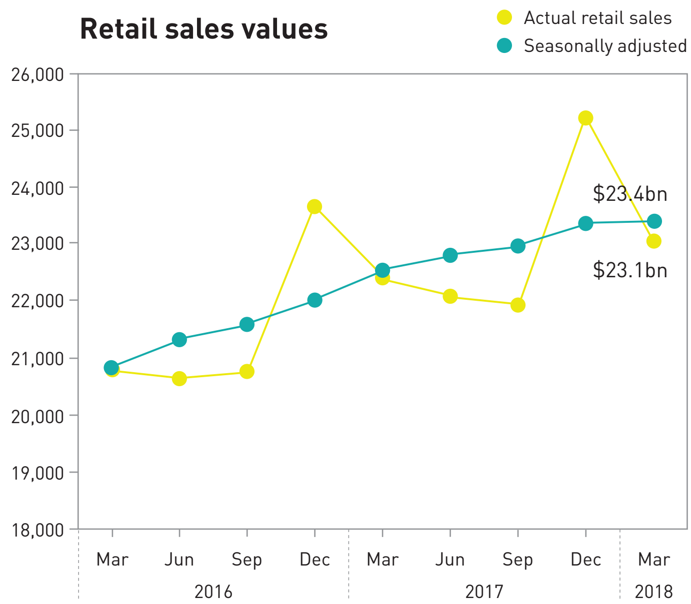
Retail RADAR

The REPORT

A quarterly Retail NZ Report // 31 March 2018

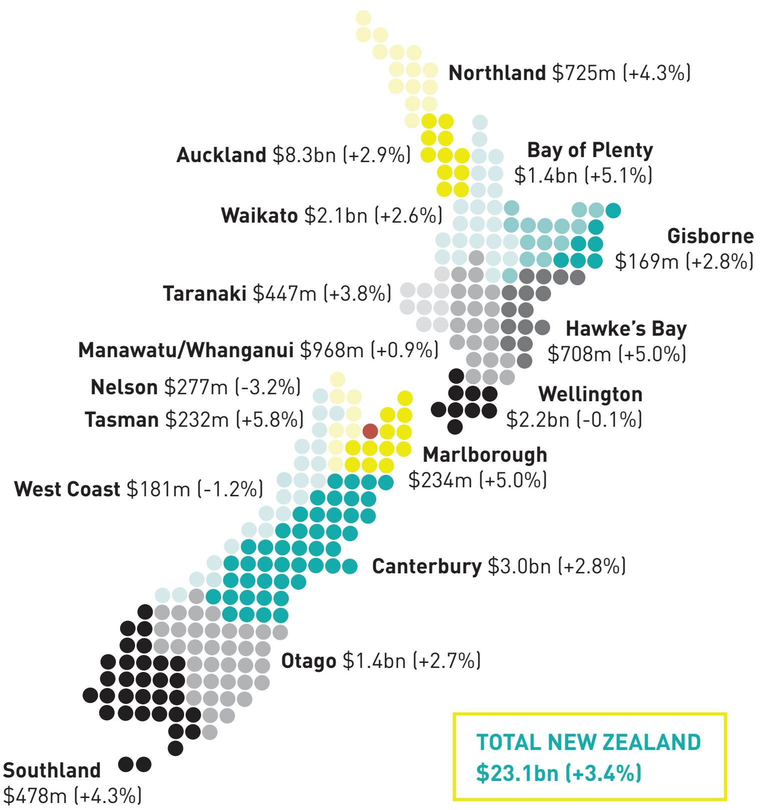
RETAIL STEADY DURING THE FIRST QUARTER OF 2018

- Retailers' sales results were steady on the previous quarter, dropping just slightly from 61 to 58 per cent that met or exceeded their own sales targets.
- The official statistics for retail sales show that spend across the sector was $23.1 billion, up 3.4 per cent ($757 million) on the same quarter of last year. This equates to a 0.2 per cent change when adjusted for seasonal peaks.
- Core retail categories (which exclude fuel and motor vehicles) were up 4.6 per cent ($778 million) on the same quarter of last year, or 0.1 per cent in seasonally adjusted terms.
- The 'liquor' and 'electrical and electronic goods' category had the strongest growth, and declines were seen for ' motor vehicles and parts' and 'recreational goods'.



REGIONS

Growth was spread fairly evenly across the country with the North Island increasing 2.7 per cent and the South Island 2.6 per cent.



TOTAL NEW ZEALAND $23.1bn (+3.4%)

For full results refer to the Statistics NZ Retail Trade Survey

Note: *all results are actual values, and in comparison with the same quarter of last year, unless otherwise stated.*

FOCUS ON: GST & ONLINE PURCHASES

The Government has announced that it will require foreign companies to register and pay GST in New Zealand from October 2019. This will effectively close the GST loophole which meant that tax was not paid on most goods (but not services) that were under $400 and bought from offshore suppliers.

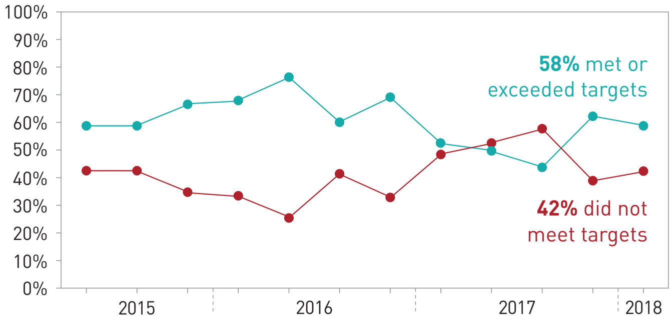
The new rules only apply to offshore suppliers that make more than $60,000 a year in sales to New Zealanders, including online marketplaces, which will be required to collect GST on behalf of their sellers. This move will effectively level the playing field for domestic retailers, both online and physical shops, which previously had a 15 per cent price disadvantage.

