RESEARCH

ECONOMY WATCH

23 November 2017

bnz

When the Little Things Mean So Much

- **0.2% gain in Q3 retail effectively huge**
- **As it builds on Q2's sporting fillips**
- **But be careful in interpreting the regional data**
- **Retail inflation shaking its negativity**
- **Fiscal injection to households still to come**

Retail Trade

Q3 (volume) %	Actual	Mkt Expected	Q2
quarterly	**+0.2**	+0.1	**+1.8R**
- ex-auto	**+0.5**		**+1.9R**
annual	**+4.5**		**+5.4R**
- ex-auto	**+4.6**		**+4.7R**

Based on seasonally adjusted data

Statistics NZ this morning reported a 0.2% increase in September quarter retail trade volumes. At first blush this does not sound impressive, one little bit. But really it was, considering it followed a 1.8% jump in June quarter spending that was demonstrably boosted by New Zealand's hosting of some major sporting events.

While the Q3 retail outcome was close to market expectations (+0.1%) it obviously held up far better than we thought. We were looking for a volume decline of 1.0%. So we have some explaining to do. As it transpired, nominal expenditure growth was stronger than we had figured on from the monthly trends in electronic card transactions, as well as assumptions we made about cash spending by visiting sporting fans.

Importantly, it wasn't a case of retail volumes coming in better because the retail deflator grossly undershot our expectations. The latter was about flat for Q3. This was close to what we were thinking, on the basis of the CPI components we knew about beforehand. The annual rate of inflation in the retail deflator was 1.2% in Q3. This maintained a positive run this year, after it tended to run negatively over the prior few years. This "recovery "in retail inflation will be reinforced by the further moderation we've seen in the exchange rate over recent months.

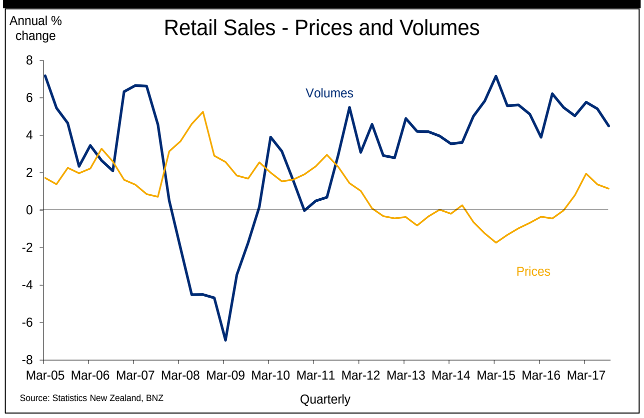
While we got the real retail outcome wrong for the September quarter as a whole, the principal stories we highlighted in advance of it were largely borne out in the data. For example, there was a 4.4% fall in accommodation services, after a 5.3% jump in Q2. Food and beverage sales dropped 3.1%, after surging 4.3% in Q2. These results accord with the idea of a hangover from the Lions' rugby tour (predominantly June) and the World Masters Games, which Auckland hosted in April.

There was also a moderation in auto sales in Q3, which was in line with our thinking.

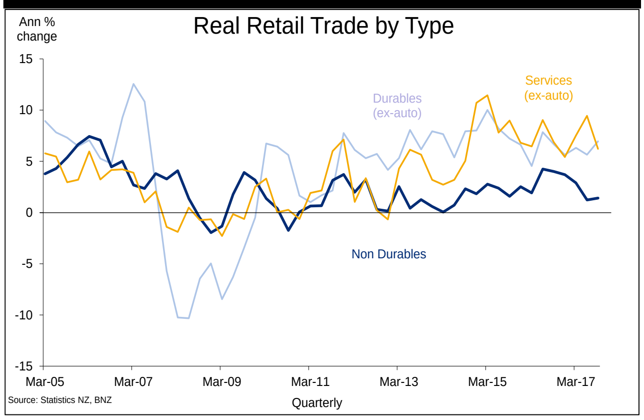
However, the corrective moves in these hospitality and auto components were obviously offset by strong positivity elsewhere. Electronic goods, for instance, experienced a volume lift of 5.1% in Q3 (to be a staggering 17.3% up on a year ago). With this we double-checked when the new iPhone was available for sale, but to be assured that it wasn't until later in October.

Clothing and footwear also surprised us with its strength in Q3. It jumped 4.2% in inflation-adjusted terms, for an annual lift of 8.0%. Liquor sales did likewise, with a 3.4% increase, taking their annual rate of increase to 12.3%,

Robust, As Well



Services Strong



from 8.9% in Q2. These are massive numbers, even after accounting for still relatively rapid population growth.

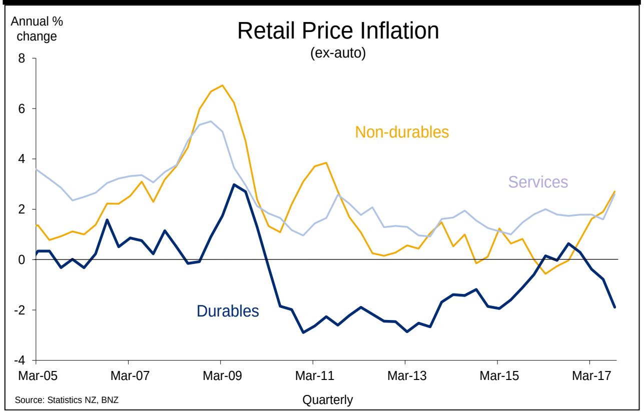
But delving into the retail details, we also need to be a bit careful about some of it. This is because Statistics NZ has just moved to a new survey methodology; one more reliant of tax data in place of surveying small retailers. While this isn't an issue for interpreting most of the series, we note that the regional data, for example, appear to have some shifts in them, coinciding with when the new survey data start. This makes annual growth metrics, for example, difficult to make sense of.

Of course, our overarching message, going into this morning's retail trade report, was that NZ consumer spending remains in relatively good heart. We were just worried that Q2 retail trade wasn't going to look that good, on technical/timing grounds. But, in the event, that was barrelled through as any issue.

To be sure, technically speaking, today's retail data gives us a bonus regarding Q3 GDP computations. But this is more to shore up the 0.7% we still expect on that account, rather than pushing it above that for now. We are still a little nervous about Q3 GDP growth being up to scratch.

For the most part, however, we maintain our upbeat base view on consumer spending – and why not? Consumer confidence, while off a bit in November, remains the right side of average (according to last week's ANZ Roy Morgan index). While housing turnover is weak, prices remain relatively high (and rising again?), as last week's REINZ data showed. Net inward migration remains exceptionally

Core Strength



high, albeit not as lofty as it was some months ago. Most fundamentally, the labour market is pumping – with strong jobs growth and steady wage gains.

We will of course keep an eye on these pointers to retail trade. But for the meantime they remain encouraging.

And thinking more broadly, there is the fiscal injection to look to next year. Sure, the National Party's tax cuts, which are scheduled to occur 1 April 2018, will be revoked by the new government. But in their place will be a different package to boost household incomes, of a nearly-similar size – albeit one that is more targeted, and, for the most part, due to arrive a bit later, on 1 July 2018.

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