

### Retail Sales: June 2008

#### Key points

- > **Contraction in retail sales volume confirms consumer recession.**
- > **Better than expected monthly sales boosted by rebound in car sales and higher petrol prices.**
- > **Lower interest rates, falling petrol prices and tax cuts to provide households with some relief, but any rebound in retail spending likely to be muted initially.**
- > **Today's data suggests strong likelihood that GDP contracted for the second consecutive quarter.**

#### Assessment

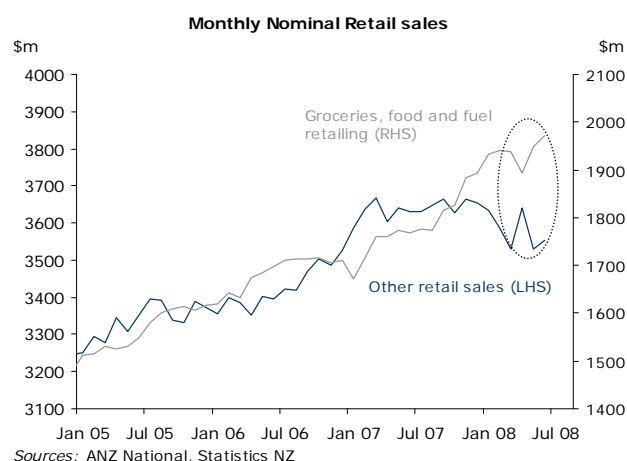
##### Today's retail sales data confirmed that we had a consumer recession in the first half of this year.

Retail volumes contracted for the second consecutive quarter, down 1.5 percent following the 1.2 percent fall in Q1. This is the first time that retail sales volumes went backwards for two quarters in a row since the early 1990s. There were no surprises in the industry breakdown. The big volume declines occurred in supermarket and groceries (-3.7 percent), cars retailing (-4.8 percent) and fuel retailing (-4.2%).

##### Monthly nominal sales data better than expected.

Credit card and electronic card transaction data (as well as anecdotes) were alluding to a weak June retail sales print. As it turned out, it wasn't as bad as the market (or we) had thought. Headline sales for the month rose 0.9 percent, though this was boosted by a 5.2 percent rebound in car sales and a 2.5 percent increase in fuel sales. Given that petrol prices rose 7.2 percent in the month, this suggests quite a volume response to high prices. The rebound in car sales was not surprising given the large 14.6 percent decline in the previous month. We are not reading this as the start of a comeback for durables spending. We note that car registrations fell 7.5 percent in July, so we can expect the June car sales strength to unwind.

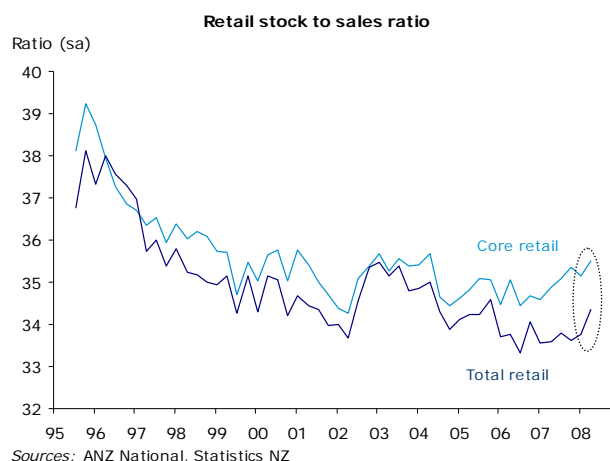
But even excluding car and fuel sales, core retail sales were still better than expectations - coming in flat for the month. Consumers appear to be resilient in the face of the headwinds hitting them. The details were mixed, with very weak spending at department stores (-8.7 percent) and clothing related items (-3.9 percent). Yet, more was spent on other retailing (+6.7 percent) and cafes & restaurants (+3.5 percent). We doubt this is the start of a consumer comeback. Overall, households are still having to spend more on the essentials, leaving less for spending elsewhere. This is reflected in the divergence in groceries, food and fuel retailing versus all others. This trend is expected to persist for a while yet, even with the recent drop in petrol prices.



