# Economic Note

2020Q2 Retail Trade

24 August 2020

## Record Q2 fall in retail volumes

- Record Q2 fall in retail volumes as lockdown restrictions clobber non-essential retail.
- Sizeable Q3 rebound expected, but the resilience of the retail sector will still be tested.
- More policy support is needed to underpin consumer spending and we expect the OCR to fall below zero by next April.

| **Retail Sales: 2020Q2** | Actual | Market | ASB |
|---|---|---|---|
| Total volumes (qoq) | -14.6% | -15.0% | -20.0% |
| yoy | -14.2% | | |
| Core volumes (qoq) | -13.7% | | -15.0% |
| yoy | -11.7% | | |

### Summary & implications

The fall in Q2 retail volumes was bang in line with market expectations and the easily the largest on record, with the COVID-19 restrictions imparting a heavy toll on non-essential and fuel retailing. The retail trade figures are one of the earliest published inputs to GDP and suggest some modest upside risk to our -15.6% qoq pick for Q2 GDP. Nevertheless, we are still looking at easily the largest decline in GDP on record. The hospitality sector has been hard-hit with the regional data showing pronounced weakness in areas more dependent on tourism. The yo-yoing to different Alert levels looks to test the resilience of the retail sector, with further retail closures looking inevitable. More policy support is needed to support consumer spending and we expect the OCR to fall below zero by next April and to remain below zero until the NZ economy looks to have conclusively turned the corner.

### Details

**Retail trade spending volumes declined 14.6% in Q2, which was in line with market expectations and stronger than our -20% Q2 pick.** It was easily the largest quarterly decline on record for both total (the next largest quarterly fall being the 2.6% Q1 2009 decline), with the 13.7% fall in core retail volumes the largest on record. Retail volumes were 14.2% lower than a year ago, with core volumes down 11.7% yoy.

**The 16.2% Q2 fall in retail values was milder than the 18.2% Q2 decline in retail electronic card transaction values.** With most retailers not accepting cash payment we had thought that retail values would be weaker than the ECT data. Also pointing to weakness was the more than one-third fall in vehicle registrations (that are typically not funded by credit or debit card) over the quarter.

**The fall in retail volumes looks to have been largely due to the COVID-19 restrictions and the closed border for overseas tourists.** Recall that restrictions around the NZ border have been in place since February. NZ spent around the first half of Q2 at Alert Level 4, with Alert Levels gradually relaxed over the remainder of the quarter. This impacted the 60% or so of the retail sector that was deemed to be non-essential.

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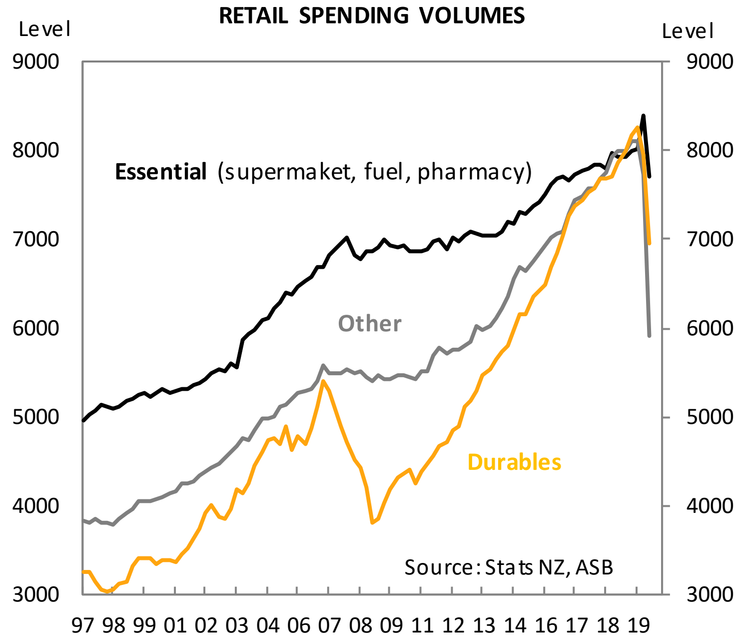
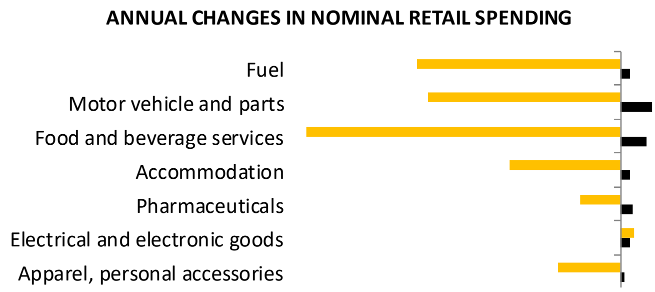
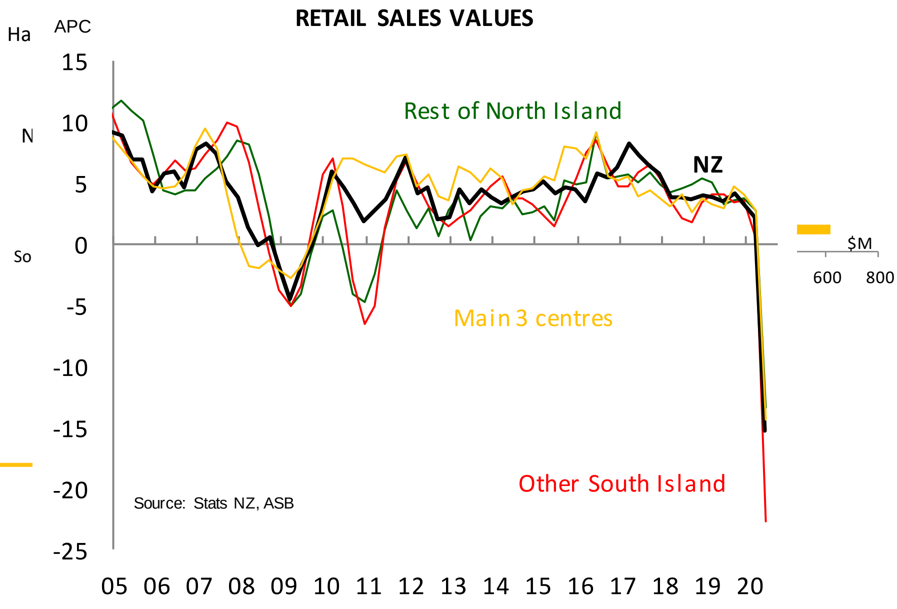
**Declines were generalised across most retail store-types, with activity down for all 15 retail sub-groups and 12 core sub-groups:**




