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Home and away

NZ Q4 real retail sales rose 2.2%

- Retail sales volumes rose 2.2% in the December quarter, with a further boost to tourist spending during the Rugby World Cup and a strong lift in the more domestically-oriented sectors.
- These figures present upside risk to our near-term GDP forecasts, although factors such as an inventory rundown may dampen the net impact.
- The improving picture of the New Zealand consumer reinforces the case for an eventual rate tightening – we continue to expect an OCR hike in December.

Summary

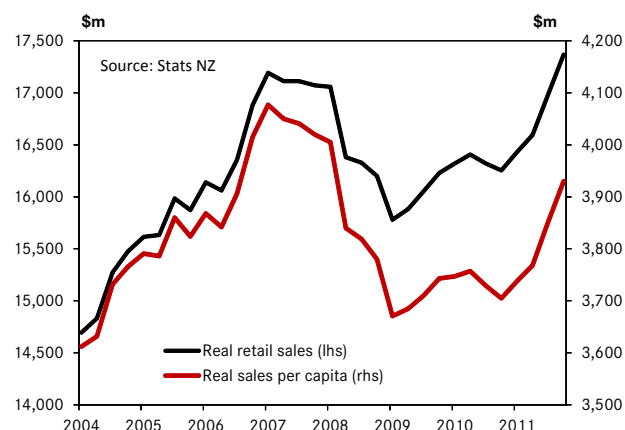
Retail spending beat forecasts by a wide margin for the second quarter in a row. In both instances, the temporary boost to spending during the Rugby World Cup in September and October was even larger than thought. But what was more notable in the December quarter was the strength in durable goods, which is likely to reflect domestic demand more than tourist spending. These details suggest that the underlying trend in household spending is more robust than thought, reinforcing the case for lifting interest rates back towards more normal levels.

Details

Retail sales rose 2.2% in the December quarter, much higher our forecast of 1.2% growth (which was also the market median). Core sales (excluding vehicles and fuel) were even more impressive, rising by 2.9%, the biggest quarterly increase since the retail survey began in 1995.

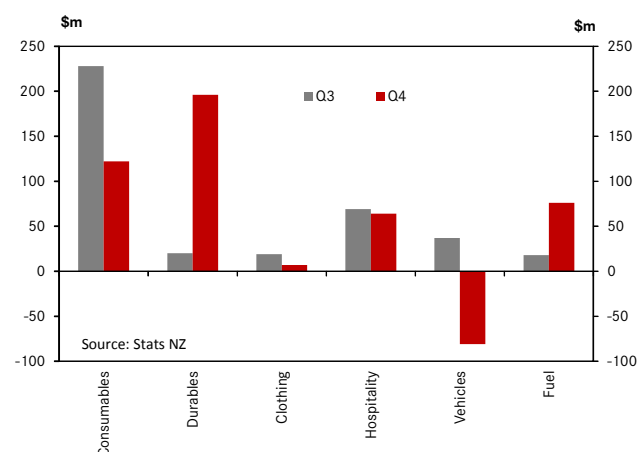
Strong growth in spending in nominal terms (total retail sales were up 2.0%) was further aided by a 0.2% fall in prices for the quarter, consistent with the CPI published last month. Consumers are getting the benefits of the sustained lift in the nation's terms of trade, which has promoted a stronger NZ dollar and gives us more bang for our buck on imports.

Almost half of the rise in sales came from supermarkets (+1.8%), specialised food stores (+10.4%), accommodation (+3.9%) and cafes, restaurants and bars (+2.2%) – some of the obvious beneficiaries of increased tourist spending during the Rugby World Cup. These groups also saw strong gains in the September quarter, and in both cases were much stronger than

Real Retail sales (s.a)


was signalled by the monthly electronic cards data. The influx of tourists for the RWC would have led to a greater than usual share of purchases by cash and cheque.

Where the December quarter differed from September was the strong gains in the durable goods categories: electronic goods were up 10.1%, furniture up 7.6%, department stores up 7.2%, and building supplies up 2.5%. These groups are more representative of demand by New Zealand households than of a rugby-related spike in tourist spending. While lower prices – particularly a 3% drop for electronics – would have encouraged volume growth, spending was still up strongly even in dollar terms.

Quarterly change in retail sales


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By region, nominal spending saw the strongest gains in the North Island (Auckland +2.7%, Waikato +9.6%, Wellington +3.8%), while spending in Canterbury (which didn't host any RWC games due to the earthquakes) rose just 0.1%. However, Statistics NZ cautions against reading too much into the regional breakdown, as the retail survey is designed to be used at the national level. Stats are working on a separate retail series for the Canterbury region using the retail survey and GST data, which will be published at the end of March.

Implications

On their own, today's figures suggest upside risk to our current forecast of 0.4% GDP growth, though there may be some offsetting forces. Some of the boost in December quarter spending was met by a rundown of inventory levels, in contrast to the large inventory build-up in Q3; that could mean, for instance, a fall in manufacturing or wholesaling activity if there was less restocking by retailers during the quarter. We're also wary that our forecast of 0.7% growth in March quarter GDP may be too optimistic, given the post-RWC hangover that we're likely to see in retail sales.

That aside, today's survey gives some reason to think that the consumer is in better shape than, for instance, recent confidence surveys have been letting on. Retail spending in nominal terms was up 8% on a year ago, while household deposits were up about 9% over the same period; it's hard not to conclude that income growth has been solid. The recent softening in inflation and low interest rates for an extended period have been an added bonus for households.

The NZ dollar rose 10pts to 0.8340 and the two-year swap rate rose 3 basis points to 2.89% on the release. Today's figures are unlikely to change the timing of the next move in the OCR, which remains subject to the lingering uncertainty around the global economy, the pace of post-quake reconstruction, and the change of RBNZ Governor coming up in September. As a result, we expect the first rate hike to be delayed until December. However, the retail figures serve as a reminder of why we're debating rate hikes in the first place, despite the substantial uncertainties around the global economy. Domestic activity is clearly benefiting from low interest rates, and the impending wave of construction activity will add to the momentum this year.

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