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NZ Q3 retail sales volumes up 0.7%

- Retail sales volumes rose 0.7% in the September quarter, mostly due to purchases of big-ticket items brought forward to beat the 1 October GST hike.
- Spending growth elsewhere was subdued, partly due to the effects of the Canterbury earthquake.
- Retail figures before and after the GST hike will be a poor guide to the underlying trends in consumer spending.

Key results

Quarter		Q2	Q3	Q3 Expected	
		2010	2010	WBC	Mkt
Total sales, real	%qtr	1.5	0.7	0.3	0.0

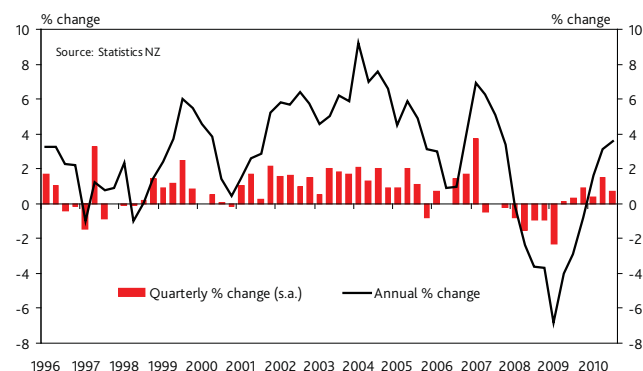
Month		Aug	Sep	Sep Expected	
		2010	2010	WBC	Mkt
Total sales, nominal	%mth	0.0	1.6	1.1	1.1
Core sales, nominal	%mth	-0.6	1.6	1.0	1.0

Retail sales were sprightlier than expected in the September quarter, with a 0.7% rise in volumes compared to our above-consensus forecast of 0.3%. On top of this, the whopping June quarter increase was revised from 1.3% to 1.5%, largely due to a downward revision to the price deflator. Retail sales have continued their steady climb out of recession, although they are still some way below their peak levels.

The driving force behind the Q3 figures was a shift in spending patterns ahead of the 1 October GST increase, which if fully passed on would add 2.2% to retail prices. For those who were intending to buy something in the near future, it would have been worth buying earlier and avoiding a well-signalled price hike.

That was quite apparent in the figures for the September month, which rose 1.6% after two effectively flat outturns in July and August. All of the gains were accounted for by furniture (up \$31m or 30.1%), appliances (up \$29m or 14.4%) and vehicles (up \$11m or 1.8%) – big-ticket items where a 2.2% price increase would be meaningful in dollar terms, and worth avoiding.

Real Retail Sales



Spending elsewhere was effectively flat for the month. We were a little surprised to see a 0.7% decline in supermarket sales and flat fuel sales, compared to the 1.3% and 3.1% respective gains in the electronic card transactions data for September – we suspect the difference may be due to a quirk in the seasonal adjustment. There was evidence of people stocking up on groceries and fuel on the day before the GST hike, so perhaps this amounted to just a small fraction of monthly turnover.

The September figures were partially depressed by the Canterbury earthquake, which disrupted activity in the region for most of the month. Seasonally adjusted sales in the Canterbury region were up only 0.1% in September, compared to gains of 0.9-2.0% in the other broad regions. Paymark (the dominant processor of electronic card transactions) has noted that nearly all of its users were open for business by the end of September, but the actual transactions data for October suggest that turnover remains below pre-quake levels.

For the September quarter, sales volumes largely reflected the big swings in the September month: furniture rose by 5.7% and appliances rose by 4.3%. (There was also a sizeable contribution from automotive repair, though this isn't seasonally adjusted due to its instability.) There's no compelling evidence that retailers relied on additional discounting to generate those pre-GST sales. Appliance prices fell by 2.4% – that's more than the long-term average quarterly decline of 1.5%, but less than

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in the previous three quarters. Furniture prices rose 0.4% and vehicle prices rose 2.1%.

