggests this boost may be fleeting.

**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.

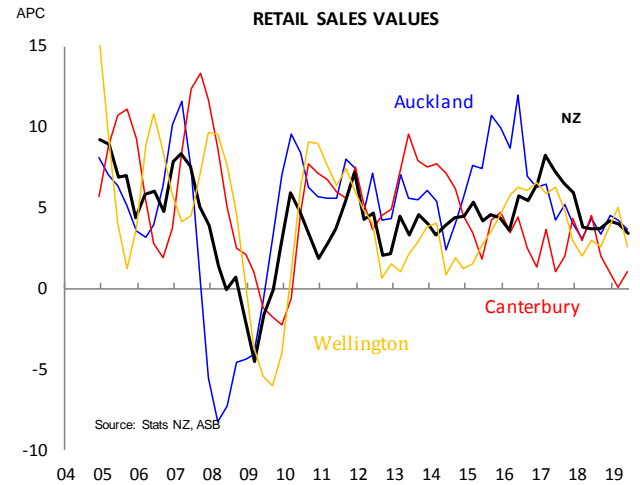
**Soft Q2 retail trade figures point to a deceleration in the pace of retail momentum (and likely broader economic activity) and we have shaded down our Q2 GDP pick to 0.6% qoq accordingly.**

**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.

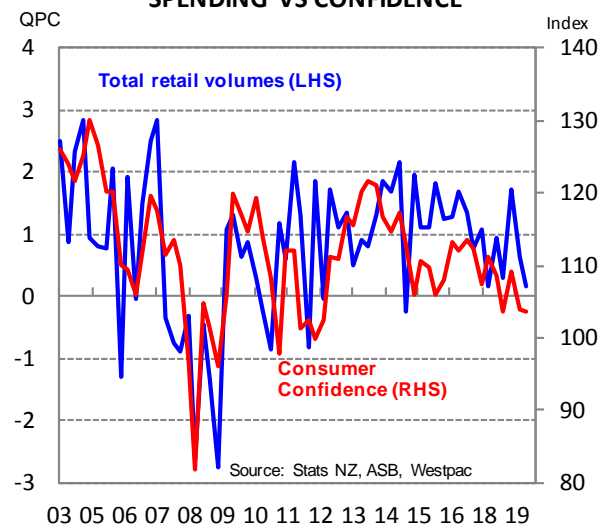
ANNUAL CHANGES IN NOMINAL RETAIL SPENDING



RETAIL SALES VALUES



SPENDING VS CONFIDENCE



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