

Retail sales hold steady in December quarter

- Spending growth was slower than the market consensus, but in line with ASB's outlook.
- Inflation pressures in retail spending remain subdued.
- We continue to expect the RBNZ to hold the OCR steady at 1.75% until late 2018.

Spending growth held steady in the December quarter. Housing-related spending saw improvement, though, while tourism-related sectors continue to experience strong growth. We continue to expect the RBNZ to hold the OCR at 1.75% until late 2018.

Total retail sales volumes held steady at 0.8% qoq in Q4. Q3's spending was revised down slightly to 0.8% qoq from 0.9% prior. The outcome was marginally lower than the market consensus of 1.0%, but in line with ASB's outlook. **Spending growth was strongest in housing-related sectors.** Core sales volumes (excluding fuel and auto sales) saw slightly slower growth at 0.6% qoq, but that was a distinct improvement from Q3's 0.2% pace.

Looking across the sectors, growth accelerated in 6 of the 13 core sectors vs Q3, while only 4 contracted. **Furniture, floor coverings and houseware sales accelerated to 3.6% qoq from 0.2% in Q3, reflecting the continued hot housing market** as those new homes/rentals are outfitted. The housing influence underlined by 1.3% growth in hardware and building supplies. Adding to this, electrical good rose 2.0% qoq from 0.0%.

Elsewhere the **expected support from tourism remained in play, with spending on accommodation up 3.5% qoq for the second quarter in a row.** That strength underlines a number of other recent reports indicating there is little sign of the tourism boom slowing just yet.

Core retail volumes rose 0.6% qoq, bouncing back after Q3's slow 0.2% pace. In addition, motor vehicle sales had a strong quarter, expanding 1.9% qoq on top of Q3's 3.1% pace, which was a 4-year high.

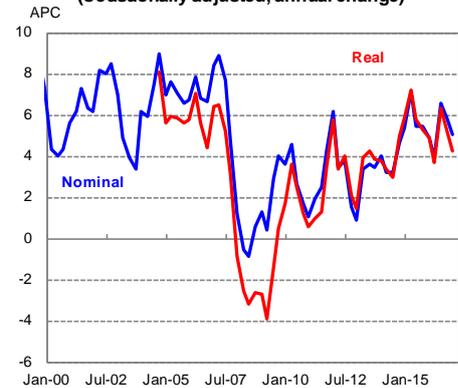
Turning to **the value of spending** in the quarter, total sales growth of 1.0% qoq was slightly ahead of that seen in volumes. This held the annual pace to 5.0% yoy. The value of core spending was again marginally lower than the headline, at 0.6% qoq, matching Q3's pace. **The overall deflator was 0.2% qoq, matching Q3, while annually it was just 0.3%, reinforcing the continued subdued retail inflation environment.**

Looking at the value of retail sales from a regional perspective, Waikato held onto top spot for the second quarter in a row, although it did slow slightly. Despite earthquake disruption around the CBD, Wellington sales built on recent rapid growth. Canterbury sales expanded 0.5% qoq, the first lift in several quarters, notwithstanding any earthquake impact. Only one region saw sales contract, and that was the North Island excluding Auckland, Wellington and Waikato and even then, it was only -0.1% qoq.

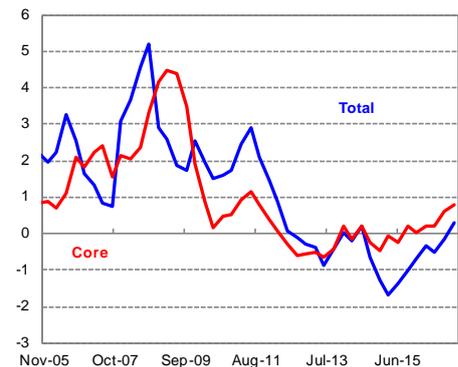
Looking forward, we expect spending to remain supported through 2017 due to continued firm net migration, historically-low interest rates, the tourism boom, high levels of consumer confidence and the recovery in dairy prices. However, the pace of expansion may slow a touch as mortgage rates begin to rise, while house price expansion is expected to slow.

Even with the prospect of continued healthy sales growth, retail price pressures are very soft. We continue to expect the RBNZ to hold the OCR at the 1.75% record low until late 2018.

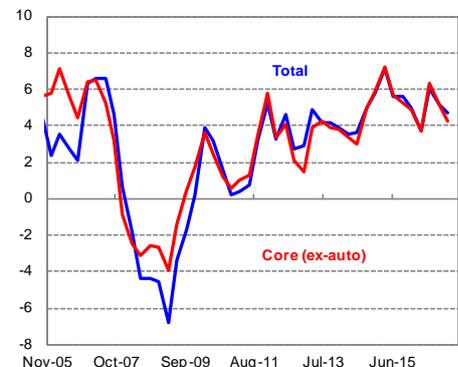
EX-AUTO RETAIL SALES
(seasonally adjusted, annual change)



Retail Trade Deflator
(annual change)



RETAIL SALES
(annual change)



ASB Economics & Research			Phone	Fax
Chief Economist	Nick Tuffley	nick.tuffley@asb.co.nz	(649) 301 5659	(649) 302 0992
Senior Economist	Jane Turner	jane.turner@asb.co.nz	(649) 301 5853	
Rural Economist	Nathan Penny	nathan.penny@asb.co.nz	(649) 448 8778	
Economist	Daniel Snowden	daniel.snowden@asb.co.nz	(649) 301 5657	
Economist	Kim Mundy	kim.mundy@asb.co.nz	(649) 301 5661	

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ASB Economics

ASB North Wharf, 12 Jellicoe Street, Auckland

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