

Economic Note

Q4 Retail Trade

23 February 2018

Boomer

- Strong end to 2017, for the retail sector, with 1.5%+ qoq increases for both total and core volumes.
- Low inflation is making the consumer dollar go further and is helping to keep the OCR low.
- We expect annual retail volume growth to remain above 4% over 2018, underpinned by positive household income growth.

	Previous	Actual	Market
Total volumes (qoq)	0.3%	1.7%	1.4%
yoy	5.1%	5.3%	
Core volumes (qoq)	0.6%	1.8%	-
yoy	5.3%	5.7%	
Total retail deflator (qoq)	0.0%	0.3%	-
yoy	1.3%	1.4%	

Summary and implications

Q4 retail volumes were stronger than market expectations, with both total and core volumes advancing more than 1.5% over the quarter and with annual volume growth finishing 2017 above 5%. While there had been fears that consumers would be hiding their wallets given the uncertainty over the election this has not been borne out in the retail figures, with the consumer set to make a solid contribution to Q4 GDP. Given the supports to consumer spending we expect annual growth in retail volumes to remain above 4% over 2018. Despite a solid outlook for consumer spending, low rates of retail price inflation are consistent with the OCR remaining on hold for a considerable period. We expect the OCR to remain at historical lows, with gradual moves higher from the second half of 2019.

Strong outturn for retail volumes

Retail trade spending volumes rose 1.7% qoq, stronger than market (+1.4% qoq) and ASB's forecasts (+1.2% qoq). Core retail spending (excluding fuel and vehicle-related) surged 1.8% qoq, with both total and core retail activity rebounding from the sub-par Q3 outturns (that were marginally revised up). **On an annual basis, total volume spending growth surged to 5.8%, with core spending volumes advancing at a robust 6.3% annual clip.**

Increases in retail volumes were broad based, with volumes in 11 of the 15 retail sub-groups rising. There were strong rebounds for furniture/floor covering retail volumes (+3.6% qoq) and specialised food retail (+5.8% qoq), with beverage services (+3.7% qoq) rebounding following the Q3 dip. Apparel volumes (+4% qoq) registered their 2nd consecutive 4%+ quarter and the warm start to summer likely contributed to another strong quarter for liquor retail (+3.6% qoq). Both motor vehicle (+2.1% qoq) and electrical and electronic goods retail (+2.6% qoq) volumes rose despite mixed signs emanating from the housing market. However, accommodation volumes declined for a 2nd

consecutive quarter (-2.3% qoq), with fuel volumes down 0.7% qoq.

The regional breakdowns showed annual retail spending growth within a 2.4% to 12% range, with Tasman taking the top spot, whilst Nelson was the regional laggard. Spending in the main three centres rose 4-5% yoy, with Canterbury quarterly retail spending in line with the 1.9% qoq nationwide average, whilst more sedate 0.5% qoq quarterly increases were lodged for Auckland and Wellington.

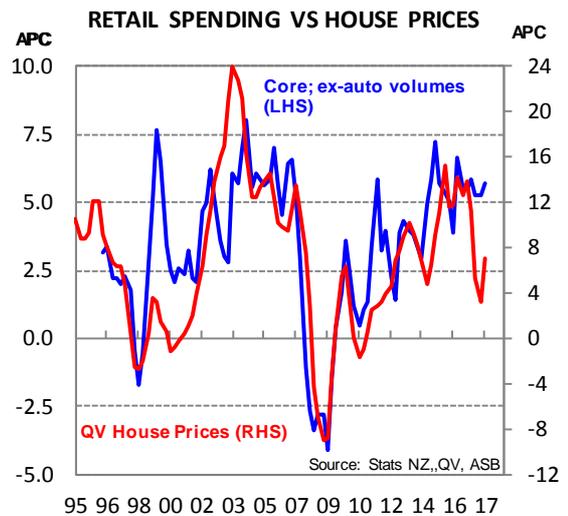
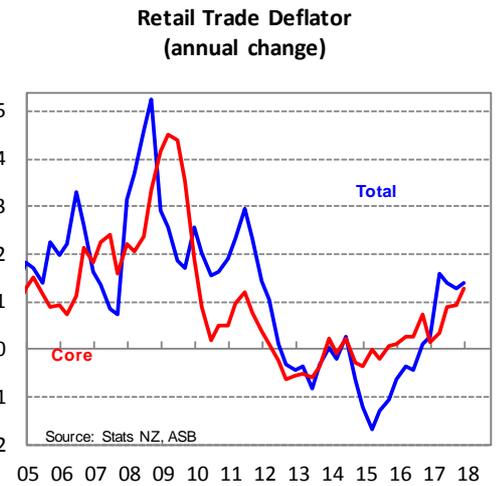
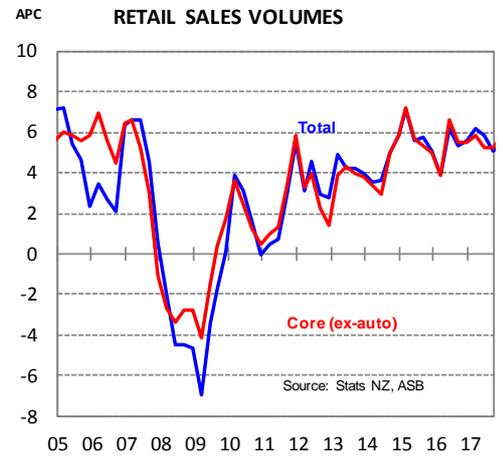
But signs of retail price inflation scant

Retail spending values showed similarly sized increases (total 1.9% qoq, core 1.8% qoq) suggesting very little inflationary pressure is emanating from the retail sector outside of a few pockets (fuel prices rose in Q4). Our estimates suggest retail prices rose just 0.3 qoq (+1.4% yoy), with core prices flat over the quarter (+1.3% yoy). This not only helps the consumer dollar go that much further but it also helps the RBNZ to maintain OCR settings at historic lows.

The upshot and implications for 2018

Considering election-related uncertainties, the becalmed housing market and the dip in consumer confidence, the Q4 retail trade outturn was a strong result. It strongly suggests that the consumer will make a solid contribution to Q4 GDP.

Looking ahead, we expect annual retail spending volume growth to remain above 4% over 2018, reflecting the multitude of supports including the elevated terms of trade, additional government income support, low consumer price inflation and positive labour and wider household income growth. There are risks around the outlook, but for now at least, this is unlikely to dissuade consumers from playing their part in keeping the economy moving.



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