

# Measured spending

## NZ Q3 retail trade review

- Retail sales volumes find a floor, but at a very low level.
- Data consistent with measured spending recovery.
- Retailers still reducing inventories.
- Restocking to underpin GDP growth later this year.

### Key results

| Quarter           |      | Q2   | Q3   | Q2 Expected |      |
|-------------------|------|------|------|-------------|------|
|                   |      | 2009 | 2009 | WBC         | Mkt  |
| Total sales, real | %qtr | 0.5  | 0.1  | -0.3        | -0.1 |

| Month                |      | Aug  | Sep  | Sep Expected |     |
|----------------------|------|------|------|--------------|-----|
|                      |      | 2009 | 2009 | WBC          | Mkt |
| Total sales, nominal | %mth | 1.1  | 0.2  | 0.6          | 0.4 |
| Core sales, nominal  | %mth | 1.2  | 0.0  | 0.4          | 0.4 |

### Comment

Retail sales finally look to have found a base, albeit at a very low level. Against expectations, sales volumes posted a 0.1% gain in the third quarter of 2009, building on the 0.5% increase in the second quarter. Excluding the auto sector, volumes were also stronger-than-expected, rising 0.5% in the quarter (we expected a 0.1% gain).

Much of the better-than-expected outturn can be put down to prices. The retail deflator was weaker than we thought, rising just 0.4% in the quarter – we had expected a 1.0% lift in retail prices given the strength of September quarter CPI inflation (up 1.3%), especially in cars and petrol. At least part of this weakness looks to be a seasonal issue.

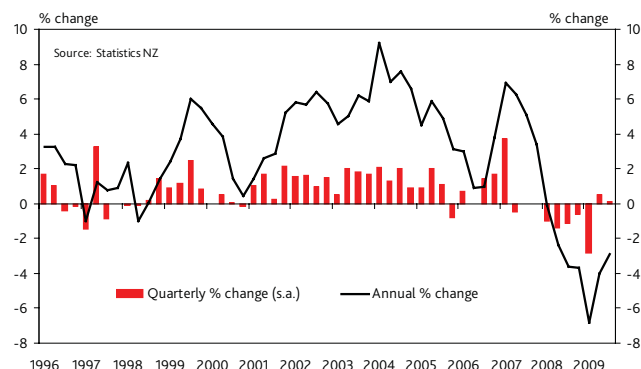
The housing market played a key role in bolstering sales volumes over the quarter, with solid gains reported in appliance, furniture and floorcoverings, and hardware sales. Clothing and footwear sales also made a large contribution, as did accommodation – the latter receiving a boost from strong tourism flows during the quarter. Offsetting some of the strength in these sectors were large declines in vehicle and department store sales.

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### Real Retail Sales



Overall, the high level of consumer confidence, stronger net migration, rising house prices, and low interest rates, are all helping to turn the consumer around, despite rising unemployment. Still, the level of retail activity remains extremely low, with sales volumes down 2.9% on a year ago. On a per capita basis, the picture is even worse, with sales actually falling in the quarter to remain 8.7% below their 2007 peak. So, while these data support other signs of general economic recovery, they suggest the recovery in spending is only gradual. Moreover, they support our view that New Zealand is currently in the throes of a people-led recovery.

Sales in the month of September were a little weaker than we anticipated, rising just 0.2% in seasonally adjusted terms. As we expected, car sales and fuel retailing made the biggest contribution to the increase. However, sales outside of the automotive sectors were largely unchanged. And, together with the recent soft electronic transactions data for October, suggests the spending recovery will continue to be measured in the very near term.

### Outlook

We expect consumer spending to continue to build on these recent modest gains over coming months. Consumer confidence has soared, labour market indicators are more upbeat, Fonterra have revised up their 2009/10 dairy payout

from \$4.55/kg milksolids to \$6.05/kg, and the higher NZD is increasing consumers' purchasing power. Rising house prices will also clearly be a boon to New Zealand consumers, not only through reduced housing equity injection (i.e., when households on average inject equity into the housing stock), but also more generally as the pick up in house sales spurs more spending on items such as furnishings, whiteware, and hardware. Our latest set of forecasts, released earlier this week, see consumer spending growing by 2.5% in calendar 2010, after contracting close to 1% in calendar 2009.

