

24 August 2021



## Consumers Taking Excess into Hibernation

- Retail trade surges a further 3.3% in Q2
- Querying RBNZ view consumption dipped 2.0%
- More suggestion of greater excess demand
- Consumer confidence a guide through choppy waters
- RBNZ still expecting house price gains?

Consumer spending between now and the end of the year is, for obvious reasons, very difficult to predict. What we can say, with reasonable confidence, is that spending will largely bounce back from whatever restraint it encounters near term. We learnt this from prior “lockdowns”. The all-important fiscal support is certainly here again, swiftly, to help support incomes through the latest turbulence.

What we are most sure about, however, is that the economy was running very strong going into the mid-August news of another community outbreak of COVID-19 in New Zealand.

This morning’s retail trade figures were further evidence of this momentum. Covering the June quarter, they expanded 3.3% in real terms. This was a hefty result, and especially following an upwardly revised gain of 2.8% for Q1 (initially reported as 2.5%).

The quarterly lift in ex-auto terms was 3.4%, following a 3.5% jump in Q1. Within this, there were strong gains in most categories, although results were distinctly mixed in supermarkets, specialty food and liquor. For the record, expenditure on vehicles expanded 3.1% in real terms and 1.8% with respect to fuel stores.

The Q2 retail trade result was even stronger than the market’s expected increase of 2.5%. We were in line with the market.

Yes, the electronic card transactions (ECT) data through the June quarter pointed to something bigger than we anticipated. However, the ECT also significantly under-predicted the Q1 retail outcome so we were wary of some payback in Q2. Payback there was in Q2, but it was relatively minor. End result; yet another sizable gain in New Zealand’s quarterly retail trade.

Of course, citing the one-third growth in real retail trade compared to Q2 of 2020 is a bit pointless, given the lockdown in that quarter last year. However, if we compare Q2 2021 to Q2 2019 then a 14% lift is in evidence.

Retail Trade			
Q2 (volume) %	Actual	Mkt Expected	Q1
quarterly	+3.3	+2.5	+2.8R
- ex-auto	+3.4		+3.5R
annual	+33.3		+6.6R
- ex-auto	+30.2		+5.4R

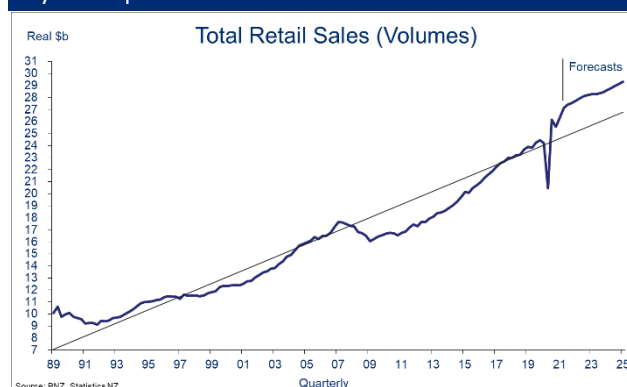
A rebound, and then some. This reinforces the notion that demand was even stronger than many people appreciated, going into this latest COVID-19 lockdown.

The RBNZ doesn’t explicitly forecast retail trade. That said, it did estimate a 2% fall in private consumption in Q2 (as per the GDP accounts) in its August Monetary Policy Statement. Today’s retail trade figures seriously question that assumption.

We don’t know why the Bank took such a soft view on this. While private consumption and retail trade can have a wedge via tourism expenditure, we know the latter has already withered as a force, on both sides of the accounts. Yes, there was the opened trans-Tasman travel bubble to note during Q2 2021. But this did not induce a lot of net tourist spending in New Zealand by the look of the short-term arrival statistics. Certainly nothing to justify the Q2 retail trade gain.

Maybe the RBNZ simply looked at the 5.4% jump in Q1 private consumption (which “shocked” GDP up 1.6%) and decided there was something odd or unsustainable in it. This is an understandable reaction to such a big number. However, even if Q2 retail trade is over-estimating consumption for the quarter, we doubt it affords the view

### Beyond Expectations



of a decline, let alone one as much as 2.0%. And especially not when Q2 employment and wage growth was as strong as it was.

This is important because it creates another likelihood of GDP beating RBNZ expectations, by a material margin – in this case Q2 2021. The Bank estimated a 0.6% advance. We think something pushing 1.0%. And this is likely to be driven by an outcome for private consumption with a relatively bigger upside margin to RBNZ expectations. This would only amplify the sense of greater excess demand having formed in the economy.

And it's not just the Q2 retail trade figures that we now know as strong. We already knew that the momentum in the monthly electronic card transactions carried on into July, with a 0.9% increase.

Of course, consumer spending has since been seriously compromised by New Zealand moving into level 4 COVID restriction late Tuesday 17 August. And we can't pretend to forecast our way out of this, until we get some clearer line of sight of the restriction levels to come, and when. The regional aspect to these will also be important, given Auckland is the epicentre of this latest outbreak of COVID-19.

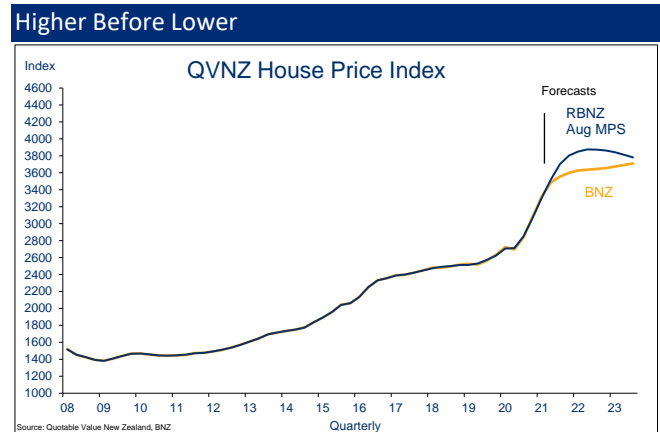
At times like these, economic confidence measures can be useful touchstones. In this vein, we get the latest ANZ Roy Morgan consumer confidence report on Friday. Pertaining to August, we figure a good proportion of the responses came in after the news of COVID-19 in the community. But information on the split will certainly be helpful. The survey's details on inflation and house price expectations will also be instructive.

Apart from fiscal support (like the reinstated Wage Subsidy), the housing market has certainly provided an enduring stimulus to retail spending. We saw further

indication of this in today's figures with the likes of furniture and floorcoverings up 4.8% and hardware stores 2.6% higher in sales volumes.

To be sure, and notwithstanding this latest COVID-19 outbreak, the RBNZ has described house prices as being above their sustainable level. But while the Bank did forecast house price falls in its August MPS, these didn't begin until later next year. For the meantime, the Bank projected house price gains – of around 10% over the coming 12 months.

Robustness in the housing market, along with a very strong labour market, are some of the many things promising to sustain strength in consumer spending, albeit that evidence of this will be clouded by the nearer-term, higher-frequency, spending indicators. But as the economy emerges out of lockdown it will likely be back into a situation of strong demand relative to compromised supply. That's still inflationary.



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