Economic Note

Q4 Retail Trade

25 February 2019

Boomer Q4 Retail trade

- Retail sector volumes post a strong Q4 as do core retail volumes.
- Lower retail fuel prices, the tight labour market, continued government support, and higher producer incomes key supports to the retail sector.
- Despite the strong Q4 retail trade print, we expect a sluggish outturn for Q4 GDP.

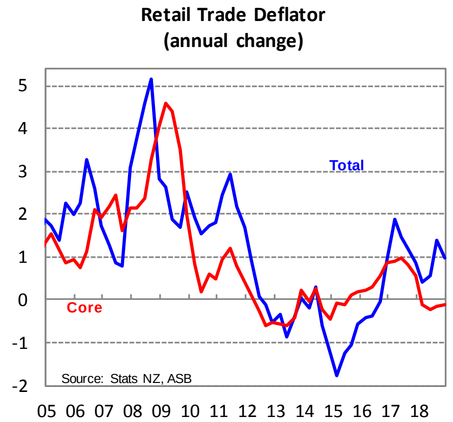
	Previous	Actual	Market	ASB
Total volumes (qoq)	0.3%	1.7%	0.5%	0.3%
yoy	2.5%	3.1%		
Core volumes (qoq)	0.7%	2.0%		0.7%
yoy	4.0%	4.5%		
Total retail deflator (qoq)	0.5%	0.1%		
yoy	1.4%	1.0%		

Summary & implications

Q4 2018 retail volumes were considerably stronger than market expectations and the soft signal provided by the Q4 electronic card spending data. Lower retail fuel prices, the tight labour market, continued government support, rising regional property prices and higher producer incomes are key supports to the retail sector. Strong growth in total and core retail trade volumes point to a bumper Xmas for retailers, although we still expect a sluggish outturn for Q4 GDP, which should keep the risk profile tilted in favour of a lower OCR. Sustaining retail momentum will require the household sector to continue to focus on positive income prospects going forward.

Details

Retail trade spending volumes surged 1.7% in Q4, considerably stronger than the market consensus (+0.5 % qoq) and our 0.3% qoq pick. On an annual basis, total volume spending growth ticked up to 3.5%. Core retail spending (excluding fuel and vehicle-related) volumes were even stronger, with volumes up 2.0% qoq (5.0% yoy).



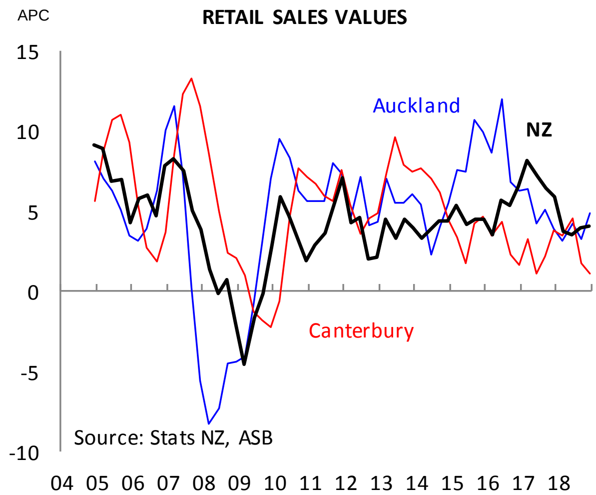
Quarterly growth in retail values was also strong (total +1.8% qoq) and core retail values (+2.3% qoq). This differed significantly from the flat Q4 outturn suggested by the Electronic Card Transactions data, with the recent disconnect between retail and card spending remaining marked. **Low consumer price inflation supported the**

Mark Smith – Senior Economist (649) 301-5657 mark.smith4@asb.co.nz
Nick Tuffley – Chief Economist (649) 301 5659 nick.tuffley@asb.co.nz

