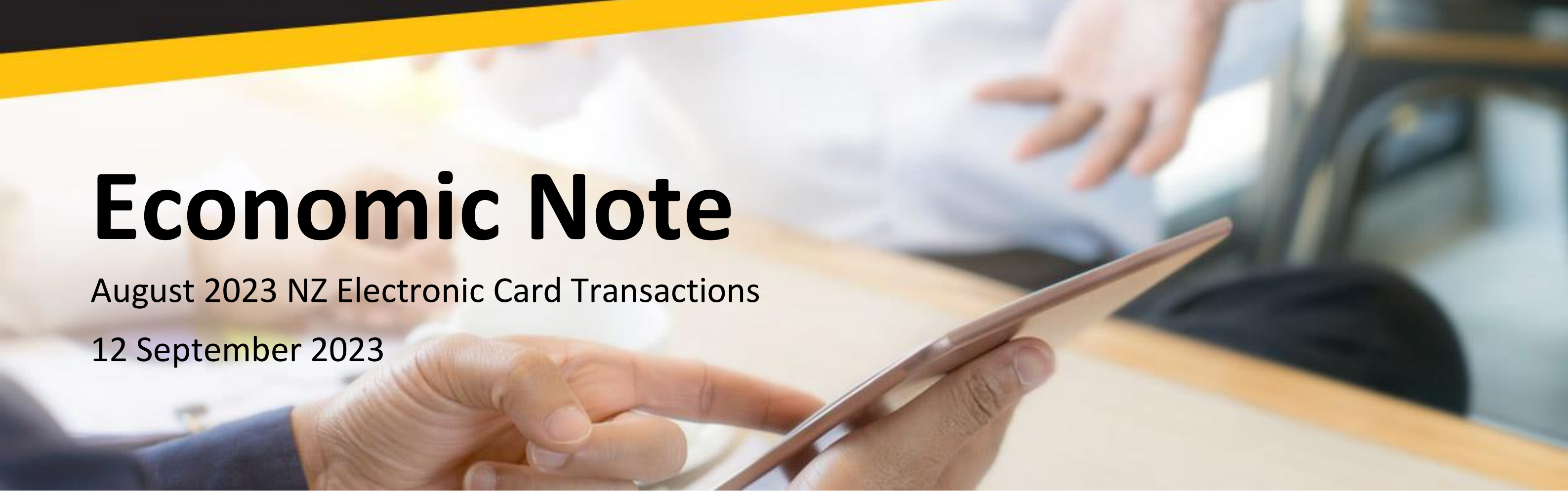


Economic Note

August 2023 NZ Electronic Card Transactions

12 September 2023

A boost from the boot

- Total card spending rose in August, with the FIFA Women's World Cup clearly boosting retail spending.
- The August lift will have been a welcome change of pace for retailers in what's been a slow first half to 2023.
- Nevertheless, we expect recent trends will resume from September as the FIFA boost unwinds.

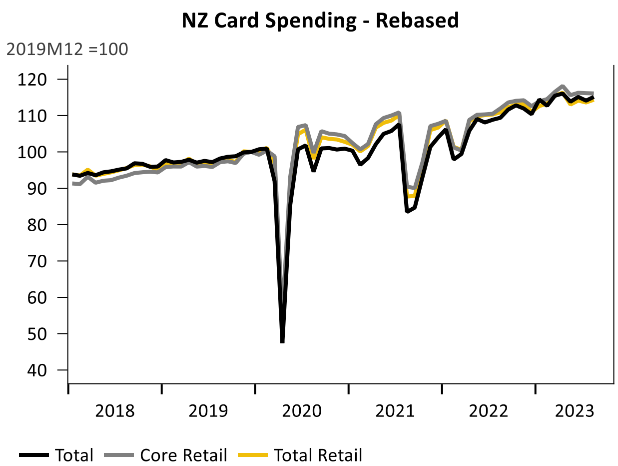
ECT

	Actual	ASB
Total retail ECT (mom)	0.7	1.4
yoy	3.7	
Core retail ECT (mom)	0.6	
yoy	4.2	
Total ECT (mom)	0.9	
yoy	5.7	

Summary and implications

Total card spending rose in August, with the lift in activity likely to be a welcome change of pace for retailers across New Zealand. Card spending lifted across all sub-measures, including a 0.7% mom rise in headline retail spending, slightly below our forecast. **Some of the rise in activity looks likely to be due to the FIFA Women's World Cup that took place from late July to late August**. According to FIFA, there were some additional 30,000 tourists in New Zealand during the competition.

Nevertheless, New Zealand households are still being squeezed by the elevated cost of living and higher interest rates. Indeed, this was evident in the ongoing retrenchment in durables spending, which fell 0.7% mom in August and is now just 0.6% higher than year ago levels. This backdrop is unlikely to change any time soon and we expect electronic card transactions will return to pre-World Cup trends for at least the remainder of 2023.



