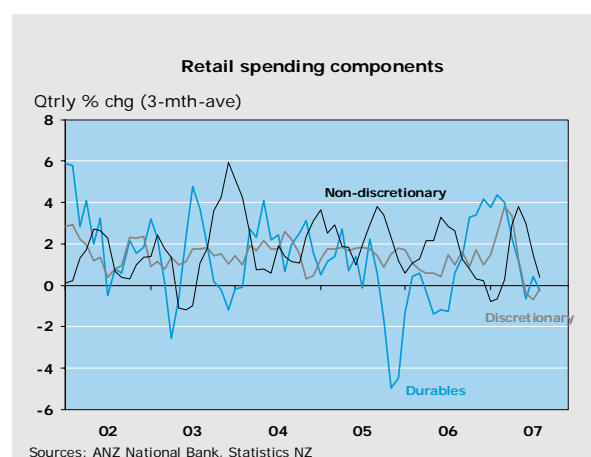


RETAIL SALES - AUGUST

Key points

- Core retail sales rebounded in August, although headline sales growth was more modest.
- This suggests the New Zealand consumer is not down and out, although the underlying trend remains one of softness, a theme we expect to extend.
- The market reaction to today's results (pop up in the currency and sell-off in rates) suggests some heightened sensitivity regarding the path for interest rates, and in particular the potential for a strong print in non-tradable inflation next week.

	Core Retail Sales (% change)		Total Retail Sales (% change)	
	nominal m/m	Trend	nominal m/m	Trend
Feb-07	2.8	0.7	2.3	0.7
Mar-07	0.3	0.5	0.9	0.5
Apr-07	-0.9	0.2	-1.3	0.3
May-07	0.5	0.0	1.0	0.1
Jun-07	-0.5	0.0	-0.4	0.1
Jul-07	-0.1	0.0	0.1	0.1
Aug-07	0.8	0.0	0.2	0.0
ANZ	0.3	-	0.2	-
Market	0.5	-	0.4	-



Assessment and implications

Core retail sales rebounded in August, and came in above market expectations. Core sales (which exclude motor vehicle-related industries) grew by 0.8 percent in August, after falling 0.5 percent and 0.1 percent in June and July, respectively. Headline sales growth was more modest at 0.2 percent, although still above July's growth of 0.1 percent. Compositional changes made by Statistics New Zealand resulted in a drop in food retailing sales. We estimate that core retail sales growth would have been slightly stronger at 0.9 percent for the month in the absence of this change. However, the increase in sales in the month looks to have been dominated by a small number of industries. Two thirds of the 24 industries surveyed had sales increases or decreases of less than \$3 million. Supermarket and grocery store sales recorded the largest increase in the month (up \$17 million), while café and restaurant sales (up \$10 million) also made a contribution. Automotive fuel retailing (down \$14.4 million) experienced the biggest decline in the month.

Today's data suggests the consumer is not down and out, although the trend remains one of moderation. After two soft months, consumer spending rebounded in August. Higher mortgage rates are now undoubtedly weighing on pockets of the household sector and durable-related spending. However, there remain some key legs of support that will continue to underpin consumer spending, namely a still tight labour market and surging commodity prices, and will ensure that any potential easing in consumer spending remains one of moderation rather than collapse. When looking through the monthly volatility, it does appear that this moderation is developing. Monthly trend growth measures have effectively been flat over the past four months. We do expect consumer spending to continue to moderate over the coming months in line with a turn in the housing market and easing net migration.

The market looks to be on edge. Perhaps the biggest surprise to today's numbers has been the market reaction. The 2-year swap rose 3 basis points and the NZD rose 13 pips on the release of the core numbers – both reasonably significant reactions to monthly figures that can be very volatile. This suggests some heightened sensitivity regarding the path for interest rates, and in particular the potential for a strong print for non-tradable inflation next week.

We do not believe there is anything in today's data to alter the Reserve Bank's prognosis. The underlying trend remains one of moderation, in line with the slowing in housing market activity. However, clearly, inflation risks remain the top priority.

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