

RETAIL SALES – APRIL 2007

Key points

- Total retail sales fell 1.2 percent in April, while core sales fell 0.9 percent, both weaker than market expectations.
- On the face of it it appears an early indication of softening activity.
- However, today's decline does need to be put in perspective. It follows surprisingly strong monthly increases in February and March. Annual growth is still elevated at 7.4 percent.
- The Reserve Bank will take some comfort that consumer spending has not accelerated further, although will acknowledge that it is far too early to be confident that this will be sustained.
- We continue to expect the Reserve Bank to remain a watchful on-hold stance.

| | Core Retail Sales (monthly % change) | | Total Retail Sales (monthly % change) | |
|---------------|---|------------|--|------------|
| | s.a. | Trend | s.a. | Trend |
| Oct-06 | 0.3 | 0.7 | 0.5 | 0.5 |
| Nov-06 | -0.1 | 0.8 | -0.1 | 0.6 |
| Dec-06 | 0.2 | 0.8 | 0.8 | 0.7 |
| Jan-07 | 0.8 | 0.8 | 0.4 | 0.7 |
| Feb-07 | 2.9 | 0.7 | 2.3 | 0.7 |
| Mar-07 | 0.4 | 0.6 | 1.0 | 0.7 |
| Apr-07 | -0.9 | 0.5 | -1.2 | 0.7 |
| ANZ | -0.5 | - | -0.5 | - |
| Market | 0.0 | - | 0.0 | - |



Assessment and implications

Retail sales growth was weaker than expected in April. Total sales fell 1.2 percent in April after increases of 2.3 percent and 1.0 percent in February and March, respectively. Core sales (which exclude motor vehicle related industries) fell by 0.9 percent. Department store retailing was the only industry to record a notable increase in sales in the month (up \$8 million), all other industries either recorded flat sales or falls. Headline retail sales was dragged lower by a large fall in motor vehicle retailing (down \$30 million), as well as falls in accommodation (down \$14 million) and appliance retailing (down \$11 million). On a regional basis, seasonally adjusted sales fell 1.0 percent in the North Island, with Wellington, Waikato, and Auckland the main contributors. South Island sales fell 0.2 percent.

Today's result needs to be put in perspective. On the face of it, today's data is an early indication of softening activity. It fully incorporates the Reserve Bank's interest rate increase in March - the first of three interest rate hikes from the Reserve Bank this year. However, we are coy of reading too much into it just yet. The softness in retail spending in April follows surprisingly strong monthly increases in February and March and therefore likely represents some statistical payback rather than general underlying weakness. Annual retail sales growth remains elevated at 7.4 percent.

The RBNZ will nonetheless likely take some comfort from today's data, although will acknowledge that it is still too early to be confident that it will be sustained. The RBNZ will welcome today's release, as it illustrates that consumer spending has not accelerated further from the strong growth recorded in Q1. They will be encouraged by early signs of softness in some of the durable good components, which are more sensitive to interest rate movements, such as appliance retailing and motor vehicles. However, these areas also showed considerable strength in the early part of the year and do tend to be volatile.

We continue to expect the Reserve Bank to remain in a watchful, on-hold stance. The significant recent tightening in financial conditions is yet to be fully picked up in the dataflow. But we expect this to continue materialising over the coming months, as the impact of the recent tightening in financial conditions progressively impacts on activity.

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