Research

Economy Watch

22 May 2026

Retail Sales Hot and Cold

- **Retail sales volumes lift**
- **Adding to signs of economic recovery, pre-war**
- **Sales strength, or otherwise, depends on lens used**
- **Per capita sales volumes return to pre-Covid levels**
- **Indicators warn of slower growth ahead**

Real Retail Sales, seasonally adjusted

March quarter 2026	Qtly % chg	Ann % chg
Non-durables	1.7	2.8
Durables (ex-auto)	0.1	6.6
Services (ex-auto)	1.8	4.3
Ex-auto	**1.0**	**4.8**
Vehicles	0.6	6.0
Fuel	0.2	-2.6
Total	**0.9**	**4.5**

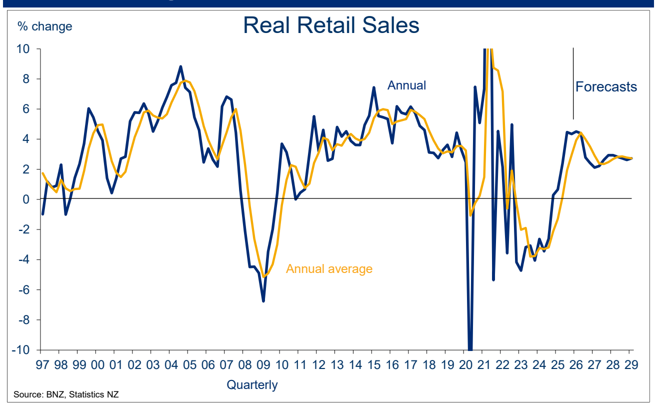
Source: Stats NZ, BNZ

The headlines read that Q1 retail sales were strong. However, we think describing sales as strong or weak depends very much on how you look at it.

Sure, the 0.9% seasonally adjusted lift in retail sales volumes was stronger than the market consensus of a 0.5% gain. However, it was not quite as strong as the 1.2% we had pencilled in. Core sales rose a solid 1.0%.

Q1's lift adds to the evidence that the economic recovery was gaining some steam before the start of the conflict in the Middle East. Retail sales volumes were 4.5% higher than a year earlier.

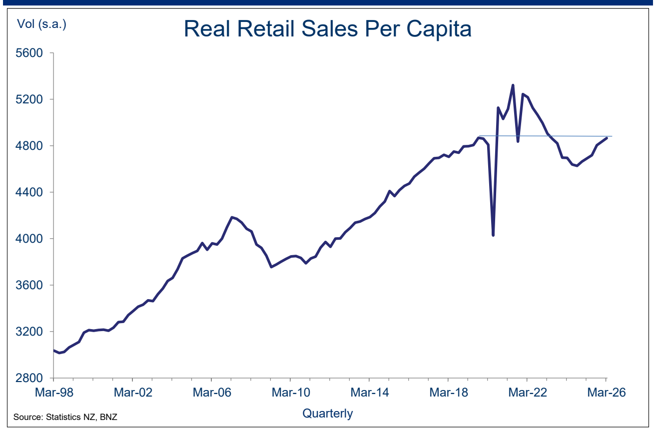
Sales volumes growth to slow



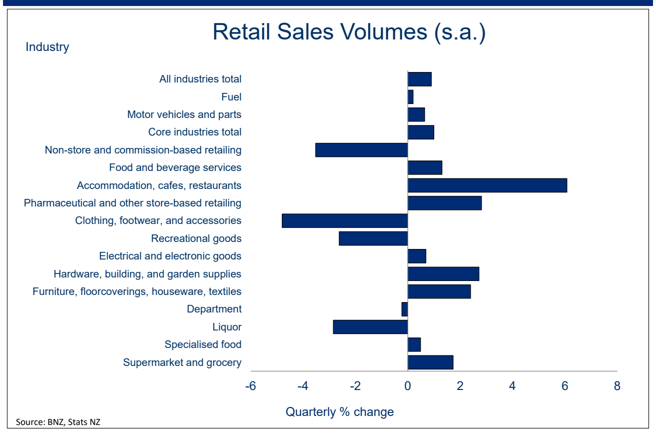
Today's retail figures are supportive of decent growth in Q1 GDP, although probably not as strong as the 1.1% the RBNZ projected in its February MPS. The retail data give us no reason to change our Q1 GDP pick of 0.9%.

Annual growth looks strong. But it is important to recognise that, on a per capita basis, retail sales volumes have only got back to where they were before Covid after spending more than two years below that level. Sales remain well below the pre-Covid trend. In that sense, it seems a stretch to call sales volumes outright strong.

Context important



Tourism and house related goods, groceries up

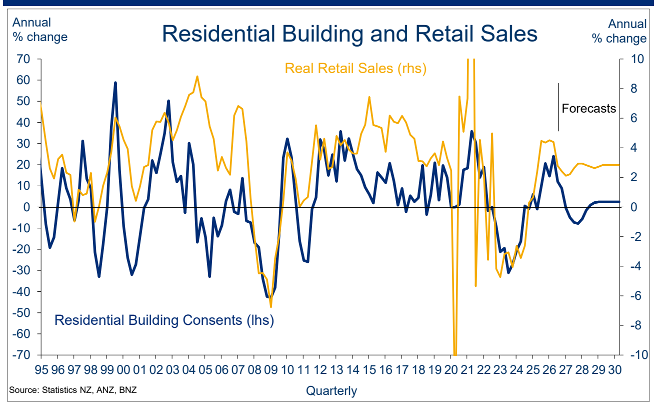


Rising tourism numbers were reflected in the industry detail. Accommodation, cafes, and restaurants rose 6.1% q/q, to be up 10.7% y/y. We doubt this growth has been uniform across the country, with tourism growth likely a key part of the double-digit sales value growth in Otago.