We had long expected to see a boost in retail spending ahead of the GST hike, based on the experience of the 1989 increase in GST from 10% to 12.5%. In that instance, retail sales surged 8.5% in the month before the GST hike, particularly durable household goods which rose 30%. Sales then plunged by 15.6% in the month after the GST hike, before bouncing back to around trend levels in later months. Quarterly volumes rose 5.2% ahead of the GST hike, then fell by 7.9%.¹

Should we read anything into the fact that the pre-GST spending boost appears to have been smaller this time? Probably not. Since it reflects a shift in the timing of purchases, rather than a windfall for retailers, the magnitude of the shift is really only of academic interest. Unlike some have suggested, we don't see this as a sign of consumer caution; the retail environment was even weaker in 1989 than it is today, yet consumers were still able to bring forward a great deal of planned spending.

For what it's worth, we think it reflects a rational judgement by consumers about the likelihood of price increases after the GST hike. The 1980s was a relatively high-inflation environment, making a full passthrough of GST more likely; in addition, the 1989 GST hike came in the wake of a falling NZ dollar, which put further upward pressure on imported goods prices. In contrast, today's low-inflation environment and a strengthening NZD would have made it more difficult to push through outright price increases – especially for big-ticket items such as electronics, where falling prices have been the norm for many years. We suspect that in many cases the GST hike will instead be 'passed on' through smaller than usual price declines over coming months. But in the absence of outright price increases, many consumers will have rightly judged that they could afford to wait a little longer.

Market implications

Just last week, RBNZ Governor Bollard warned that the market was reading some recent data too optimistically, citing employment and retail sales in particular. While it's highly unlikely that he had today's figures in mind, we think that caution is still warranted. The current and upcoming figures will be a poor guide to the underlying strength of retail spending, due to the distortions from the GST effect and the Canterbury earthquake; it's likely that Q3 volumes were inflated and that Q4 volume growth will be relatively weak. Electronic card transactions for October hint at the post-GST letdown in sales volumes that we would expect to see.²

Seasonally-adjusted Real Retail Sales (qtr % chg)

	Dec-09	Mar-10	Jun	Sep
Supermarket and Grocery Stores	0.0	-1.1	0.9	0.4
Fresh Produce Retailing	-2.4	-2.6	0.6	1.5
Liquor Retailing	1.3	-4.9	-1.3	-5.1
Other Food Retailing	-10.0	1.0	-0.9	3.5
Takeaway Food Retailing	-1.5	2.5	-2.8	-0.6
Department Stores	2.7	0.6	1.0	0.6
Furniture and Floor Coverings	-2.3	4.5	2.2	5.7
Hardware Retailing	-0.2	-0.9	-0.8	0.3
Appliance Retailing	3.1	-0.2	3.4	4.3
Recreational Goods Retailing	-0.3	-1.6	-2.0	-1.3
Clothing and Softgoods Retailing	-0.7	2.1	3.1	0.5
Footwear Retailing	-3.4	2.0	3.0	0.4
Chemist Retailing	0.2	0.0	-0.8	0.3
Household Equip. Repair Serv.	8.5	1.7	-5.6	5.0
Other Retailing	5.0	1.1	-0.7	1.1
Accommodation	1.0	3.8	4.9	-0.7
Bars and Clubs	3.1	-4.5	0.5	-6.1
Cafes and Restaurants	5.3	-3.8	-2.3	0.9
Personal & House Goods Hiring	7.7	-11.4	11.0	-5.6
Other Personal Services	1.5	-0.6	-0.4	1.1
Sub-Total	1.2	-0.4	0.9	0.9
Motor Vehicle Retailing	2.2	4.9	5.0	-0.6
Automotive Fuel Retailing	-2.9	-0.7	0.5	-0.4
Auto Elect, Smash Repair, Tyres	-2.8	-0.4	1.5	1.3
Automotive Repair and Services	-2.5	2.2	0.5	6.7
All Industries – Total	0.9	0.4	1.5	0.7

In nominal terms, retail spending growth has been remarkably steady during the recovery – the 0.8% increase in Q3 was squarely in the middle of the range of the last six quarters – while the variation in 'real' terms has largely been driven by the variation in prices. In other words, consumers still seem to be willing to spend, but they are highly price-sensitive. That is more consistent with our view that consumers have been constrained by the pace of income growth to date, than with the RBNZ's view that consumers are actively engaged in deleveraging.

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¹ See the article "How GST affected retail sales in the 1980s", available at www.stats.govt.nz.

² Retail card transactions rose 0.8% in October, which implies a fall in volumes depending on how much of the GST hike was passed through. Note that the retail trade survey is reported ex-GST.