

# 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%   |        |      |

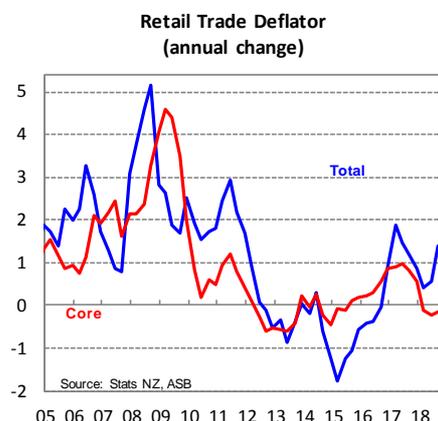
## Summary & implications

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**



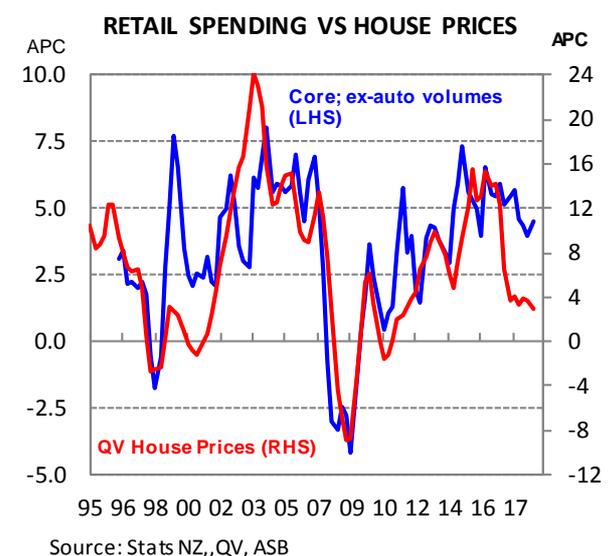
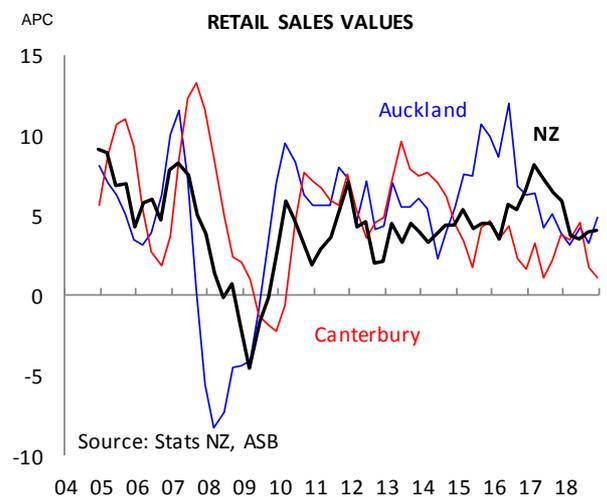
**strong result for retail volumes.** Prices from the retail sales deflator were up 0.1% qoq in Q4 (+1.0% yoy), in line with the 0.1% qoq increase in consumer prices (+1.9% yoy). Prices rose just 0.1% qoq for core retail sales (-0.1% yoy), suggesting core inflationary pressures remain low.

**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**

Chief Economist  
Senior Economist  
Senior Economist  
Senior Rural Economist  
Senior Economist, Wealth  
Data & Publication Manager

Nick Tuffley  
Mark Smith  
Jane Turner  
Nathan Penny  
Chris Tennent-Brown  
Judith Pinto

[nick.tuffley@asb.co.nz](mailto:nick.tuffley@asb.co.nz)  
[mark.smith4@asb.co.nz](mailto:mark.smith4@asb.co.nz)  
[jane.turner@asb.co.nz](mailto:jane.turner@asb.co.nz)  
[nathan.penny@asb.co.nz](mailto:nathan.penny@asb.co.nz)  
[chris.tennent-brown@asb.co.nz](mailto:chris.tennent-brown@asb.co.nz)  
[judith.pinto@asb.co.nz](mailto:judith.pinto@asb.co.nz)

**Phone**

(649) 301 5659  
(649) 301 5657  
(649) 301 5957  
(649) 448 8778  
(649) 301 5915  
(649) 301 5660

[www.asb.co.nz/economics](http://www.asb.co.nz/economics)

 [@ASBMarkets](https://twitter.com/ASBMarkets)

**Disclaimer**

This document is published solely for informational purposes. It has been prepared without taking account of your objectives, financial situation, or needs. Before acting on the information in this document, you should consider the appropriateness and suitability of the information, having regard to your objectives, financial situation and needs, and, if necessary seek appropriate professional or financial advice.

We believe that the information in this document is correct and any opinions, conclusions or recommendations are reasonably held or made, based on the information available at the time of its compilation, but no representation or warranty, either expressed or implied, is made or provided as to accuracy, reliability or completeness of any statement made in this document. Any opinions, conclusions or recommendations set forth in this document are subject to change without notice and may differ or be contrary to the opinions, conclusions or recommendations expressed elsewhere by ASB Bank Limited. We are under no obligation to, and do not, update or keep current the information contained in this document. Neither ASB nor any person involved in the preparation of this document accepts any liability for any loss or damage arising out of the use of all or any part of this document.

Any valuations, projections and forecasts contained in this document are based on a number of assumptions and estimates and are subject to contingencies and uncertainties. Different assumptions and estimates could result in materially different results. ASB does not represent or warrant that any of these valuations, projections or forecasts, or any of the underlying assumptions or estimates, will be met.