Kiwis certainly love to shop online as latest numbers from Marketview and BNZ show:

- Total online spending on physical goods is $4.2 billion, equivalent to 7.6 per cent of total retail sales comparing like-for-like categories. Excluding the food and liquor sectors online spending is equivalent to 10.9 per cent of retail sales.
- In February, spending with domestic merchants was up 10 per cent on same month last year, and with offshore merchants was up 12 per cent.
- Offshore merchants accounted for 32 per cent of online spending and 45 per cent of transactions in 2017.
- Spending with offshore merchants was $1.3 billion and most of this is with offshore merchants that exceed $60,000 a year in New Zealand ($1 billion, or 77 per cent).

RETAIL BUSINESS SENTIMENT

Looking back over the past three months



Retailer performance dropped just slightly from a traditional Christmas peak during the first three month of the year. 58 per cent of retailers met or exceeded targets compared to 61 per cent during the fourth quarter. This also compares favourably to the same quarter of last year when sentiment was low at 52 per cent. The quarter included part of the Easter long weekend (but not Easter Sunday which fell on the 1st of April), many regional anniversaries, and national public holidays. Apart from a few major storms we have had a long summer throughout the country and this has had a positive effect.

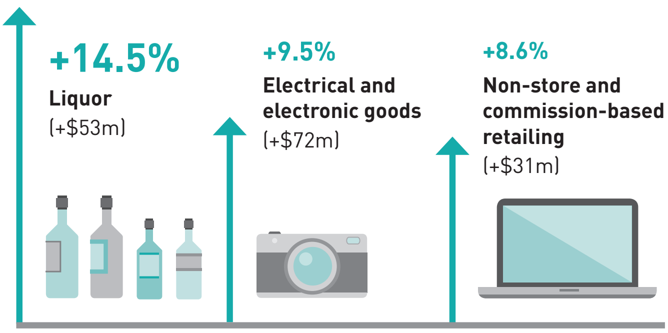
The quarter included the busy domestic and overseas tourist season which benefited many retailers. The MBIE International Visitor Survey recorded a three per cent increase in average total spend ($3,230) and an eight per cent increase in average spend per day ($193) by visitors from overseas during the quarter. The increase was attributed to the weaker New Zealand dollar. International visitors tend to travel on a budget which is based on the currency in their home country. If the value of the New Zealand dollar depreciates (as seen in the last year), their budget is worth more New Zealand dollars.

Retailers across the country, but particularly on the West Coast and the top of the South Island felt the effects of Cyclone Gita and Cyclone Fehi. Some faced extended periods cut off from major highways which was particularly damaging during the tourist season.

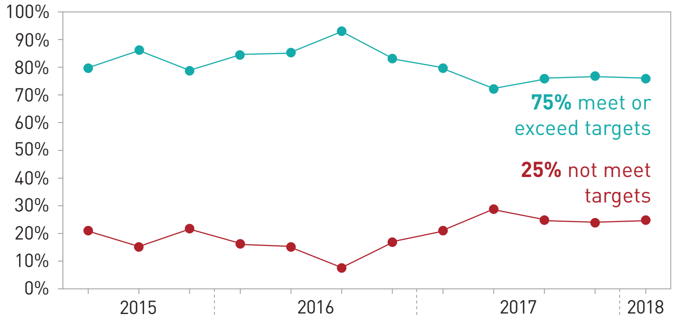
There continues to be a large proportion of retailers not meeting targets. This quarter they included many clothing retailers as well as stores that stock newspapers and books. Both categories are highly competitive on the high street, as well as being particularly threatened by offshore retailers. We hope that the Government's decision to requiring offshore retailers to collect tax from 2019 will level the playing field for these retailers.

BEST PERFORMING CATEGORIES

(Actual values)



What's coming up over the next three months



Retailers continue to report a largely positive outlook for the next quarter with 75 per cent expecting to meet or exceed targets. This is just a one per cent drop from the previous quarter, however down from 79 per cent on the same quarter of last year.

Indications from the new Governor of the Reserve Bank that interest rates will stay the same for the foreseeable future has given customers confidence.

However strong price competition from domestic and offshore retailers and increasing cost pressures for business owners, including labour costs, insurances, rates and rent, will squeeze retailers over the next three months.

There remains uncertainly about the new Government among many retailers. The increase to the minimum wage from 1 April, and the knock-on effects including price rises are yet to be fully realised (read more on this below). The upcoming employment changes (including changes to the 90 day trial period) are also creating nervousness.

Employment intentions

Retailers are expecting to retain staff levels through the next quarter with 63 per cent saying they will employ the same numbers. The increasing proportion of retailers planning to reduce staff number (25 per cent, up from 21 per cent last quarter) may reflect the increased cost of labour.

Retail prices

The majority of retailers (82 per cent) continued to say that retail prices did not change over the past three months, reflecting a strongly competitive market. This number has been relatively steady for the past two years.

Over the next three months however we see a strong indication that price inflation will occur with 32 per cent of retailers expecting their prices to increase. This is an increase of 11 per cent on last quarter, and 24 per cent on the same quarter of last year. It will be interesting to see whether the anticipated increases are borne out in the next quarter's results.

Got questions? Email us at: **retail.radar@retail.kiwi**