

Economic Note

2019Q4 Retail Trade

24 February 2020

Solid end to 2019 retail; signs not as bright for early 2020

- Solid retail volumes growth over Q4, albeit not to the scale delivered in Q3.
- Mixed performance by sector, with durable retail the standout.
- The COVID-19 coronavirus is likely to weigh on Q1 retail and potentially further out over 2020, casting a shadow on an otherwise positive outlook for the sector.

Retail Sales: 2019Q4	Previous	Actual	Market	ASB
Total volumes (qoq)	1.7%	0.7%	0.8%	0.8%
yoy	4.5%	3.3%		
Core volumes (qoq)	1.9%	0.5%		0.6%
yoy	5.4%	3.3%		
Total retail deflator (qoq)	-0.4%	0.4%		
yoy	-0.4%	0.0%		

Summary & implications

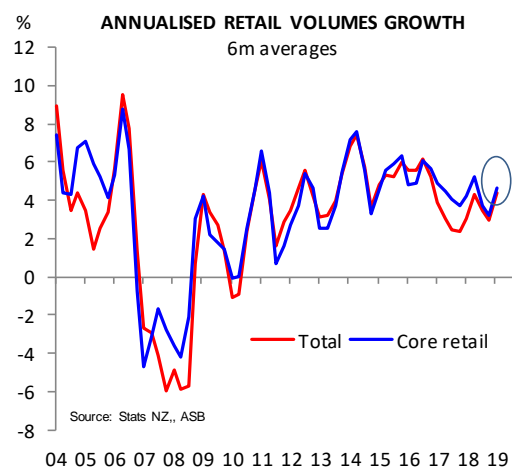
Q4 retail volumes were broadly in line with our 0.8% qoq pick and the market consensus. Core Retail volume growth also decelerated after the sizeable Q3 rise, despite Q4 durable retail being supported by the Black Friday sales. Today's figures point to reasonable economic momentum for Q4, and we expect a 0.6% qoq print for GDP (due 19 March). The COVID-19 coronavirus is likely to weigh on Q1 retail volumes and wider GDP over 2020, and a more marked virus impact could prolong the impact on the NZ economy and see the OCR move lower.

Details

Retail trade spending volumes rose 0.7% in Q4, representing a mild deceleration on the strong 1.7% Q3 pace. Growth in core retail spending (excluding fuel and vehicle-related) also decelerated, with the 0.5% qoq climb considerably below the 1.9% qoq Q3 gain. Annual spending volume growth eased back to 3.3% for both total and core retail.

The last 6 months of 2019 shows a strong pick-up in momentum in the retail sector, with annualised 6-monthly growth in total volumes accelerating to 4.4% (4.6% for core retail volumes), a notable step-up in on the circa 3% rates in the middle of the year.

Retail and core values both rose 1.1% qoq in Q4, somewhat softer than the 1.7% qoq increase in retail card spending from the Electronic Card Transactions data. Rising consumer prices in Q4 were also evident with the retail trade deflator



(+0.4% qoq) and core retail trade deflator (+0.6% qoq) posting increases.

The details were a mixed bag over the end of last year. The Q4 figures showed that retail volumes rose in 9 of the 15 retail sub-groups (7 of 12 core sub-groups). The Black Friday boost, the strengthening housing market, and low interest rates look to be supporting durable retail, with solid growth in electrical and electronic goods (+4.3% qoq), recreational goods (+3.6% qoq), furniture and floor coverings (+1.8% qoq) and motor vehicle and parts retail (+1.7% qoq). Accommodation (+2.7% qoq) finished 2019 on a positive note, but will likely struggle in early 2020 given the impact of the COVID-19 coronavirus, as will food & beverage services (+0.6% qoq in Q4). Supermarket, liquor and department retail volumes fell.

