# Economic Review

## New Zealand

15 February 2008

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## Retail Sales: December 2007

### Key points

> **Retail spending softened in December, after a strong increase in November. Quarterly volume growth has been flat for three quarters.**

> **The overall picture looks to be one of softness, and price increases eroding purchasing power, but in the context of a huge jump in sales in early 2007.**

> **While consumers are being more circumspect, brace for more of the same in 2008 if inflation pressures are going to subside.**

### Assessment

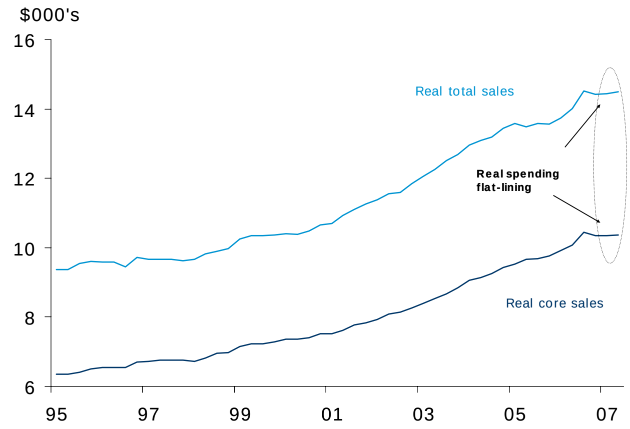
**Retail spending was soft in December.** Total nominal retail sales rose 0.1 percent in December, following a 1.7 percent increase in November. Excluding motor vehicle-related industries, "core" spending rose by a slightly stronger 0.3 percent, after a 0.8 percent increase in November. Automotive fuel retailing made the largest contribution to sales in the month, rising 2.7 percent, despite unchanged petrol prices over December. Department store retailing also made a large contribution to the sales increase, rising 3.1 percent, although this comes after a period of falling sales. All in all, 13 of the 24 surveyed industries recorded increases in sales in December.

**Quarterly volume growth was also soft and stock levels are rising.** Real spending rose by a modest 0.3 percent in Q4, following a 0.2 percent increase over Q3, and a decline in Q2. Core real spending was unchanged over the quarter and has in fact been flat for the past three quarters. However, we are inclined to put the softness in the context of a 3.7 percent surge in volumes in Q1. Looking at stock levels, total retail stocks are currently 4.8 percent above December 2006 levels, with a flat stock to sales ratio. However, stock levels in key durable areas including department stores (up 13.1 percent from a year ago), furniture and floor retailing (up 14.8 percent), and hardware retailing (up 14.2 percent) are up sharply. This may be a sign that businesses were taken by surprise with the softness in demand towards the end of 2007 and have been left with more stock on their shelves. We look for this to be unwound over 2008.

**Today's volume data suggests private consumption growth in the GDP accounts could be reasonably muted.** Looking forward, we expect retail spending to face further headwinds over the coming 12 months. The housing market is weak and falling house prices will remove the wealth effect that has provided phenomenal support to spending in the past. Although income growth remains strong, this is being eaten into by sustained rises in the price of core staples as indicated by a 1.6 percent rise in the retail deflator in the quarter.

| | Core Retail Sales (% change) | | Total Retail Sales (% change) | | |
|---|---|---|---|---|---|
| | nominal m/m | Trend | nominal m/m | Trend | real q/q |
| Jun-07 | -0.5 | 0.1 | -0.4 | 0.1 | -0.7 |
| Jul-07 | 0.1 | 0.1 | 0.2 | 0.2 | - |
| Aug-07 | 0.8 | 0.1 | 0.3 | 0.3 | - |
| Sep-07 | 0.4 | 0.2 | 1.1 | 0.5 | 0.2 |
| Oct-07 | -1.0 | 0.2 | -0.4 | 0.5 | |
| Nov-07 | 0.8 | 0.1 | 1.7 | 0.5 | |
| **Dec-07** | **0.3** | **0.2** | **0.1** | **0.6** | **0.3** |
| | | | | | |
| ***ANZ*** | **0.4** | **-** | **-0.3** | **-** | **0.3** |
| ***Market*** | **-** | **-** | **0.2** | **-** | **0.5** |

**Real retail sales flat-lining**




*Sources:* ANZ National, Statistics NZ

### Implications

**On balance, today's retail sales data confirms that consumer spending is more restrained**, but in the context of price rises eating into disposable incomes, and a leap in sales in early 2007. Retail employment continued to surge in 2007 against the flat-lining sales background. Given recent softness, and our expectations of an easing trend into 2008, retail employment may well be a key initial test of whether the labour market will remain robust as the housing slowdown broadens.

## Disclaimer



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