

# Caution is the better part of valour

## NZ Q1 retail sales in record plunge

- The biggest quarterly fall in retail sales on record.
- Cautious consumers avoid upgrading cars and appliances.
- Per-capita spending is now down 8.8% since peak.
- More interest rate cuts ahead.

### Key results

| Quarter           |      | Q4   | Q1   | Q1 Expected |      |
|-------------------|------|------|------|-------------|------|
|                   |      | 2008 | 2009 | WBC         | Mkt  |
| Total sales, real | %qtr | -0.7 | -2.9 | -1.3        | -1.5 |

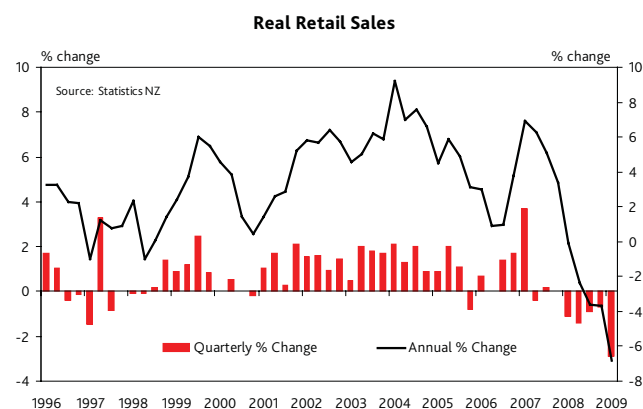
| Month                |      | Feb  | Mar  | Mar Expected |     |
|----------------------|------|------|------|--------------|-----|
|                      |      | 2009 | 2009 | WBC          | Mkt |
| Total sales, nominal | %mth | 0.3  | -0.4 | 0.5          | 0.5 |
| Core sales, nominal  | %mth | -0.1 | 0.5  | 0.2          | 0.1 |

### Comment

Consumer caution compounded retailers' misery in the first quarter of 2009. The volume of sales plunged a record 2.9% – double the previous record decline set during the 1997 Asian crisis, and far weaker than we, the market or the Reserve Bank expected. Unlike the Asian crisis, this quarter's decline is part of a long, sustained slide in retail spending. Sales volumes have now fallen for six quarters running, and are 6.8% below their June 2007 peak.

Rising unemployment and concerns around how the world recession will ultimately impact at home has left consumers too rattled to splash out on upgrades to durables items. Car sales fell a massive 11.4% in the quarter, and are now 32% down from the 2007 heyday. Along with the plunge in car sales, furniture and floorcoverings (-3.5%), hardware (-4.5%), and appliances (-5.9%) all suffered. The only market segment to post a convincing increase in sales was supermarkets (possibly as people cut back on takeaways and eating out).

The big question now is how much further will retail sales fall, and when will they recover? Over the past month or so the housing market has picked up, consumer confidence has



improved, international economic news has been about “green shoots of recovery”, and the higher New Zealand dollar has kept a lid on the price of imports. However, no glimmer of this relatively positive news was reflected in the monthly retail figures for March, with nominal sales down a further 0.4% in the month. Last week's electronic transactions figures for April did show a 0.3% increase in retail transactions. But that reads more like a lacklustre response to the tax cuts that came into effect on April 1 than a portent of sustained retailing recovery. It seems increasingly likely that most of the cash from tax cuts and lower interest rates will be saved rather than spent.

That's not surprising. The twin house- and share-price busts have forced many New Zealanders to take a long hard look at their overall wealth and long-term spending power. When all is said and done, we must recognise that high consumer spending from 2002 until 2007 was unsupportable by New Zealand's national income. The long overdue correction to a more sustainable level of spending, financed by income rather than debt, is underway – on a per-person, inflation-adjusted basis New Zealanders are now spending 8.8% less than they were two years ago. But with the current account balance still grossly in deficit, the transition from unsustainable to sustainable levels of spending still has a way to run. There are more hard times ahead for retailers. The silver lining is that lifting national savings by spending less is likely to please the ratings agencies.

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## Market implications

Markets recognised this number as a shocker. The exchange rate fell 15pts and 2-year swap rates fell 2bps. We will be downgrading our Q1 GDP forecast to something south of -1%, and no doubt the Reserve Bank will be making similar adjustments. We continue to expect the RBNZ will cut the OCR by a further 25bps on June 11.

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## Seasonally-adjusted Real Retail Sales (qtr % chg)

|                                  | Jun-08      | Sep         | Dec         | Mar-09      |
|----------------------------------|-------------|-------------|-------------|-------------|
| Supermarket and Grocery Stores   | -3.7        | -1.7        | 0.2         | 1.9         |
| Fresh Produce Retailing          | 0.7         | 0.8         | -0.5        | -3.4        |
| Liquor Retailing                 | 0.5         | 1.1         | -2.3        | 1.7         |
| Other Food Retailing             | -0.7        | 1.5         | -1.6        | -3.9        |
| Takeaway Food Retailing          | 1.4         | -0.2        | -1.7        | -2.1        |
| Department Stores                | 1.4         | 2.9         | -3.7        | -3.6        |
| Furniture and Floor Coverings    | -1.6        | -6.3        | -1.9        | -3.5        |
| Hardware Retailing               | -0.6        | -5.4        | -1.5        | -4.5        |
| Appliance Retailing              | 1.6         | 6.1         | 3.9         | -5.9        |
| Recreational Goods Retailing     | -3.1        | -2.6        | 1.5         | 1.6         |
| Clothing and Softgoods Retailing | 0.7         | -0.1        | -1.0        | -3.1        |
| Footwear Retailing               | 5.4         | -3.0        | 1.0         | 5.0         |
| Chemist Retailing                | 1.2         | 2.0         | 2.1         | -0.5        |
| Household Equip. Repair Serv.    | 6.5         | -3.8        | -2.9        | -1.1        |
| Other Retailing                  | 4.2         | -2.8        | 2.8         | 4.4         |
| Accommodation                    | -1.3        | 1.4         | -1.5        | -3.9        |
| Bars and Clubs                   | -0.1        | 2.1         | -4.7        | -5.6        |
| Cafes and Restaurants            | -1.8        | -3.2        | -1.3        | -0.9        |
| Personal & House Goods Hiring    | -0.2        | -7.7        | 16.1        | 5.3         |
| Other Personal Services          | -0.8        | -0.7        | -0.7        | -1.8        |
| <b>Sub-Total</b>                 | <b>-0.6</b> | <b>-0.2</b> | <b>0.1</b>  | <b>-1.2</b> |
| Motor Vehicle Retailing          | -4.8        | -3.2        | -5.4        | -11.4       |
| Automotive Fuel Retailing        | -4.1        | -1.6        | 3.5         | -3.1        |
| Auto Elect, Smash Repair, Tyres  | 2.1         | -4.4        | -1.9        | -0.3        |
| Automotive Repair and Services   | 1.9         | -3.1        | -1.6        | -4.4        |
| <b>All Industries – Total</b>    | <b>-1.4</b> | <b>-0.9</b> | <b>-0.7</b> | <b>-2.9</b> |