Economic Note

2019Q3 Retail Trade

26 November 2019

Retail soars in Q3

- Sizeable Q3 rebound in retail volumes after a soft Q2. Core retail volumes also strong.
- Generalised strengthening evident, with the major centres benefitting.
- We don't expect Q3 retail strength to be sustained, with the OCR to move lower next year.

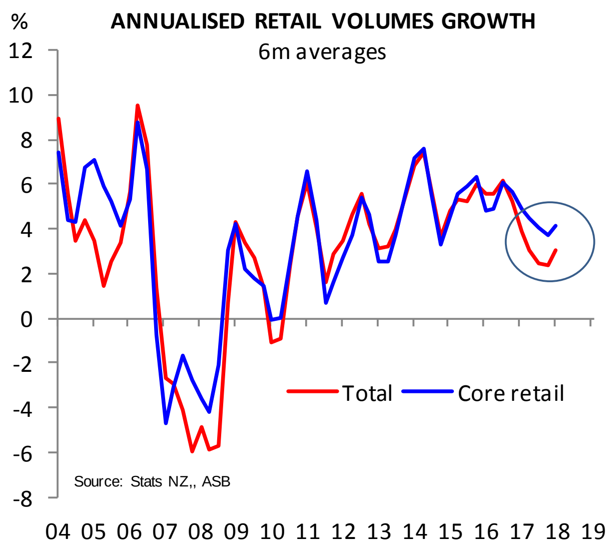
Retail Sales	Previous	Actual	Market	ASB
Total volumes (qoq)	0.2%	1.6%	0.5%	0.8%
yoy	2.9%	4.5%		
Core volumes (qoq)	0.3%	1.8%		1.0%
yoy	3.5%	5.4%		
Total retail deflator (qoq)	0.5%	-0.3%		
yoy	0.5%	-0.3%		

Summary & implications

Q3 retail volumes were considerably stronger than the market consensus (+0.5% qoq) and our 0.8% qoq pick. Core retail volumes were also strong, with annual and per-capita growth in retail and core volumes accelerating. Today's figures point to clear upside risk to our +0.4% qoq pick for Q3 GDP, with risks that the 50bps of OCR cuts we expect for the first half of 2020 gets pushed back. We do not expect the pace of retail momentum to be sustained and believe the OCR will need to move lower in 2020.

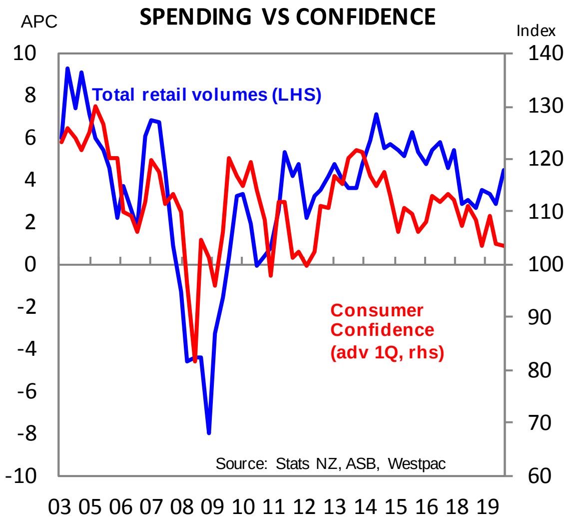
Details

Retail trade spending volumes surged 1.6% in Q3, considerably stronger than the 0.5% qoq market consensus and our 0.8% qoq pick. Core retail spending (excluding fuel and vehicle-related) volumes managed a robust 1.8% quarterly increase, the strongest quarterly increase since 2016Q2. Annual spending volume growth picked up to 4.5% for total and 5.4% for core retail, the highest since the December 2017 quarter. **On a per-capita basis, retail volume growth accelerated to 2.7%, the first time above its circa 2% per annum historical average since late 2017.** Annual growth in total retail (4.2% yoy) and core values strengthened (+5.7% yoy)

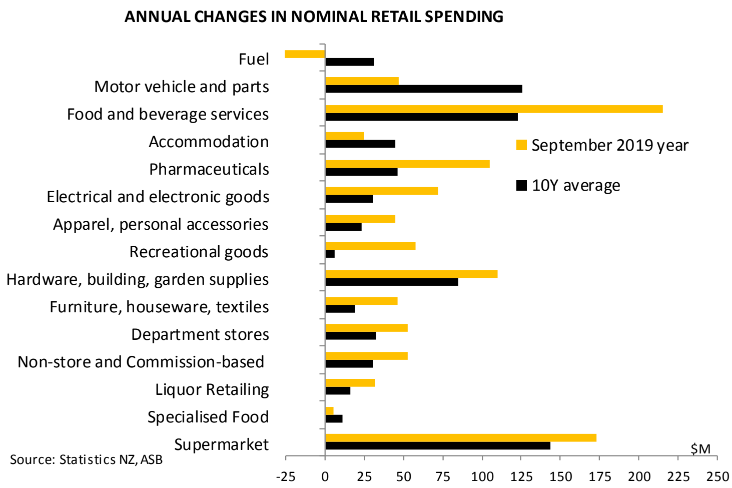


Mark Smith – Senior Economist (649) 301-5657 mark.smith4@asb.co.nz

Lower retail prices were supportive. Retail prices fell 0.3% in Q3 (-0.3% yoy), considerably lower than respective increases in consumer prices (0.7% qoq, 1.5% yoy). The 1.4% rise in retail values in Q3 (4.2% yoy) was slightly firmer than the 1.0% qoq increase in retail card spending from the Electronic Card Transactions data. **Strong retail sales growth in Q3 was at odds with consumer sentiment measures**, which suggested a ho-hum pace of retail activity. It illustrates the risks of relying on sentiment gauges to infer the pace of economic activity.

