

Bang for the buck

NZ Q2 retail sales volumes up 1.3%

- Retail sales volumes surged in the June quarter, led by vehicles and durable goods.
- Volume growth was aided by lower prices in some key categories, which we'd put down more to seasonal effects than to discounting.
- The outturn may boost market forecasts for Q2 GDP, but the inflation implications for the RBNZ are limited.

Key results

Quarter		Q1	Q2	Q2 Expected	
		2010	2010	WBC	Mkt
Total sales, real	%qtr	0.2	1.3	1.2	0.3

Month		May	Jun	Jun Expected	
		2010	2010	WBC	Mkt
Total sales, nominal	%mth	0.4	0.9	0.2	0.5
Core sales, nominal	%mth	-0.2	1.5	0.7	0.5

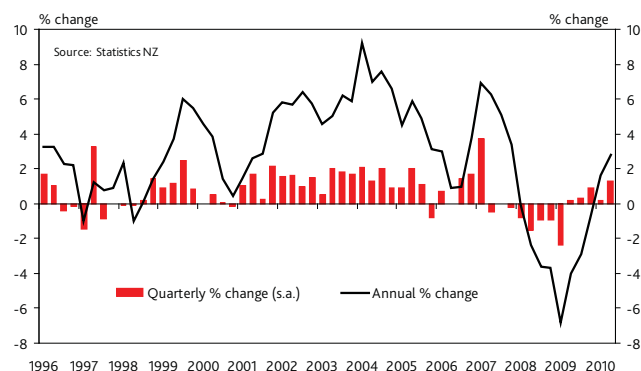
Comment

Retail sales volumes surged 1.3% in the June quarter, as lower prices in some key categories gave consumers more bang for their buck. The sharp rise in sales came as a surprise to the market – though it shouldn't have – and was close to our forecasts.

The value of retail sales rose a modest 0.5% for the quarter, broadly in line with forecasts. However, while the rest of the market seems to have assumed that the retail price deflator would be similar to the 0.3% rise in the CPI, a line-by-line review reveals substantial price falls for some of the key retail components of the CPI – particularly food, appliances and fuel. Overall, retail prices were down 0.8% in seasonally adjusted terms, giving us the 1.3% rise in volumes.

'Discounting' is the usual refrain from analysts in response to any fall in retail prices – implying that retailers are continually having to slash prices in order to stay afloat – despite the fact that the retail survey doesn't provide the kind of information that would allow such a judgement one way or another. But

Real Retail Sales



looking at the details, we're not convinced that discounting was much of a factor.

The most significant price falls were in fresh food, which was partly due to weather effects; the rate of discounting at supermarkets and grocery stores tends to be fairly constant over time. Fuel was down only in seasonally adjusted terms – the June quarter rise of 2.4% was less than in past years. Lower prices for durables (department stores, furniture and appliances) could arguably be attributed to discounting, but even then it wasn't across the board. The biggest price falls were electronics (which are in trend decline) and imported items in general, which may still be experiencing some pass-through from the stronger NZ dollar in the last year. We'd agree that many of these price declines are unsustainable, but not because of desperate retailers slashing their margins.

The greatest boost to sales volumes came from a 4% rise in vehicle sales, on top of a 4.3% increase in the March quarter. Auto sales have been one of the strongest performing retail sectors in the recovery to date. But they were also hit the hardest by the recession, as households cut back on large purchases and finance company collapses reduced access to credit.

The other major contributions to sales volumes included a steady 0.8% rise in supermarket sales, a 3.3% increase in clothing and footwear due to the cold and unusually wet

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weather in May/June, and a 5.4% boost to accommodation as the tourism sector continues to recover. There was also a 3.4% rise in appliance retailing and a 1.2% increase for department stores. We doubt that this is due to the bringing-forward of spending to beat the 1 October GST increase (based on history we wouldn't expect to see this until much closer to the date). More likely, it reflects a recovering appetite for large household items and/or taking advantage of an exchange rate-induced fall in prices.

