Economic Review

New Zealand

14 April 2008

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Retail Sales: February 2008

Key points

> **Retail spending was soft in February and the underlying trend remains one of weakness.**
>
> **Price increases in core staples are siphoning discretionary income from other areas.**
>
> **Volume growth for the March quarter is likely to have contracted.**
>
> **Today's data provides further confirmation that domestic demand is slowing rapidly.**

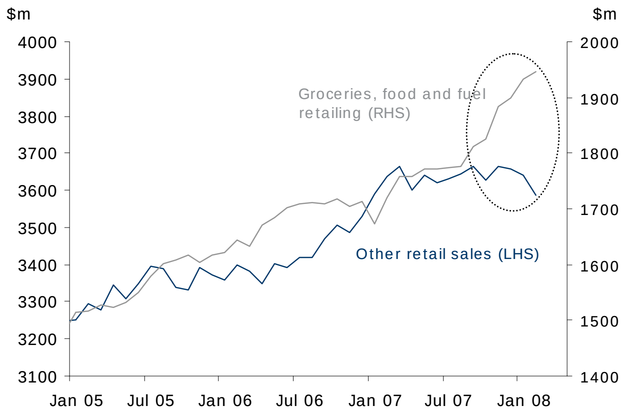
Assessment

February was another soft month for the retail sector. Following growth of just 0.1 percent and 0.3 percent in December and January respectively, total retail spending contracted by 0.7 percent in February. When motor vehicle-related industries are stripped out, "core" spending rose by 0.2 percent. A sharp drop in motor-vehicle retailing (down 5.8 percent, or $41 million) drove the weakness in headline sales. Supermarket and grocery store retailing (up 1.6 percent or $19 million) – which we suspect is mostly price-related (food prices rose 0.8 percent over February) – was the major contributor to the increase in core retail spending. The changes in other industries were much more muted, with only six recording movements greater than plus or minus $3 million. A clear gap is now opening up between spending on fuel and food, and other retailing (refer chart). Looking at individual trends, only food (we have to eat), petrol and tourism-linked sectors, are positive. The remainder are flat to negative. This is particularly the case for some key (interest rate sensitive) durables sectors such as appliance retailing.

On a regional basis, the biggest fall was for Waikato, down 4.0 percent, following a 0.4 percent fall in January. No guesses here that the dry weather conditions are likely to be having an impact on the rural chequebook despite record high dairy prices. Auckland experienced the second largest fall over the month with sales down 3.2 percent – a sign that consumers in the City of Sails are feeling the brunt of higher cost of living pressures (not to mention a slowing in the housing market) and are starting to pare back on their retail spending.

March quarter volume growth likely contracted. Given the softness seen in retail spending over January and February, and our expectations that March did not fare any better, partly due to the early Easter, volume growth for Q1 likely contracted. The factors weighing on consumer spending are well known: high energy and food prices eating into purchasing power, falling house prices, high interest rates, uncertainty over the global economy, the list goes on. But if recent sharp falls in consumer confidence readings are to be believed, then further soft consumer spending is likely in coming months.

	Core Retail Sales (% change)		Total Retail Sales (% change)	
	nominal m/m	Trend	nominal m/m	Trend
Aug-07	0.9	0.1	0.3	0.3
Sep-07	0.3	0.2	1.0	0.5
Oct-07	-1.0	0.2	-0.4	0.5
Nov-07	0.9	0.2	1.8	0.5
Dec-07	0.3	0.2	0.1	0.5
Jan-08	0.4	0.2	0.3	0.4
Feb-08	**0.2**	**0.2**	**-0.7**	**0.4**
ANZ	**0.4**	**-**	**0.0**	**-**
Market	**0.4**	**-**	**0.3**	**-**

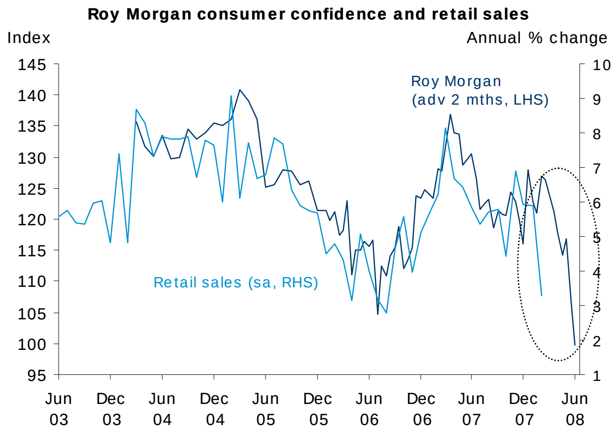


Sources: ANZ National, Statistics NZ

Implications

Today's data provides further evidence that consumers are being more constrained. Along with the housing market, the retailing environment looks likely to remain challenging as households enter a period of balance sheet de-leveraging. We will be closely watching how a tougher retailing environment filters though into labour demand over coming quarters, given that retail employment had compounded at 3 percent per year over the past 5 years. The sector is likely to be an early warning bellwether of wider labour market trends.

Categories	$m change	Monthly % change	Region	$m change	Monthly % change
Food related	16	1.2	Auckland	-57	-3.2
Fuel	-2	-0.4	Waikato	-20	-4.0
Housing	-3	-0.6	Wellington	4	0.7
Hospitality	-4	-0.6	Other N. Island	-18	-1.4
Car related	-46	-4.6	Canterbury	-10	-1.4
Dept, clothes & footwear	1	0.1	Other S. Island	13	1.9
Other	-3	-0.3			
Total	-42	-0.7	Total	-42	-0.7



Sources: ANZ National, Roy Morgan, Statistics NZ

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