Retail Trade Trending Steadily Higher

- Retail volumes rebound 1.6% in Q3
- Perhaps flattered by the Rugby World Cup
- Regional picture curiously mixed
- But fundamentals for spending remain solid
- Retail prices falling...no template for worry

Our feel for consumer spending is that it’s trending steadily higher. So today’s reported 1.6% increase in September quarter retail trade volumes, for an annual expansion of 4.5%, likely overstates the case.

For starters, it follows an increase in the June quarter, of 0.2%, which looked unusually slow. Part of the art in forecasting retail trade is to recognise saw tooth patterns.

The September quarter resurgence also arguably reflected a chunk of spending associated with the Rugby World Cup (RWC). Of course, the bulk of the RWC transpired in October, and into early November. However, it kicked off in late September, by which time one would be expected to have bought one’s new big-screen TV with which to watch it. This is especially with the tournament being principally streamed for the first time in New Zealand, so requiring new systems to be tested.

So, in hindsight, it probably shouldn’t have been a surprise to see the volume of Electrical & Electronic Goods expand a seasonally adjusted 4.4% in Q3.

Then again, it enlarged a greater 5.2% in Q2, and has averaged 3.5% per quarter over the last five years. So we ought to be a bit careful about over-interpreting RWC anecdote. While first-world poverty might be defined by the size and clarity of one’s flat-screen TV these days, not everyone can afford an upgrade at the drop of a hat.

The other thing that makes us query the force of the RWC effect in the Q3 retail data is the fact the regional figures were decidedly mixed. As a supposedly rugby-mad nation, one might have expected more of a common pulse to shine through. And certainly not a 0.3% decline in the mighty Waikato’s (nominal) retail trade in the quarter.

In any case, there were plenty of other industries in today’s retail statistics that lent substantive support to the overall increase of 1.6%. For example, Furniture, Floorcoverings, Houseware and Textiles rebounded 5.2% (after dipping 3.7% in Q2). This, along with a 1.0% increase in Hardware, Building and Garden Supplies, suggested the housing market was acting as a stimulus.

While housing turnover is constrained by low listings, prices are rising – strongly so in some places – and new home building activity is getting up there, which, along with very low interest rates, is assisting durables spending.

We also note that Recreation Goods lifted 4.0% in Q3, after jumping 6.1% in Q2. This includes entertainment and media equipment (including gaming devices), sports and camping goods, toys and games, as well as marine equipment.

There was also a move higher in Motor Vehicles and Parts, of 1.7% (consistent with the strengthening in registrations through the September quarter).

Excluding Vehicles and Fuel, core retail trade, in real terms, increased 1.8% in Q3, after nudging up 0.3% in Q2. This boosted its annual rate of advance to 5.4%, from 3.6%.

This, by the way, further outpaced what is still-strong population growth (1.7% y/y) meaning core retail spending was fair trucking along in per capita terms. And the population growth aspect doesn’t look likely to dissipate as a driver of retail spending any time soon.

The labour market is also a fundamental support to consumer spending growth. While employment growth is slowing, the market is still relatively strong/tight.
Continuing The Pattern

Accordingly, wage inflation is firming into the region of 3-4% per annum. Consumer sentiment, meanwhile, is middling.

Which is just as well, as business confidence is poorly. Indeed, one of the reasons we didn’t forecast stronger Q3 retail trade than we did (+1.0%, versus the market median of +0.5%) was the fact retailers have become amongst the most glum of businesses of late. We’ll get an update on this in Thursday’s ANZ survey.

But today’s retail numbers suggest the worries for retailers are things apart from turnover. Of course, the sector is facing a lot of competition these days – especially from abroad – and thus is not the pointer to overall personal consumption, let alone the overall economy, that it used to be in years and decades past.

Having said this, we also need to acknowledge the macro squeeze that is coming to bear on the retail sector – which is no different to that of the broader business sector.

Intensifying inflation in costs is a common theme in this respect. Yet this is not obviously finding its way into selling prices.

Indeed, the retail price deflator lived up to its name in Q3, in falling 0.3%. This meant for a 0.3% fall on an annual basis as well. It was hardly stronger in ex-auto terms, with flat pricing, and annual inflation of 0.4%, from 0.3% in Q2.

Imagine if this was the designated inflation metric for the RBNZ to target? It would be having puppies. Yet any delve into what’s driving the softness in retail price inflation, far from uncovering a problem of reticent demand, would probably conclude quite the opposite. In fact, the broad pattern is the weaker the prices the greater the turnover.

While this might appear to be a distinct issue, just bear in mind the retail sector reflects a good part of the tradables section in the CPI.