

## RETAIL SALES – JANUARY 2007

### Key points

- Both total and core retail sales growth came in stronger than expected in January.
- Cheaper petrol and post-Christmas promotions gave core-retail sales a boost.
- Although the monthly trend measures show that spending growth has stabilised, the retail sales data suggests that momentum from late 2006 is being sustained into the New Year.
- This will keep the market biased towards a rate hike, though we remain comfortable with a “one-and-done” view.

	Actual	ANZ National	Market
Total Retail Sales	0.5% mom 6.9% yoy	0.2% mom	0.2% mom
Nominal Core Retail Sales	1.0% mom 7.5% yoy	0.8% mom	0.5% mom

	Core Retail Sales (monthly % change)		Total Retail Sales (monthly % change)	
	s.a.	Trend	s.a.	Trend
Jul-06	1.5	0.7	0.6	0.5
Aug-06	-0.3	0.7	0.2	0.5
Sep-06	2.2	0.6	1.1	0.4
Oct-06	0.1	0.5	0.3	0.4
Nov-06	-0.1	0.4	-0.1	0.4
Dec-06	0.0	0.3	0.5	0.4
Jan 07	1.0	0.2	0.5	0.4

### Assessment and implications

**Retail sales growth was stronger than expected in January.** Total sales increased by 0.5 percent, while core sales (which exclude motor vehicle related industries) rose by 1.0 percent. A drop in fuel retailing, associated with lower petrol prices and coupon discounting, dragged the headline number lower. The petrol savings look to have found its way into other spending in January, which together with a shift in emphasis from pre-Christmas to post-Christmas promotions by major department stores helped boost core retail sales. Only half the industries surveyed recording increases in sales in the month, dominated by a large increase in department store sales (up 5.8 percent).

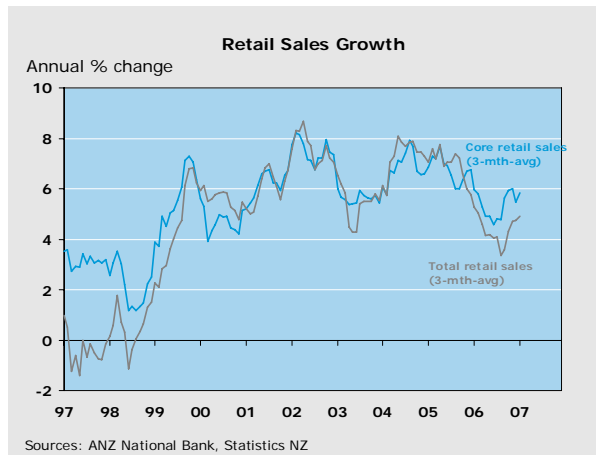
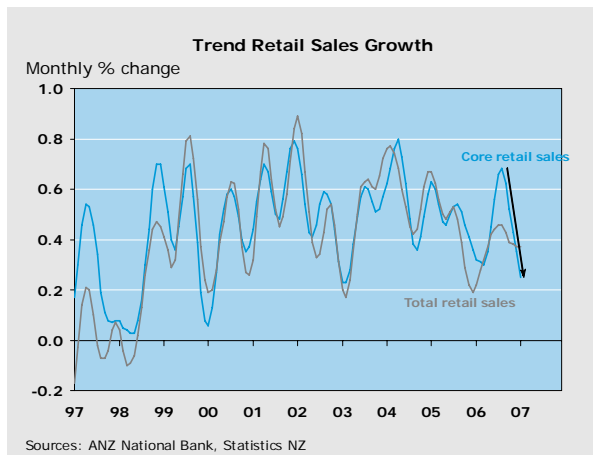
**The robustness in consumer spending is not surprising given the strength in the labour market.** Strong wage growth, high job security and steady net migration inflows will continue to provide support for retail spending. But we note that there is some disparity emerging between retail spending across the regions. The trend in retail sales growth continues to ease in Auckland, while trend retail sales in Wellington have effectively been flat since August 2006. The rural aligned regions show the strongest trend growth rates, with Waikato leading the way with a 1.0 percent increase in January (though this has eased from 1.6 percent in October 2006). High commodity prices are providing some offset to the rural community from the high currency.

**Although the trend in retail sales is not accelerating, the level of activity will continue to concern the Reserve Bank.** The monthly trend growth for total sales continues to stabilise at 0.4 percent, while the trend for core sales eased to 0.2 percent, from 0.7 percent in August 2006. Although the stability in the trend growth rate will provide the Reserve Bank with some relief, the level of activity is likely to still be above their comfort level as it suggests the momentum in activity from the end of 2006 is being sustained into 2007.

**The Reserve Bank will be watching other indicators of Q1 activity very closely.** With today's release showing that momentum in consumer spending is being sustained into the New Year, the Bank will be on the alert for other partial indicators to assess whether momentum from the end of last year continues to be

sustained into this year. Given their concerns about the housing market, REINZ data due out later this week will be key.

**While this will keep the market bias towards another rate hike, we remain comfortable with our “one-and-done” view that the March rate hike last week is the last in this tightening cycle.**



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