Source: Macrobond, ASB

It's not all doom and gloom for retailers though. Population growth, thanks to high levels of net migration, is a tailwind for both consumption and the housing market. We expect that population growth will help to put a floor under spending, even if per-capita levels continue to decline. Consumer spending could end up being more robust

Kim Mundy – Senior Economist (027 404 3204) kim.mundy@asb.co.nz

than anticipated if migration data continues to be upwardly revised, as we've seen in other data from Stats NZ this morning.

However, at this stage, soggy underlying consumer spending is consistent with our view that the OCR's current level of 5.5% OCR is likely to be the peak this cycle. But, with inflation running at 6% and still well above the RBNZ's 1-3% inflation target, talk of OCR cuts remains premature.

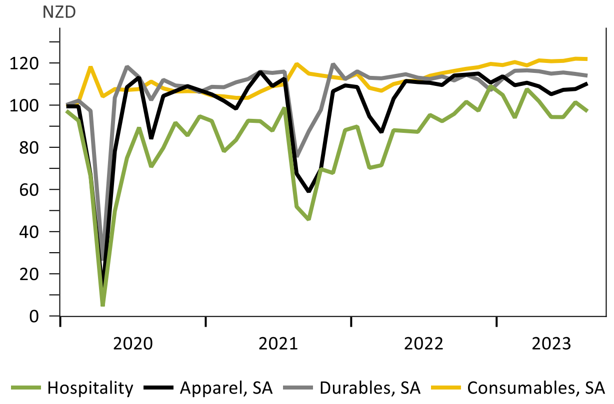
Details

Retail electronic card spending rose by 0.7% mom in August in seasonally-adjusted terms, slightly less than our forecast. Core spending (which excludes fuel and vehicle spending) rose 0.6% over the month (4.2% yoy) while **total retail spending (including non-retail and services) rose 0.9% (5.7% yoy).**

Five out of the eight categories rose in August **(figures below are seasonally adjusted unless otherwise stated)**:

- **The rise in core spending was driven by a 2.5% mom lift in apparel spending (+0.2% yoy).** Some of that boost may represent people buying merch in support of their favourite football team. Elsewhere, consumables (-0.1% mom), hospitality (-4.2% mom) and durables (-0.7% mom) all declined in August. It's worth remembering that Stats NZ is not currently seasonally adjusting hospitality spending because COVID-19 heavily impacted seasonal patterns. At the same time, the 7.5% lift in hospitality spending in July also likely captured some of the World Cup boost.
- **Fuel spending surged 13.5% mom, following a 13.8% rise in petrol prices over the month.** With household's already managing tight household budgets, the jump in fuel spending most likely resulted in less spending in other categories.
- **Non-retail spending (which includes health care and travel) rose 1.1% mom (+11.5% yoy).** Again, this bump in non-retail spending in August likely reflects World Cup related movements.
- **Services spending (which includes repair and maintenance, personal care and other personal services) jumped a sizeable 3.5% mom (+6.8% yoy**), more than offsetting July's 3.1% mom fall. The ongoing switch in consumer spending behaviour back to pre-COVID norms is likely to be helping underpin services spending.

NZ Electronic Card Spending - Selected Sectors Rebased



Source: Macrobond, ASB

The slog probably isn't over yet

It's clearly a tough economic environment for many households at the moment, and with inflation proving slow to decline and interest rate cuts still a future prospect, that's unlikely to change any time soon. **On a per-capita basis, we expect the current household consumption recession to continue.** However, the population is growing thanks to strong net migration and that will help to put a floor under aggregate consumer spending. **To the extent that strong net migration supports house prices, there could also be an additional boost to spending via the housing market channel.**

Nevertheless, the soggy undertone to consumer spending will remain a relief to the RBNZ as it tries to bring inflation back to target. The fact that there is unlikely to be a strong turnaround in consumer spending any time soon is consistent with our view that the current 5.5% OCR is likely the peak. But inflation is high and, as a result, OCR cuts are unlikely to be entertained until well into 2024.

ASB Economics & Research

			Phone
Chief Economist	Nick Tuffley	nick.tuffley@asb.co.nz	(649) 301 5659
Senior Economist	Mark Smith	mark.smith4@asb.co.nz	(649) 301 5657
Senior Economist, Wealth	Chris Tennent-Brown	chris.tennent-brown@asb.co.nz	(649) 301 5915
Senior Economist	Kim Mundy	kim.mundy@asb.co.nz	
Economist	Nat Keall	nathaniel.keall@asb.co.nz	(649) 301 5720
Future Me Graduate	Sara Curry	sara.curry@asb.co.nz	
Administration Manager	Caro Phillips	caro.phillips@asb.co.nz	

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