

### Retail sales receives a boost from Rugby World Cup

- 2.2% increase in retail sales volumes much stronger than expected.
- Boost from Rugby World Cup reflected in strong increase in spending on accommodation, food and clothing.
- Whilst encouraging, global outlook continues to dominate the RBNZ’s attention for now.

The 2.2% increase in retail sales volumes over Q3 was much stronger than both our and market expectations. The boost from the Rugby World Cup was seen in a robust increase in spending on accommodation. This likely reflects the higher number of international visitors in the country over the period. The boost from the World Cup was also reflected in an increase in sales volumes of clothing and footwear. Recent electronic card spending data indicates this improvement in clothing and footwear sales continued into October, as supporters’ gear raced out the stores in the lead-up to the final stages of the World Cup. Meanwhile, spending across the food categories was also strong.

Beyond the boost from the Rugby World Cup, a continued recovery in underlying household demand looks to be taking place. Sales volumes on big-ticket items such as vehicles and electronic goods continued to build on the strong increases seen over the first half of 2011. Indeed, recent consumer confidence surveys point to increased optimism in regards to making major household purchases.

Nonetheless, offshore developments continue to dominate the RBNZ’s attention. Given the lack of any significant progress on finding a resolution to the European debt crisis, the RBNZ is likely to remain cautious. As such, we expect the RBNZ will leave the OCR on hold until June 2012, with any OCR increase contingent on an improvement in the global outlook.

#### Results

##### Quarterly volumes

- Total +2.2% qoq (ASB f/c +0.9%, market +0.6%)
- Ex-auto +2.4% qoq (ASB f/c +0.9%)

##### Quarterly nominal

- Total +2.1% qoq
- Ex-auto +2.7% qoq

**Retail sales much stronger than expected.**

**Reflecting boost from the RWC.**

**Strong increase in spending on accommodation.**

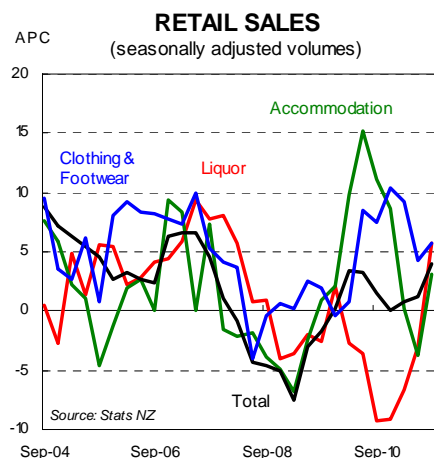
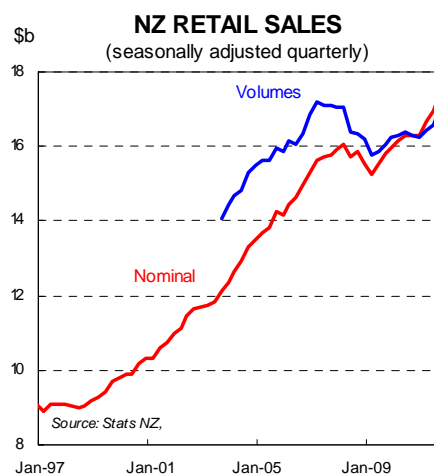
**Increase in spending across the food categories.**

#### RWC underpins strong retail spending

Retail spending received a boost from the Rugby World Cup in Q3, as higher spending on accommodation, food and clothing drove the 2.2% increase in total retail sales volumes.

Spending volumes on accommodation increased by a robust 6.5% in Q3, reflecting the effects of the increased number of international visitors in the country over the period. Meanwhile, the 2.1% increase in spending on clothing and footwear likely reflects the large number of supporters gear sold. Recent October electronic card spending data shows strong spending on clothing continued beyond Q3, as rugby fans geared up for the knock-out stages of the World Cup.

Spending on food and beverages was also reasonably strong. Besides the increased spending in the hospitality sector, the effects of the World Cup were also seen in a strong increase in supermarket and liquor sales volumes.



