

A glimmer of recovery

NZ Q1 retail sales volumes rose 0.9%

- **Real retail sales rose 0.9% in the March quarter, as purchases of big-ticket items returned to normal levels following the post-GST hangover in Q4.**
- **Spending fell in Canterbury after the February earthquake, and higher fuel prices weighed on volumes, but spending elsewhere was fairly resilient.**
- **Today's result was in line with expectations, and does not alter the outlook for an OCR hike in December.**

New Zealand consumers started to crack open their wallets again in the early part of this year, even if it was only to blow some of the cobwebs out. Retail sales volumes rose 0.9% in the March quarter, just barely reversing their decline through the second half of 2010. While the return to a growth path is encouraging, the level of sales remains far below pre-recession levels and a catch-up is likely to be several years away.

The rise in Q1 sales was in part due to the easy gains to be made after the post-GST hangover. Last year, purchases of some big-ticket items were brought forward into September to beat the 1 October increase in GST; although the tax hike would only have made a small difference to sticker prices (+2.2% if fully passed on), it was also a cost that was entirely avoidable. The consequence was that sales of big-ticket items were below trend in the months after the GST hike, and were notably weak in the Christmas shopping period. The Q1 survey saw sales rise back to more normal levels, led by furniture (+8.0%), vehicles (+6.3%) and electronic goods (+4.1%).

Outside these categories, sales volumes were relatively steady. Fuel volumes (-3.9%) were weighed down by the disincentive of sharply higher prices (up nearly 10% for the quarter), but this doesn't seem to have been a significant drag on consumers' willingness to spend elsewhere. In total, retail sales by value were up by 2%, the biggest quarterly increase in four years.

The regional breakdown hinted at the impact of the Christchurch earthquake on 22 February, although Statistics NZ warns against placing too much weight on this measure (the retail survey is based on the location of the reporting entity, rather than where the sales occur). Spending by value was down 2.2% in the Canterbury region, compared to the growth that was seen consistently across the rest of the country, ranging from +3.2% in Auckland and Waikato to +2.0% in the rest of the South Island.

One curious, though not crucial, aspect of the retail survey was a

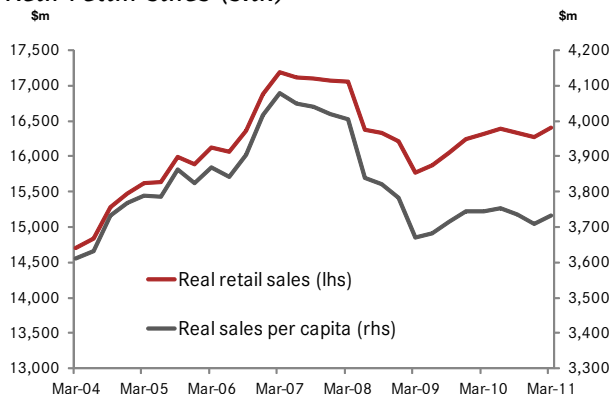
32% rise in non-store and commission-based sales. This is a small and volatile category that was recently added to the survey, and we don't have a strong feel for what goes into it (clothing and accessories make up about a third of the deflator). One possibility is that it could be a quake effect: with the Christchurch CBD closed off for half of the March quarter, both buyers and sellers may have turned to other sales channels.

Market implications

The renewed momentum in retail sales growth is an encouraging sign, but the severely depressed level of sales means that there is still little joy for retailers. In per capita terms, sales volumes are still a whopping 8.5% below their early 2007 high, and are only 1.7% above their trough from two years ago. Our view is that, without the conditions for a repeat of last decade's house price boom, consumer spending growth will be more constrained by the pace of income growth in coming years. That implies that a return to the pre-recession level of sales could be several years away.

We can't give an immediate assessment of the implications for GDP, as the retail component of GDP is prepared on a slightly different basis to today's release. That said, today's result was right on our expectation, so is unlikely to alter our current forecast of 0.2% growth in March quarter GDP.

Real retail sales (s.a.)



Today's result is consistent with the Reserve Bank's views both that the economy is regaining momentum, and that consumer spending will play a relatively subdued role in the recovery. We agree with the Reserve Bank that the next OCR hike is most likely to be in December.

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