

Retail Sales: November 2007

Key points

- > Retail spending rebounded strongly in November, after the softness recorded in October.
- > While strength was dominated by spending on groceries and petrol (due to price effects), we cannot say the overall rebound in the month was entirely price driven given strong increases in vehicle sales.
- > Looking at the broad trend, today's strong result needs to be put in perspective following weakness in October. The trend remains subdued, but the consumer is far from buckling.
- > We doubt today's data changes the economic backdrop significantly. Retailing is showing resilience, although consumers are facing a material price squeeze when it comes to their disposable incomes.

Assessment

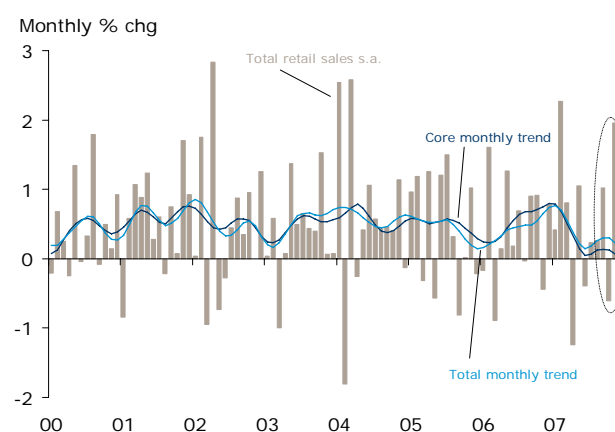
Retail spending rebounded strongly in November. Total retail sales rose 2.0 percent in November compared with a 0.6 percent fall in October. Excluding motor vehicle-related industries, "core" spending rose 0.9 percent after a 1.0 percent fall in October. Both results were significantly stronger than market expectations. As we suspected (although the magnitudes were stronger than expected), the monthly strength was dominated by spending on groceries and petrol. Supermarket and grocery store retailing rose \$18 million over the month and automotive fuel retailing rose \$49 million – partly as a result of recent price increases. Collectively these two "price effects" accounted for 75 percent of the rise in total sales. However, motor vehicle retailing was also strong in the month (up \$30 million) so the strength is not entirely price driven. Seasonally adjusted sales rose in all regions across the country compared with October. The only exception was the "remainder of the South Island" region, where sales fell slightly.

Today's surge in spending needs to be put in some perspective given the softness recorded in October. Along with this is the fact that the strength over the month was largely dominated by a small number of industries. Durables ex vehicles – an area most exposed to the impact of higher interest rates – were relatively flat over the month. Three-month average percent changes for durables, discretionary and non-discretionary spending remain flat, with only fuel rising strongly.

The trend for spending remains flat. We are always cautious about placing too much weight on trend measures as they can be subject to endpoint problems, but the monthly core trend measure has been growing at 0.1 percent for the past five months. Part of this can be explained by strong base effect – with spending phenomenally strong over the early part of 2007. Looking forward, the retail sector is shaping up as a key litmus test of contrasting influences on the economic cycle, namely weak housing versus stimulus from tax cuts and the dairy sector.

	Core Retail Sales (% change)		Total Retail Sales (% change)	
	nominal m/m	Trend	nominal m/m	Trend
May-07	0.6	0.1	1.1	0.2
Jun-07	-0.5	0	-0.4	0.1
Jul-07	0.1	0.1	0.2	0.2
Aug-07	0.8	0.1	0.3	0.3
Sep-07	0.4	0.1	1.0	0.3
Oct-07	-1.0	0.1	-0.6	0.3
Nov-07	0.9	0.1	2.0	0.2
ANZ	0.5	-	0.7	-
Market	0.6	-	0.7	-

Retail sales trends



Sources: ANZ National, Statistics NZ

Implications

We doubt today's data changes the economic picture significantly. Retailing is showing a degree of resilience at a time when the RBNZ wants housing market weakness to flow through. However, consumers are facing a material price squeeze when it comes to their disposable income due to recent price increases in core staples.

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ANZ, Level 7, 1 Victoria Street, Wellington 6011, New Zealand Phone 64-4-802 2000 Fax 64-4-496 8639
<http://www.anz.com/nz> e-mail ecnmcs@anz.com