- The progressive tightening in travel restrictions, the closure of non-essential retail store-types during the lockdown contributed to massive quarterly falls in accommodation (-38.5% qoq) and food & beverage services (down 38.3% qoq).
- The lockdowns also clobbered sales from liquor outlets (-30.7% for Q2), with supermarkets likely seeing increased alcohol sales.
- Hardware (-19.4% qoq) and specialised food (-19.2% qoq) were also hard hit, with the COVID-19 restrictions weighing on department store (-17% qoq), and apparel retail (-15.8% yoy).
- Auto volumes fell a hefty 15%, not as weak as the approximate one-third fall in car registrations over the quarter, consistent with anecdotes of some kiwis using funds previously earmarked for an overseas trip to buy new durables.
- Fuel retailing might have been classified as essential retail and stayed open, but the COVID-19 restrictions significantly dented demand with fuel retail volumes down 24% in Q2 to be 24.9% lower than a year ago. Pharmaceutical retail volumes were also weak (-16.2% qoq) despite being classified as essential retail. We expect a Q3 rebound given the increased focus on staying healthy.
- More moderate quarterly falls were evident for appliance and electrical and electronic retail volumes (-1.5% qoq) and recreational goods volumes (-9.5% qoq), consistent with the more-timely monthly data showing a post-lockdown rebound in these store types as kiwis focused on nest building.
- Supermarket volumes were down a fractional 0.2% from their Q1 record high, with consumers likely running down some of their panic-buying stocks. Volumes were up 8.3% from 12 months ago, the strongest performer of any store-type.

**Viewing the changes in retail spending values over the June 2020 year by retail sub-group (see chart) shows that supermarket sales have been the major outperformer by dollar increases in sales.** Electrical and electronic goods retail has also performed better than others with the closure of non-essential store-types during higher alert levels helping retail outside of traditional store-based retail formats. The hospitality sector looks to be the major loser, with sales well below where they were a year ago.




**The regional data also showed generalised falls, with quarterly declines to retail values**

**ranging from -13.4% qoq (Manawatu/Whanganui) to 26.6% qoq (Otago) across the regions.** With the Otago region including the Queenstown region, it looks like the border restrictions on inbound tourism are providing more of a headwind to areas heavily dependent on tourism (West Coast retail also slumped 22.5% over Q2). Despite anecdotes that domestic tourism has surged in recent months, the re-emergence of a community outbreak in NZ could scupper this domestic lifeline. We await today's 3pm announcement by the Government with interest.

**The milder than expected fall in Q2 in retail trade volumes suggests some modest upside risk to our -15.6% qoq pick for Q2 GDP.** The retail trade figures are one of the earliest published inputs to GDP and we will form up our pick in the coming weeks. The easing of restrictions and pent-up demand look to have contributed to a strong rebound in retail activity towards the end of Q2 and into Q3. A sizeable Q3 retail rebound is in the wings that look to be led by hardest-hit sectors in Q2. NZ looks to have endured the COVID-19 maelstrom better than most.

**Despite this, our expectation is that retail volumes contract over 2020.** The return to Level 3 lockdown in Auckland and Level 2 elsewhere will temper the retail recovery and will sorely test the resilience and viability of a number of struggling retail and hospitality operators. Widespread job losses and a non-existent overseas tourism and educational boost will also crimp consumer spending. More policy support is needed to support consumer spending and we expect the OCR to fall below zero by next April and to remain below zero until the NZ economy looks to have conclusively turned the corner. A difficult period lies ahead for the retail sector.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