

Retail Sales: July 2008

Key points

- > Retail spending was weak in July, with both headline and core sales falling.
- > This represents a poor start to Q3 GDP and we have another negative pencilled in.
- > There are limited signs of stabilisation in retailing, although lower interest rates and tax cuts will eventually provide support.
- > The big picture for retailing remains one of challenges as households de-leverage, a theme we expect to dominate other support factors.

Assessment

Retail spending remains soft. Headline nominal sales fell 0.8 percent in July, following a 1.0 percent increase in June. Core sales – which exclude motor vehicle related sectors – were also weak, down 0.2 percent. A 5.3 percent fall in motor vehicle retailing (which has been incredibly volatile of late) made the biggest contribution to the weakness in the month, although a 2.0 percent decline in supermarket and grocery sales also made a large contribution. The fall in the latter comes as somewhat of a surprise given the increases seen in food prices. It may well be that changes in the mix of supermarket spending, given the wide range of goods on offer is also having an influence. Statistics NZ report that the trend in supermarket spending has been falling since March this year and given that most food products are thought of as necessities, switching could be occurring.

Some discretionary components rebounded, but ex-food and petrol spending is still weak.

Department store, clothing and footwear and appliance retailing rose 9.0, 5.9 and 2.3 percent respectively in the month. It will be interesting to see if this is a response to the heavy discounting occurring in these durable goods, but of course monthly data is very volatile. Nevertheless excluding food and fuel, retailing continues to head backwards and it remains a case of price increases for core staples eating into spending on discretionary items.

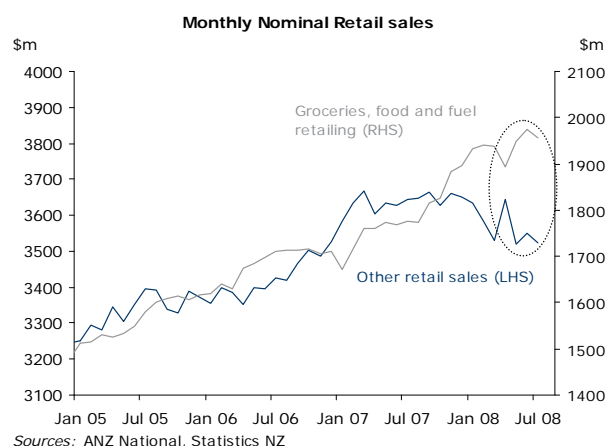
Regionally, there is a north-south dynamic at play.

Sales in all regions of the North Island fell over July, while the reverse was the case for the South Island. Auckland sales fell 1.8 percent in July and the region remains the weakest on a trend basis, which is consistent with anecdotes.

We suspect the trough in retail spending is close, but not quite at hand. This is not to say we are expecting a strong rebound either though.

While lower interest rates and prospective tax cuts will help support spending, our big picture view continues to centre on an elongated period of household de-leveraging, particularly with house prices under pressure. Such an outcome is necessary if we are to see domestic inflation recede and the current account deficit improve.

	Core Retail Sales (% change)		Total Retail Sales (% change)	
	nominal m/m	Trend m/m	nominal m/m	Trend m/m
Jan-08	0.5	0.2	0.3	0.0
Feb-08	0.1	0.2	-0.7	-0.1
Mar-08	-0.4	0.2	-1.0	-0.2
Apr-08	-0.2	0.1	1.3	-0.1
May-08	0.5	0.1	-1.3	-0.1
Jun-08	0.2	0.1	1.0	-0.1
Jul-08	-0.2	0.0	-0.8	0.0
ANZ	0.6	-	0.3	-
Market	0.2	-	-0.3	-



Implications

This data has limited implications for monetary policy. A weak domestic economy (retailing and housing) is in many ways yesterday's news. Certainly, it confirms that at this stage Q3 GDP looks weak as well. Our focus is now primarily on wider global developments.

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