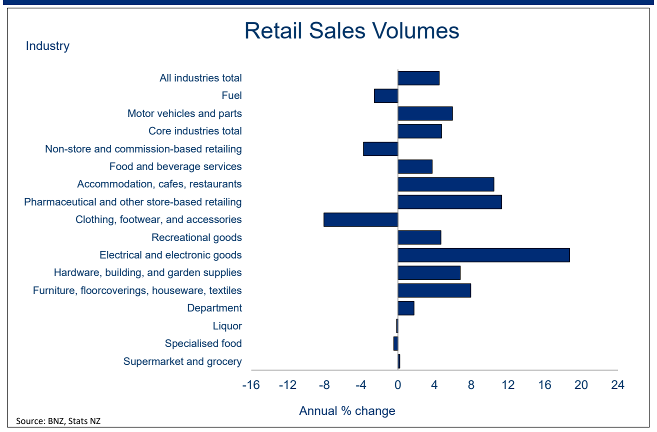
More people are likely also part of sales growth, with an uptick in net migration underway. Population and tourism expansion will have supported the 1.7% q/q lift in supermarket and grocery volumes.

A strong pickup in residential building consents and signs of more building activity in Q1 look consistent with a sales pick up in house-related items like hardware, building, and garden supplies along with furniture and floorcoverings. Electrical and electronic sales volumes rose further in Q1 to be up a very strong 18.4% y/y.

Building pickup supportive



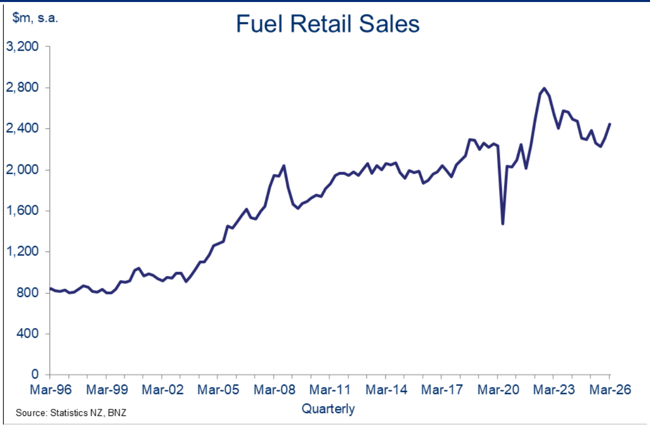
IT spending boom



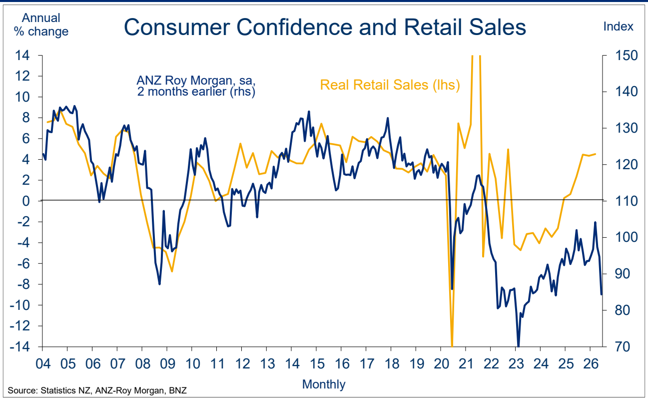
The dollar value of fuel sales rose 5.9% q/q in Q1, largely driven by price. The sharp increase in fuel prices post the start of the war in the Middle East is likely to show up much more in Q2.

This is one factor prompting us to forecast slower retail sales growth ahead. As more income is redirected to pay high fuel bills, it will leave less money to spend elsewhere. High fuel prices have hit consumer confidence. A soft labour market and flat house prices are other reasons for subdued growth ahead. There are already signs of spending coming under pressure with dips in electronic card transactions in April. And interest rates have already lifted off their lows with average mortgage rates paid close to becoming a headwind rather than a spending tailwind.

Turning up



Q2 warning



There are also spending supports. Export returns remain strong, driven by the primary sector. Tourism growth may slow but airlines are still talking positively about inbound traffic ahead. And net migration is expected to continue pushing higher which will support activity.

Finally, we note that retailers' inventory in Q1 was above year earlier levels for the first time in two and half years. Not by much and it is in value terms so we wouldn't overstate the case. And a chunk of it reflects higher valued fuel, but not all of it.

It is always difficult to interpret movement in inventory. The apparent lift might partly reflect retailer's prior expectations of demand improvement ahead. There seemed to be some genuine optimism on the way forward at the start of the year. However, it might also reflect sales disappointing by quarter's end. There is a risk the latter continues into Q2.

It is worth keeping an eye on inventory levels more broadly. Near term positive growth contributions can turn negative down the track.

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