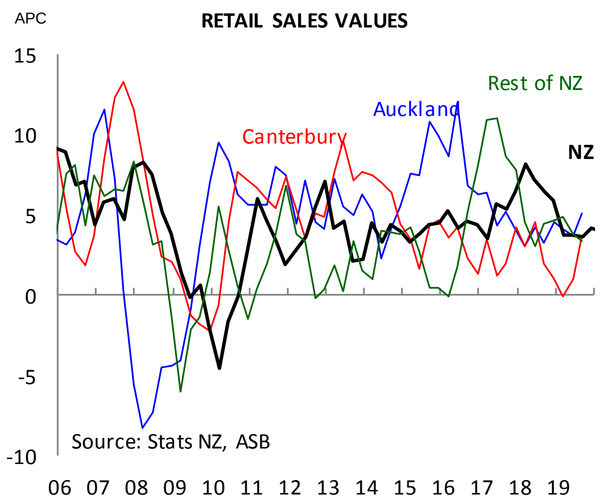


The increase in retail volumes was reasonably broad-based. Of the 15 retail sub-groups, activity rose in 12. There was a lift in some sector volumes that had softened in Q2. Of note were sizeable increases in furniture, floor coverings (+5.1% qoq), and department store sales (+3.5% qoq). There was also a modest lift in hospitality retail (+1.4% qoq), which followed two weak quarters. **Lower retail borrowing costs and strengthening housing activity look to have also supported increases for more consumer durables**, with electrical and electronic goods volumes (4.4% qoq) also likely receiving a Rugby World Cup boost. **However, some pockets** – including specialised foods (-1.3% qoq) and non-store retail (-0.4% qoq) **were weak**. The slowing tourism impulse likely contributed to a 1.4% qoq fall in accommodation volumes. The 1.7% qoq jump in automobile volumes was not as strong as implied by surging vehicle registrations.



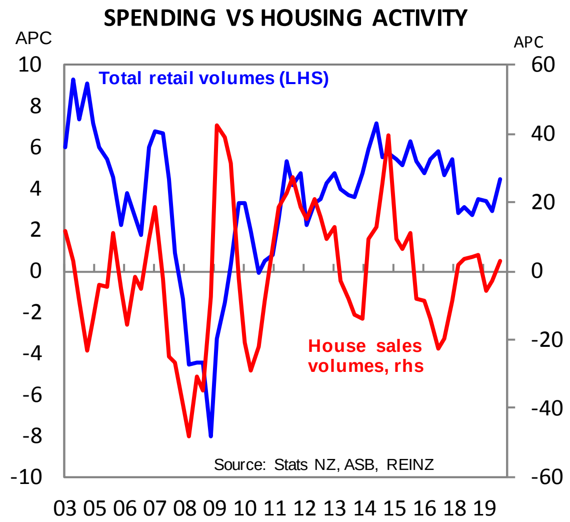
Viewing the increase in retail values showed that food and beverage services and supermarket sales have been the clear winners over the last 12 months. Pockets of durable retail look to have fared better over the last 12 months relative to decade averages, likely supported by the improving housing market backdrop. With retail fuel volumes down for their second consecutive quarter and with fuel prices below their late 2018 peaks, consumer spending on fuel over the last 12 months has been lower. This has freed up funds for discretionary spending.

The regional data showed broad-based lifts, with improving signs in the major centres. Sales growth in the North Island (+4.6% yoy) has outpaced that in the South Island (+3.5% yoy) for the last 18 months. Of note, sales growth in Auckland (5.6% yoy) outpaced that of most other North Island centres (Gisborne remained the standout). Canterbury retail sales growth (3.7% yoy in Q3), also outpaced that in other South Island centres for the first time in 18 months. Retail in provincial areas was patchy, with strong sales growth in some areas (likely reflecting strong producer income growth) but not in others.



The retail trade figures are one of the earlier published inputs to GDP. Solid Q3 retail trade figures point to an acceleration in the pace of retail momentum (and possibly broader economic activity) after a soft Q2. **Risks to our 0.4% qoq Q3 GDP pick are clearly skewed to the upside, with the timing of the 50bps OCR cuts we expect over the first half of 2020 delayed.**

Nevertheless, we do not expect Q3 strength in retail volumes to be sustained. Wage growth has picked up, activity in the housing market is springing to life, and consumers' are feeling more optimistic over their own situation. However, the housing market backdrop is mixed, and the recent pick-up in some areas is still in its infancy. Moreover, high household indebtedness, the lack of a household saving buffer and moderating population growth are likely to blunt the impact of higher house prices on consumer spending, capping nationwide retail spending growth. Without a solid consumption backbone, the expansion in growth is likely to disappoint the RBNZ view. As a result, the OCR looks set to move lower over 2020.



ASB Economics & Research			Phone
Chief Economist	Nick Tuffley	nick.tuffley@asb.co.nz	(649) 301 5659
Senior Economist	Mark Smith	mark.smith4@asb.co.nz	(649) 301 5957
Senior Economist	Jane Turner	jane.turner@asb.co.nz	(649) 301 5853
Senior Economist	Mike Jones	mike.jones@asb.co.nz	(649) 301 5661
Senior Rural Economist	Nathan Penny	nathan.penny@asb.co.nz	(649) 448 8778
Senior Economist, Wealth	Chris Tennent-Brown	chris.tennent-brown@asb.co.nz	(649) 301 5915
Data & Publication Manager	Judith Pinto	judith.pinto@asb.co.nz	(649) 301 5660

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