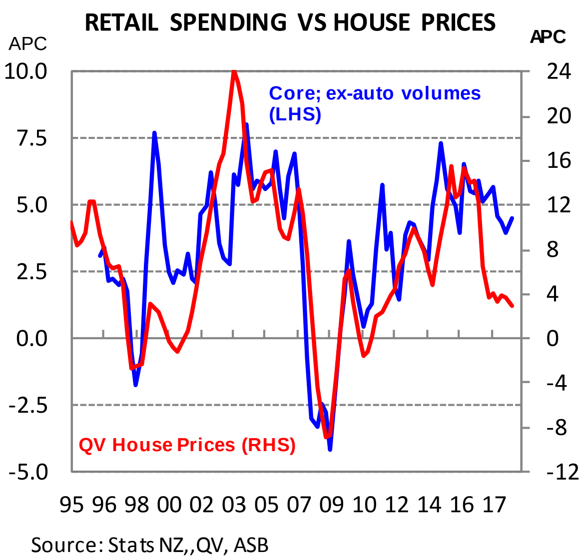
strong result for retail volumes. Prices from the retail sales deflator were up 0.1% qoq in Q4 (+1.0% yoy), in line with the 0.1% qoq increase in consumer prices (+1.9% yoy). Prices rose just 0.1% qoq for core retail sales (-0.1% yoy), suggesting core inflationary pressures remain low.

Volumes in 11 of the 15 retail sub-groups rose and highlight several supports to Q4 retail. Strong increases in pharmaceutical and other store-based retailing (+8.2% qoq), and food & beverage services (+4.2% qoq), contributed more than half of the increase in retail volumes. The boost to discretionary spending from falls in retail fuel prices also looks to be a factor, with apparel volumes (+4.1% qoq, 5.2% yoy) and spending on specialised food (+1.7% qoq, 1.2% yoy) also strong. It also looks as though the boost to lower-income households from the Government's Families Package continued to support pockets of the retail sector. Black Friday sales may have boosted electrical retail volumes (+4.6% qoq, 15.3% yoy). The booming inbound tourism market supported food & beverage services, but also accommodation volumes (+1.9% qoq, 8.6% yoy), and also liquor sales (+0.9% qoq, 4.4% yoy). However, the slowdown in new housing construction was also evident in Q4 falls in hardware, and furniture retail, while department store sales (-2.6% qoq) retraced strong Q3 increases. Despite the Q4 slide in vehicle registrations, motor vehicle retail was little changed over the quarter.

The Q4 rebound in retail was also regionally broad-based. There was little difference between North Island and South Island retail growth over the quarter. **Stronger growth in retail values was evident in a number of provincial centres**, including Northland (+7.6% yoy), the Waikato (+6.9% yoy), Hawkes Bay (7% yoy), Tasman (+10.2% yoy) and Nelson (+5.7% yoy). Coincidentally, housing markets in these regions have been stronger than the nationwide figures. Growth in Auckland (1.9% qoq, 5.1% yoy) retail values broadly kept pace with the 1.8% qoq nationwide total (+4.5% yoy). However, growth in Canterbury retail (1.1% quarterly and annual rates) continued to lag as did retail in Taranaki (-0.1% qoq, +2.6% yoy).



Strong Q4 growth in total and core retail trade volumes confirms a good Xmas for retailers. Lower retail fuel prices, the tight labour market, continued government support, increasing wages and higher producer incomes will remain key supports to household spending. **Despite the very strong Q4 retail trade figures, we still expect a sluggish quarter for GDP, and we have pencilled in a 0.3% qoq increase.** Moreover, given the strength of the Q4 retail data, an early 2019 lull in retail volumes looks likely. **This should likely keep market pricing tilted in favour of a lower OCR, although we do not expect an OCR cut to eventuate if the domestic data continues to show resilience.**



We believe that household spending growth will be increasingly driven by developments on the income side of the economy. Income prospects still look reasonable and should translate into respectable growth in retail volumes. For now, consumers are focusing more on what is in their wallets. However, if households focus more on the state of their balance sheets, fading tailwinds from the housing market could slow retail activity.

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 5657
Senior Economist	Jane Turner	Jane.turner@asb.co.nz	(649) 301 5957
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

www.asb.co.nz/economics

@ASBMarkets

Disclaimer