**Builds on strong increase in retail sales over first half of 2011.**

Nonetheless, the strong increase in spending volumes in Q3 builds on a 1.1% increase in Q1 and 1.0% in Q2, suggesting that beyond the World Cup an underlying recovery in household demand is taking place. Consumer confidence has recovered recently, underpinned by an improvement in labour market conditions. In particular, households noted increased optimism towards making major household purchases.

**Continued improvement in sales of electronics and cars.**

Sales volumes on electronic goods edged up over Q3, building on the robust increases seen over the first half of 2011. There are signs of a recovery in sales of other big-ticket items, with sales of motor vehicles and parts also building on reasonably strong increases over the first half of the year. However, recent monthly vehicle registrations data suggest the potential for this recovery to peter out.

**Improvement in sales across the regions.**

While the strength in retail sales was led by Auckland, the increase in sales was broad-based across most regions in Q3. In addition, sales in all regions are trending up. This is encouraging for the recovery of the retail sector.

**Effects of strong NZ dollar reflected in retail trade deflator.**

The retail trade deflator fell 0.1% over Q3, driven by a decline in the price of fuel and electronic goods. Strength in the NZ dollar over the period is likely to have placed downward pressure on the price of these imported goods. The decline in the retail trade deflator is softer than the 0.4% increase in overall CPI over Q3, suggesting pricing power is still relatively weak amongst retailers.

**Signs of a recovery in household demand beyond the boost from the RWC.**

**Implications**

The effects of the Rugby World Cup are clearly evident in the Q3 retail sales result. Spending on accommodation, food and clothing increased as rugby supporters geared up for the knock-out stages of the World Cup. Nonetheless, there are signs that beyond the boost from the World Cup an underlying recovery in household demand continued into the second half of 2011.

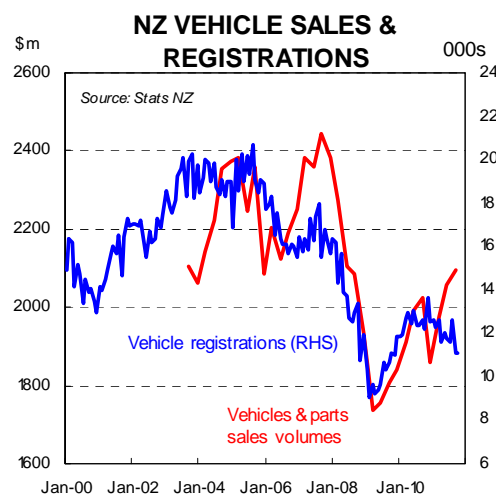
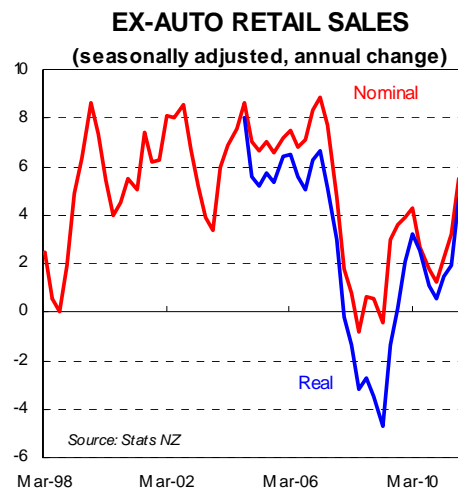
Given the retail sector was one of the sectors which bore the brunt of the recession, today's result is encouraging. We expect that as consumer confidence continues to improve this will flow through to a continued recovery in retail spending over the coming year.

**But global developments dominating the RBNZ's outlook.**

Nonetheless, offshore developments continue to dominate the RBNZ's attention. Given the lack of any significant progress on the European debt crisis, we expect the RBNZ will leave the OCR on hold until June 2012.

**Background to the data**

The retail sector is defined as those businesses primarily selling goods and services to final consumers (including tourists). The retail trade survey is a key indicator of economic activity. Retail sales are used in forecasting consumer demand, economic growth, inflation, interest rates, imports, the balance of payments and the exchange rate. Other indicators that impact on retail activity include: spending on credit; number of tourists; building activity; imports of consumer goods.



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