In our view, the 1.3% rise in sales volumes in Q2 is no more an indicator of household's willingness to spend than was the 0.2% rise in Q1 (which we still regard as suspiciously low, concentrated as it was in Canterbury supermarkets). But there's another way to approach the issue. In the post-crisis world, with households no longer able to draw on their perceived gains in housing wealth, we would expect spending to be constrained by nominal income growth – so we might get more out of tracking nominal rather than real spending growth. Here, the pattern has been much more stable – spending has steadily risen by 0.5–0.9% in each of the five quarters since the recovery officially began. It's still a shadow of what it was last decade, but it's about what we would expect at this stage of the recovery.

For the June month itself, total sales rose by 0.9%, with ex-auto sales up 1.5%, both stronger than we and the market expected. Strictly speaking, this was the new information in the release, since we already had sales for the first two months and the quarterly prices from the CPI. However, the details largely featured a reversal of the curiously weak 0.2% fall in ex-auto sales in May, reinforcing the sense that the monthly survey tells us more about firms' enthusiasm for filling out survey forms than it does about actual developments in the retail sector.

We increasingly find ourselves favouring the electronic card transactions survey, which is drawn from the actual transactions going through the payments system, as a timely guide to the retail sector. It has a similar trend to the retail survey, is more stable on a monthly basis, and is available more than a month earlier – what's not to like?

GDP and market implications

The positive retail report comes after a run of miserable data from both here and offshore, so the market's response was understandably cautious. The NZ dollar rose around 40pts to 0.7130 after the release, while the two-year swap rate has ended up largely unchanged at 3.86%.

The surprise boost to sales volumes may see some forecasters revise up their picks for Q2 GDP. For now we're comfortable with our forecast of 0.7% GDP growth, which incorporates a 0.7% rise in private consumption. Retail volumes were strong, but non-retail spending is unlikely to have seen the same kind of growth (partly because that's where prices rose within the CPI).

We can't say how this outcome compares to the RBNZ's forecasts, but the near-term implications are effectively balanced: sales volumes surged, but it was precisely because

Seasonally-adjusted Real Retail Sales (qtr % chg)

	Sep-09	Dec	Mar-10	Jun
Supermarket and Grocery Stores	0.4	0.0	-1.2	0.8
Fresh Produce Retailing	-0.4	-2.9	-2.6	0.3
Liquor Retailing	-2.5	2.6	-5.8	-0.7
Other Food Retailing	2.4	-11.3	1.0	-1.4
Takeaway Food Retailing	-0.2	-1.7	2.5	-2.7
Department Stores	-1.9	2.7	0.4	1.2
Furniture and Floor Coverings	2.9	-2.4	4.6	1.9
Hardware Retailing	1.3	-0.5	-0.9	-0.8
Appliance Retailing	5.9	2.5	-0.3	3.4
Recreational Goods Retailing	1.1	-0.1	-1.6	-2.0
Clothing and Softgoods Retailing	3.2	-0.9	1.9	3.4
Footwear Retailing	-0.9	-3.2	2.0	3.1
Chemist Retailing	-1.8	0.2	0.1	-0.9
Household Equip. Repair Serv.	0.3	8.1	1.7	-5.9
Other Retailing	-2.9	5.6	1.1	-0.8
Accommodation	2.9	1.0	3.6	5.4
Bars and Clubs	-0.6	3.6	-4.9	1.1
Cafes and Restaurants	-3.0	5.3	-3.8	-2.6
Personal & House Goods Hiring	-2.4	7.7	-11.4	11.0
Other Personal Services	0.3	1.4	-0.6	-0.5
Sub-Total	0.7	1.2	-0.5	0.9
Motor Vehicle Retailing	-1.6	2.3	4.3	4.0
Automotive Fuel Retailing	-0.7	-2.9	-0.7	0.6
Auto Elect, Smash Repair, Tyres	1.0	-3.0	0.1	0.8
Automotive Repair and Services	2.7	-2.5	2.2	0.5
All Industries – Total	0.3	0.9	0.2	1.3

prices fell, so it's not telling a story of unexpected demand-driven inflation pressures. We continue to expect a 25bp hike in the September *Monetary Policy Statement*, since the RBNZ has indicated that it would be uncomfortable with pausing until the cash rate is closer to a neutral level. Admittedly, the situation is quite fluid and will depend on how far the recent run of weak global data extends.

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