

23 November 2021



## Retail Spending: Less Down, Less Up

- Retail trade volumes contract “just” 8.1% in Q3
- Albeit Auckland’s lockdown clear with 15% drop
- Along with predictably stark store-type variation
- Retail inventory still low, but perhaps recovering
- Mixed messages for key festive-period spending
- Nothing to stop the RBNZ reducing stimulus

| Retail Trade  |        |              |       |
|---------------|--------|--------------|-------|
| Q3 (volume) % | Actual | Mkt Expected | Q2    |
| quarterly     | -8.1   | -10.5        | +3.3  |
| - ex-auto     | -6.7   |              | +3.4  |
| annual        | -5.2   |              | +33.3 |
| - ex-auto     | -3.2   |              | +30.2 |

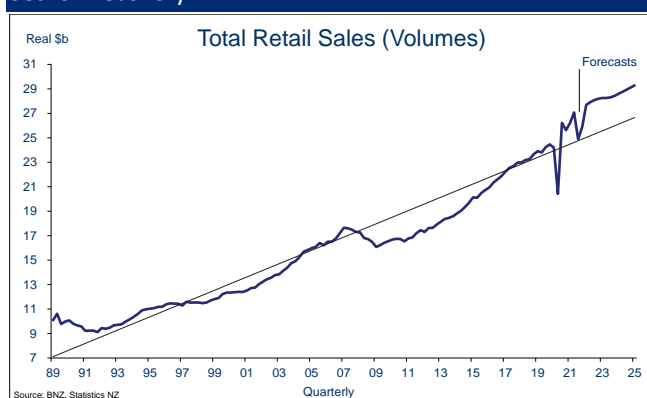
The 8.1% fall in September quarter retail trade wasn’t quite as much as we (and the market) anticipated. However, its details didn’t perturb our view on matters macroeconomic, even alter our estimate for Q3 GDP, which remains for a decline of around 7%.

To be sure, spending has been scrunched harder by the latest lockdowns than the 8.1% portrays. Arithmetically, the second half of Q3 must have dropped far more than that, considering the first half of quarter was ostensibly not in lockdown.

Even so, it’s clear that retail trade is tracing a much less aggravated down-up pattern than occurred during last year’s first battle with COVID-19. Back in 2020, retail trade jumped 28% in real terms in Q3, after dropping 16% in Q2 on account of level 4/3 restrictions. This year we are looking for the rebound to be about 4% in Q4 and 7% in Q1. Gentler and more spread out.

To gauge the ballpark accuracy of this, we will stay attuned to the various weekly and monthly indicators (including the BNZ card data).

### Set for Recovery



In doing so, the data coming out of Auckland will be of prime importance, as the region works its way more surely out of its COVID-related lockdown.

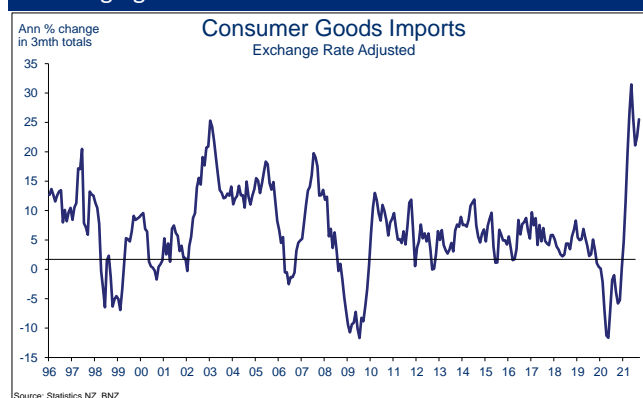
Auckland demonstrably bore the brunt of the latest tranche of lockdowns – which began around mid-August for the entire country but persisted only for Auckland in severity and through time. Retail spending in the “big smoke” fell 15% in Q3, in seasonally adjusted nominal terms. By comparison, Canterbury’s declined 1.5% and Wellington’s retail expenditure eased 2.1%.

The variation in store-types also made sense, in the context of the lockdowns that took effect through the quarter. Department stores, for example, experienced a volume drop of 24%, while food and beverage premises recorded a 19% dip. At the other end of the spectrum, supermarkets registered an 8% jump in real retail spend.

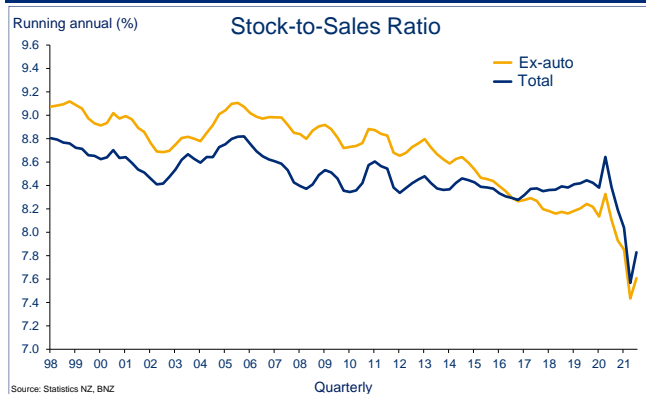
For the record, spending dropped 12% for motor vehicles (consistent with trending-lower registrations) and retreated 16% at fuel stores. This left the ex-auto measure of retail trade declining 6.7%, in inflation-adjusted terms.

Inventory is another interesting aspect of retail at present. We mention this with numerous indications that stock continues to run extremely low in the sector. The NZIER Quarterly Survey of Business Opinion made this clear. Today’s retail report affirmed relatively low inventory relative to sales – as much as annual averaging can ever represent, that is. Embedded in this smoothed measure, however, were tentative signs that stocks were coming back from the brink. Recently strong trends in imports of consumption goods certainly offered encouragement on this score.

### Encouraging



## Back from the Brink?



Still, even if inventory is replenishing, it's very hard to know how retail trading will go over the festive period – a crucial time for many merchants.

Abundant employment and strong pay rises provide a lot of fundamental support for household spending, while

savings accumulated during lockdown are primed for deployment, as restrictions effectively ease for the country, and most notably for Auckland, from early December.

However, at the same time, rising prices are rapidly eroding purchasing power. Related to this, consumer confidence is wavering, interest rates are on the up, the housing market is under threat, while attitudes to buying big-ticket items are depressed.

Our base case is that the economy bounces back enough, from a severely restricted Q3, to keep a lot of pressure on inflation and, with this, the RBNZ paring back its monetary stimulus. Still, through the likely noise of the holiday spending, it will be important to get bearings on underlying economic trends, to see which way they might be bursting.

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