

Retail Sales: April 2008

Key points

- > **Headline retail spending rebounds in April, but underlying spending very weak.**
- > **The composition looks odd given movements in prices. However, stripping out monthly volatility, the theme remains one of rising spending on core staples and less spending on discretionary items.**
- > **Q1 GDP is likely to be negative. We are biased towards the same for Q2.**

Assessment

Headline retail sales rebound in April, but core sales particularly weak. Total nominal retail sales rose by 1.0 in April, following a 1.2 percent fall in March. Core sales – which strip out motor vehicle-related industries – fell 0.5 percent and are only up 2.1 percent compared to a year ago. The sharp fall in retail sales in March, and the subsequent rebound in April, was due to the early timing of Easter this year (which led to less trading days in March and more in April). However, the fact that core retail sales not only failed to rebound, but continued to fall in April suggests more underlying weakness in consumer spending than first thought..

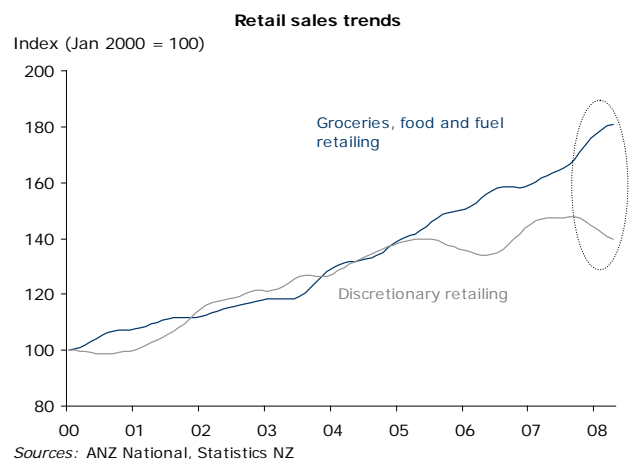
The composition of sales was a little odd. A large 8.1 percent (\$51 million) surge in motor vehicle retailing drove the strength in headline sales over the month. We were a little surprised to see petrol retailing fall 2.2 percent given that petrol prices rose by over 3 percent in April. Perhaps we are seeing a demand response to the high prices? For core spending, the majority of the fall was driven by a 3.6 percent fall in supermarket and grocery store retailing. This is also a little surprising and could possibly rebound in May. However, stepping back and abstracting from monthly volatility, we continue to see a picture of rising spending on staples (price driven) and less spending on discretionary items. The trend measures for most durables components, such as hardware, appliance, and motor vehicle retailing have been falling for some time.

On a regional basis, Canterbury recorded the highest increase in spending in April, up \$46 million, followed by a \$34 million rise in Auckland and a \$23 million increase in Wellington. Other regions across the country recorded falls in spending over the month. On a trend basis, the big bellwether Auckland region has been experiencing falling sales since the start of the year, as has Waikato (surprising given its exposure to dairy).

The outlook for the retail sector is unchanged in that the sector will face a number of challenges over the coming 12-18 months. We don't have to remind people of how household discretionary incomes are being squeezed by food and petrol price increases and

how a weak housing market is yet to find a floor. With the labour market also now turning, less job security will also weigh on consumer spending decisions.

	Core Retail Sales (% change)		Total Retail Sales (% change)	
	nominal m/m	Trend	nominal m/m	Trend
Oct-07	-1.0	0.2	-0.4	0.5
Nov-07	1.0	0.2	1.8	0.5
Dec-07	0.3	0.2	0.0	0.3
Jan-08	0.3	0.2	0.2	0.2
Feb-08	0.2	0.2	-0.6	0.1
Mar-08	-0.4	0.2	-1.2	0.1
Apr-08	-0.5	0.2	1.0	0.1
ANZ	0.5	-	0.2	-
Market	0.6	-	0.2	-



Implications

Today's data highlights that the June quarter has got off to a poor start. With Q1 GDP now generally cemented as being negative (given the partial indicators received), the combination of core retailing (negative), housing market statistics (very weak), and business and consumer confidence, leaves us biased towards the same occurring for Q2. Given this environment, the RBNZ easing as soon as July is a real possibility. However, the global inflation backdrop (commodity prices), while beyond the RBNZ's control, remains a sticking point to an early move.

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