Economic Research
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New Zealand economic update

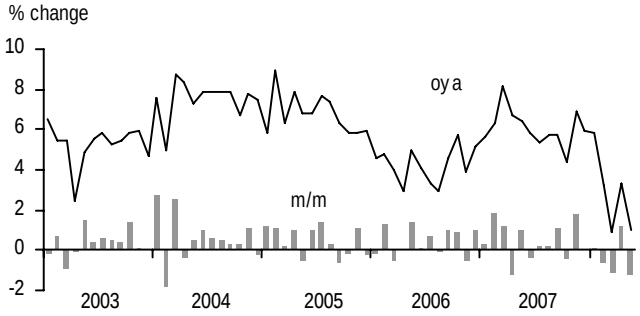
May retail sales

The value of retail sales in New Zealand slumped 1.2%m/m in May (JPMorgan 0.5%, consensus -0.1%) after jumping 1.2% in April. We thought the headline sales number would be bolstered by high and rising prices, but sales plunged owing to weaker auto-related sales. Ex-auto sales were up 0.7%m/m in May, after falling 0.3% in the previous month, suggesting that underlying spending hasn't completely crumbled.

Fourteen of the 24 retail industries had only modest sales movements, not increasing or decreasing by more than NZ$3 million. Furniture and floor covering sales fell sharply, down 15.6%m/m but, reflecting higher food prices, sales at supermarkets and grocery stores rose 3%.

Motor vehicle sales plunged 14.8%m/m in May, after spiking 8.5% in the previous month. Of the four auto-related industries, only fuel retailing rose (+3.2%), reflecting rising petrol prices. Smash repair sales and other vehicle repairs were down, falling 7.0%m/m and 2.2%, respectively.

New Zealand: retail trade



Consumers face significant headwinds, owing partly to the negative wealth effects from the sharp deterioration in the housing market. The household sector already is under pressure from record high interest rates and rising prices for staples, such as food and petrol. There also have been signs of a loosening in labour market conditions, with employment contracting in 1Q. The plunge in business confidence suggests that companies may even be more reluctant to hire workers going forward, sending the unemployment rate north.

With ex-auto sales remaining relatively firm, we maintain our forecast that the RBNZ will start easing monetary policy in September, rather than July as some market pundits are tipping. We acknowledge, though, that the risk is

skewed towards an earlier move, although are looking toward tomorrow's CPI print for further guidance. Annual CPI growth should spike to 3.8%oya in 2Q, but non-tradable inflation also is likely to remain above the RBNZ's target range. In 1Q, non-tradable inflation—generated domestically and not influenced by exchange rate fluctuations—held at 3.5% for the second straight quarter, despite the recent downturn in domestic demand; this is likely to drop slightly to 3.3%oya in 2Q on the back of a 0.9%q/q rise. If non-tradable inflation remains as elevated, a July rate cut will become even less likely.

The details:

- Total retail sales fell 1.2%m/m, after slumping 1.2% in April.
- Fourteen of the 24 retail industries had modest sales movements, not increasing or decreasing more than NZ$3 million.
- Motor vehicle sales slumped 14.8%m/m. Core retail sales (which excludes the vehicle-related industries) rose 0.7%m/m.
- Furniture and floor covering sales also fell sharply, down 15.6%m/m.
- Reflecting higher food prices, sales at supermarkets and grocery stores rose 3%m/m.