

# Economic Note

Q4 2023 Retail Trade Review

23 February 2024

## Thud

- Retail volumes slumped in Q4, marking the 8<sup>th</sup> consecutive quarter of retrenchment with volumes down 4.1% over 2023 as the household-led economic slowdown continues.
- Falls in retail were widespread, with the 2023 contraction in retail activity particularly severe given extremely strong net immigration.
- Weak household spending activity is a pre-requisite to getting inflation down on a sustained basis. Retail activity is extremely weak, but the RBNZ will remain watchful and will not cut the OCR until much later this year.

### Retail Sales

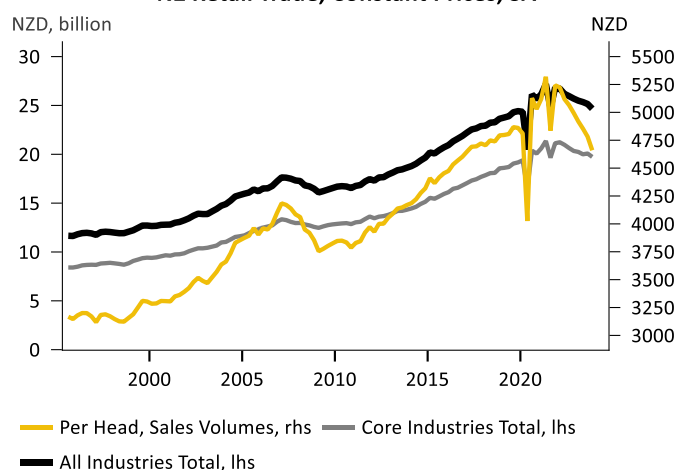
Retail Sales: 2023	Q4	Market	ASB
Total volumes (qoq)	-1.9%	-0.2%	-0.4%
yoy	-4.1%		
Core volumes (qoq)	-1.7%		
yoy	-3.2%		
Total values (qoq)	-1.5%		
Total values (yoy)	-0.4%		
Total retail deflator (qoq)	0.4%		
Total retail deflator (yoy)	3.7%		

### Key Details

Retail spending volumes plummeted 1.9% in Q4, the largest quarterly fall since mid-2022, with downward revisions seeing the period of quarterly falls extended to eight consecutive quarters. Core retail volumes slumped 1.7% in Q4, the largest quarterly drop since the 2021 lockdown. The figures were much lower than market expectations and were consistent with subdued levels of consumer sentiment.

Retail volumes contracted by 4.1% over 2023. Combined with the 3% resident population over 2023, that meant volumes contracted close to 7% over 2023 on a per-capita basis. High consumer prices have continued to erode consumer purchasing power, with retail prices rising 3.7% over 2023, slightly below the 4.7% rise in annual CPI inflation.

NZ Retail Trade, Constant Prices, SA



Source: Macrobond, ASB

## Other Details

Falls were widespread, with volumes contracting in 14 of the 15 retail sector store types in Q4. The fall in retail sales was geographically widespread with 10 of the 16 regions having lower seasonally adjusted sales values in Q4. This strongly suggests that the household sector remained firmly in retrenchment mode, **with evidence of a broader pullback in discretionary sectors as household finances get increasingly squeezed**, with living costs having advanced by 7% over 2023.

- **There were also signs of pullback from the July/August 2023 Women's World Cup.** Recreational goods retailing (-6.2% qoq), clothing, footwear and accessories (-4.1% qoq) saw sizeable falls. Also down were accommodation volumes (-4.8% qoq), food & beverage services (-2.4% qoq), specialised food retail (-3.7% qoq) and liquor retail (-0.3% qoq). Falls in fuel retail (-3.6% qoq) and supermarket retail (-0.5% qoq) also suggest a post-World Cup lull.
- **Durable goods were weak too.** Motor vehicles and parts retail fell 2.5% despite reports of strong demand for electric vehicles ahead of the end of the clean car discount at the end of the year. Furniture, floor coverings, houseware and textiles fell 1.8% and electrical goods declined 0.5% despite the Black Friday sales. Hardware, building and garden supplies were down 2.1%

Viewing changes in retail values over 2023 showed that conditions were generally tough with most retail categories experiencing a fall in sales values (see chart). The weakest sectors were durable goods, with some store types particularly weak. Sectors aligned with the tourism sector continue to recover.

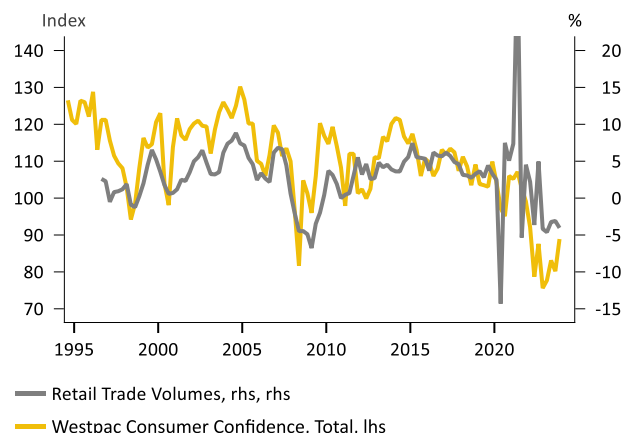
## Implications

**Weak retail spending despite strong net immigration suggests that efforts by the RBNZ to slow household demand and to squeeze inflationary pressures out of the system are working. It points to another weak quarterly outturn to Q4 GDP, with the likelihood that NZ encountered another small technical recession in the second half of 2023.** Strong gains in net immigration are only partly masking how big the retrenchment in household spending has been.

**Looking ahead, we don't see the challenging conditions for the retail sector alleviating just yet.**

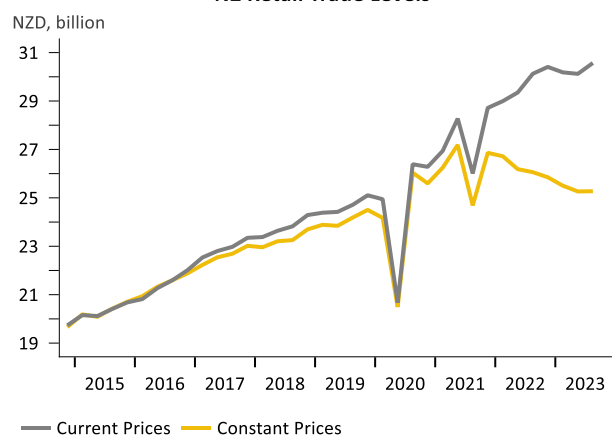
Cost of living pressures are expected to remain acute over 2024, given sticky (but cooling) domestically-generated inflation. Our [estimates](#) suggests households could be facing up to an extra \$70 per week in their living costs this year. The OCR has probably peaked, but there is still a considerable amount of additional tightening in the pipeline with a chunk of mortgage lending set to roll onto higher rates.

Retail trade and consumer sentiment



Source: Macrobond, ASB

NZ Retail Trade Levels



Source: Macrobond, ASB

Change in retail values over 2023



Source: Macrobond, ASB

Weak household spending is a precondition to getting inflation down. Progress is being made in lowering inflation, and household spending is going backwards, but OCR cuts do not look particularly imminent. Despite the very weak Q4 retail spending figures, **yesterday's tick up in household inflation expectations suggests that households are not yet getting the message that inflation needs to be heading towards 2% on a sustained basis until the OCR is cut.** We expect the RBNZ to continue to talk tough until the message sinks in, with the OCR not cut until November.

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