Retailers continued to unwind stocks in the quarter, particularly motor vehicles. The ratio of stocks-to-sales is at record lows and with sales now turning up, along with expectations of more growth ahead, a strong inventory cycle is likely. This will promote activity in the manufacturing and distribution sectors over coming quarters and is part of the economic recovery we have forecast for the second half of 2009. The timing of the restocking phase will be important for the shape of future GDP growth.

### GDP and market implications

On their own, today's data suggest some upside risk to our September quarter GDP forecast of 0.4%. However, they also need to be weighed against last week's softer-than-expected labour market data. At this stage, we see the risks as broadly offsetting, but we will finalise our forecast once the last of the partial data is released.

Markets were not moved by today's retail data, which we see as appropriate. Consumer spending is picking up, but in a very measured way. Still, the forward indicators – housing and the dairy payout in particular – suggest a more potent return to spending could be in the pipeline. We continue to anticipate the first OCR hike in March 2010.

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

|                                  | Dec-08      | Mar-09      | Jun        | Sep        |
|----------------------------------|-------------|-------------|------------|------------|
| Supermarket and Grocery Stores   | 0.0         | 1.9         | 0.8        | 0.2        |
| Fresh Produce Retailing          | -0.5        | -2.7        | 3.2        | -0.2       |
| Liquor Retailing                 | -2.2        | 1.5         | -1.7       | -3.0       |
| Other Food Retailing             | -0.9        | -4.1        | 4.8        | 1.8        |
| Takeaway Food Retailing          | -1.6        | -1.2        | 6.1        | 0.1        |
| Department Stores                | -3.9        | -2.8        | 0.5        | -3.1       |
| Furniture and Floor Coverings    | -1.4        | -3.7        | -4.4       | 3.1        |
| Hardware Retailing               | -1.3        | -4.0        | 1.5        | 1.2        |
| Appliance Retailing              | 4.6         | -5.8        | 3.9        | 6.5        |
| Recreational Goods Retailing     | 1.1         | 1.3         | -0.6       | 1.4        |
| Clothing and Softgoods Retailing | -0.8        | -2.7        | 2.3        | 3.8        |
| Footwear Retailing               | 0.9         | 4.3         | -2.7       | -2.0       |
| Chemist Retailing                | 2.0         | -0.4        | -0.2       | -1.9       |
| Household Equip. Repair Serv.    | -2.1        | -0.5        | 2.1        | -0.5       |
| Other Retailing                  | 2.3         | 3.9         | -9.0       | -4.4       |
| Accommodation                    | -1.0        | -3.9        | -1.5       | 3.1        |
| Bars and Clubs                   | -4.3        | -5.5        | -4.4       | -0.1       |
| Cafes and Restaurants            | -1.4        | -0.4        | 2.2        | -3.3       |
| Personal & House Goods Hiring    | 16.1        | 5.3         | -7.0       | -2.4       |
| Other Personal Services          | -0.9        | -1.7        | 0.0        | 0.2        |
| <b>Sub-Total</b>                 | <b>0.1</b>  | <b>-1.1</b> | <b>0.3</b> | <b>0.5</b> |
| Motor Vehicle Retailing          | -5.0        | -11.4       | 0.3        | -2.0       |
| Automotive Fuel Retailing        | 3.3         | -3.1        | 2.6        | -0.6       |
| Auto Elect, Smash Repair, Tyres  | -1.7        | -0.4        | -2.4       | 0.9        |
| Automotive Repair and Services   | -1.6        | -4.4        | 4.8        | 2.7        |
| <b>All Industries – Total</b>    | <b>-0.6</b> | <b>-2.8</b> | <b>0.5</b> | <b>0.1</b> |