**We expect a pickup in retail volumes in Q3, largely on the back of discounting.** Retailers appear to have been caught out by the drop in demand, leading to a sharp rise in the stock to sales ratio in the quarter. Anecdotally, we are seeing and hearing of very aggressive discounting across the retail sector in an effort to shift stock. While the discounting was not entirely evident in the Q2 CPI numbers, we suspect it will show up clearly in the Q3 numbers. While the discounting will keep nominal monthly sales fairly muted over the coming months, we should get a volume rebound in the September quarter. Also helping provide some relief to consumers will be lower interest rates, falling petrol

	Core Retail Sales (% change)		Total Retail Sales (% change)		
	nominal m/m	Trend	nominal m/m	Trend	real q/q
Dec-07	0.2	0.2	0.0	0.3	0.2
Jan-08	0.5	0.2	0.3	0	
Feb-08	0.1	0.2	-0.7	-0.1	
Mar-08	-0.4	0.1	-1.1	-0.2	-1.2
Apr-08	-0.2	0.1	1.2	-0.1	
May-08	0.8	0.1	-1.1	-0.1	
<b>Jun-08</b>	<b>0.0</b>	<b>0.1</b>	<b>0.9</b>	<b>-0.1</b>	<b>-1.5</b>
<b>ANZ</b>	<b>-1.0</b>	<b>-</b>	<b>-0.1</b>	<b>-</b>	<b>-2.0</b>
<b>Market</b>	<b>-0.8</b>	<b>-</b>	<b>+0.1</b>	<b>-</b>	<b>-1.6</b>

prices and tax cuts. But while we expect to see some recovery in retail sales in the coming months, we suspect the rebound will likely be muted initially.



**Today's retail sales data points to the strong likelihood that Q2 GDP will be negative.** Private consumption looks set to contract again, and work put in place data due early next month will show that residential and commercial investment also similarly contracted.

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- Associate Member of Investment Savings & Insurance Association of NZ;
- Financial Markets Operations Association; and
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- A principal officer of a body corporate when that body corporate committed any of the offences or crimes involving dishonesty as described above;
- Adjudicated bankrupt;

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## Implications

**On balance, there are no real surprises in today's report.** Reaction in the currency and rates markets was muted. The RBNZ easing cycle remains on track, and we expect the Bank to cut the OCR at each meeting for the rest of this year. We will continue to monitor consumer confidence for early signs of any recovery in spending.



- Prohibited by an Act or by a court from taking part in the management of a company or a business;
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- Expelled from or has been prohibited from being a member of a professional body; or
- Placed in statutory management or receivership.

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- Equity securities such as listed and unlisted shares;
- New Zealand and overseas unit trusts;
- Share in a limited partnership;
- Superannuation schemes and bonds;
- Group investment funds;
- Life insurance products;
- Derivative products including interest rate and currency forward rate contracts and options; and
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If you wish to pay investment money to the Bank you can do this in several ways such as by:

- Providing cash;
- Providing a cheque payable to the relevant product or service provider and crossed 'not transferable'; or
- Making an automatic payment or payment through another electronic delivery mechanism operated by the Bank.

Investment property (other than money) may be delivered to the Bank by lodging the relevant property (for example, share certificates) with any branch of the Bank offering a safe custody service, or by posting (using registered post) the documents or other property to a branch of the Bank, identifying your name, account number and investment purpose.

Any investment money lodged with the Bank for the purchase of securities offered by the Bank, its subsidiaries or any third parties will be deposited in accordance with your instructions, to your nominated account or investment. Such money will be held by the Bank according to usual banking terms and conditions applying to that account or the particular terms and conditions relating to the investment and will not be held by the Bank on trust unless explicitly accepted by the Bank on those terms. Any investment money or property accepted by the Bank on trust will be so held until disbursed in accordance with your instructions. Any investment property lodged with the Bank will be held by the Bank as bailee according to the Bank's standard terms and conditions for holding your property.

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The Bank will keep adequate records of the deposit of investment moneys or property and all withdrawals and dealings with such money or property, using the account/investment number allocated to your investment. You may have access to those records upon request.

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