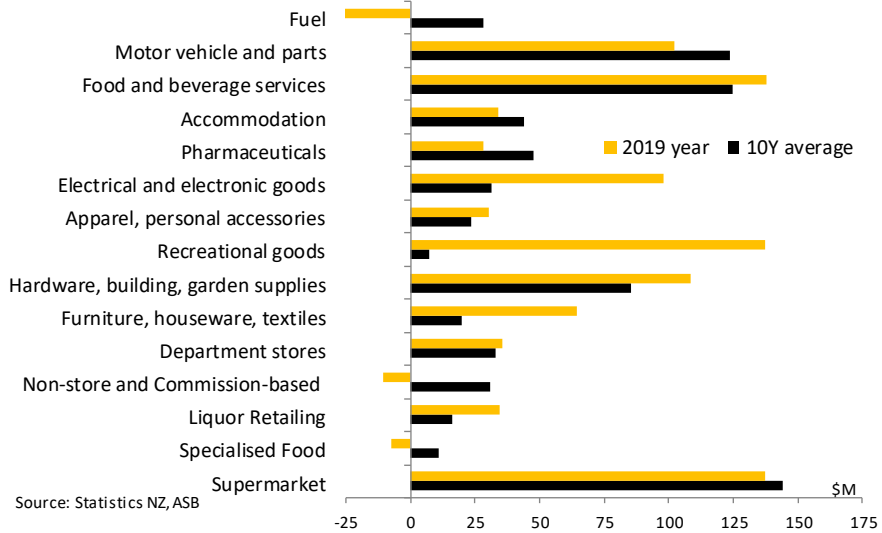
Viewing the changes in retail spending over 2019 by retail sub-group (see accompanying chart) shows that durable-related, recreational and hospitality retail have fared reasonably well. The 75bps of OCR cuts over 2019 have encouraged consumers to bring forward consumer spending. Food & beverage services have been another retail out-performer, but signs for early 2020 do not look as promising, given the likely impacts of COVID-19.

Sales growth in the North Island (1.3% qoq, +3.8% yoy) outpaced that in the South Island (1.0% qoq +3.4% yoy) over 2019. **The regional data also confirmed the re-emergence of Auckland retail, consistent with late 2019 signs that the Auckland housing market was stirring.** Auckland retail values barely skipped a beat and delivered a strong Q4 result (+1.7% qoq, 4.6% yoy). Conversely, Canterbury retail sales virtually stopped in Q4 as did Wellington retail. Retail in provincial areas was patchy, with strong sales growth in some areas (likely reflecting strong producer income growth) but not in others.

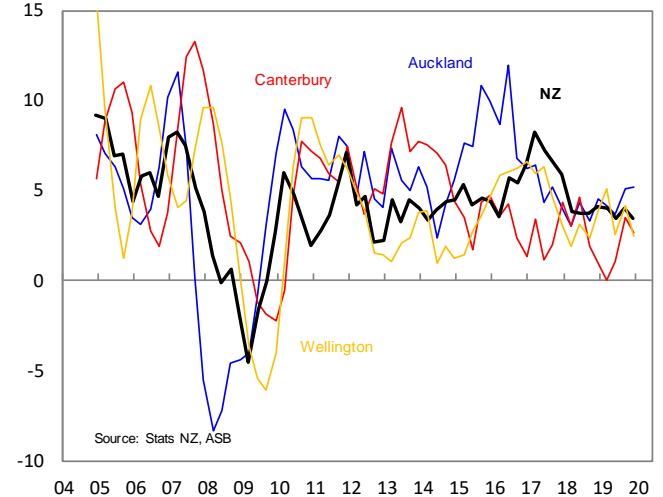
Solid Q4 retail trade figures are consistent with our +0.6% qoq pick for Q4 GDP. The retail trade figures are one of the earlier published inputs to GDP.

The COVID-19 coronavirus adds a fresh layer of uncertainty to the 2020 retail outlook. Prior to virus concerns surfacing, a strong year had beckoned for the retail sector, supported by low interest rates, the strengthening housing market, higher wage growth and fiscal stimulus. Virus-related disruptions look set to weigh on the retail sector and wider economic activity in early 2020 and it is hoped that the disruptions to tourism, wider export activity and global supply chains from the outbreak prove to be temporary. We expect the OCR to remain at 1.0% over 2020 but are cognisant of the risk that the OCR could be cut if the growth outlook disappoints.

ANNUAL CHANGES IN NOMINAL RETAIL SPENDING



RETAIL SALES VALUES



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