



# ECONOMIC BULLETIN

## Retail Spending Pulse.



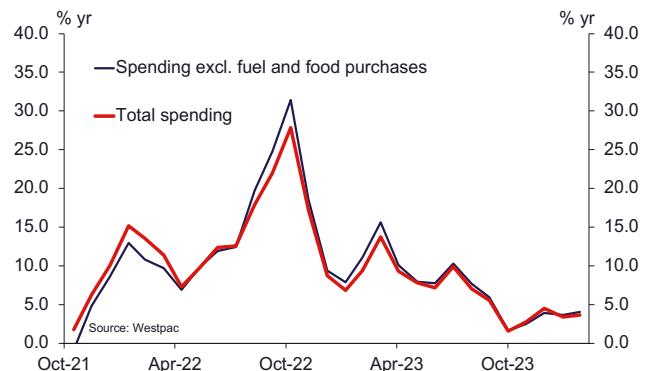
28 Mar 2024 | **Satish Ranchhod**, Senior Economist | +64 9 336 5668 | +64 21 710 852 | satish.ranchhod@westpac.co.nz

- The rapid increase in retail spending that we saw last year has given way to a period of weaker growth.
- Spending growth has slowed to below the rate of inflation, despite rapid increases in the population.
- Households have become increasingly cautious about their spending plans in the face of high interest rates and ongoing cost of living pressures. Those factors have been a particular drag on spending on discretionary items like furnishings and dining out.
- Softness in spending has been seen across the country, including in major metropolitan areas like Wellington and Auckland.

### Spending slowdown continues.

It's an increasingly tough time in New Zealand's retail sector. Our tracker of spending on Westpac issued debit and credit cards showed that spending for the three months to February was up just 3.6% compared to the same time last year.<sup>1</sup> That's below the rate of inflation. And with population growth running at a multi-decade highs of around 2.8%, it points to weak spending appetites among New Zealand households.

Annual spending growth (rolling three-month averages)



The downturn in spending appetites was a recurrent theme in our recent discussions with businesses around the country. In nearly every region, retailers we spoke to told us that consumers have been putting their wallets back in their pockets as cost of living pressures and high mortgage rates continue to eat away at their spending power. That's resulted in disappointing summer sales for many retailers, and some are now having to liquidate stocks.

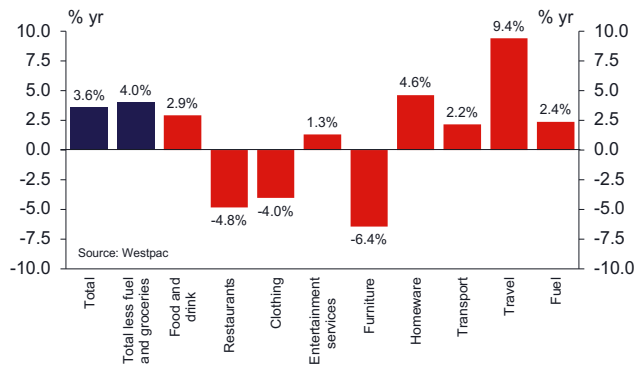
Looking across spending categories, the past year has seen particular weakness in discretionary areas, with spending on furniture down 6%, clothing down 4%, and spending in restaurants down 5%. Even in sectors like groceries where spending has been more resilient, we're seeing consumers switching away from 'nice to haves'

<sup>1</sup> This data exclude spending on non-chip EFTPOS cards. It also adjusts for the additional leap-day in February this year.

or premium options in favour of necessities and value for money.

One sector that has bucked the trend has been travel. The past year has seen a sharp rise in spending on airfares and travel related services as the post-pandemic recovery in travel and tourism has continued.

**Annual spending growth (three months to February vs same time last year)**



## Regional trends.

Spending growth has been subdued across the country.

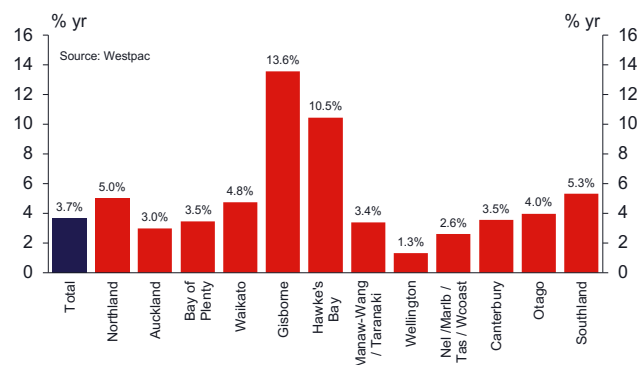
Wellington recorded the weakest spending growth in the country over the past year, rising just 1.3%. Households and businesses in the capital have become increasingly nervous about the outlook for employment and economic growth due to reductions in public sector spending. We expect that will flow through to continued caution in spending over the year ahead.

There's also been softness at the top of the South Island, with spending in Nelson, Tasman and Marlborough up only 1.9% over the past year. Employment growth in the region slowed to just 0.5% last year and unemployment has picked up. Dry conditions have also been a drag on earnings in parts of the agricultural sector.

Spending in Auckland was up 3% over the past year. However, with Auckland attracting the lion's share of new migrants, we estimate the region's population has grown by more than 3% over the past year. And combined with ongoing increases in living costs, that indicates a significant squeeze on per capita spending. One factor underlying the softness in spending in Auckland is likely to be the high cost of housing. In addition to high house prices and increases in mortgage interest costs, the cost of new housing rents in the region are up nearly 7%.

In contrast to other regions, spending in the Hawks Bay and Gisborne is up around 10% on this time last year. That's in part due to the recovery in spending following last year's severe weather. However, businesses are reporting that spending appetites are now softening, with a shift away from discretionary categories and a greater focus on necessities.

**Spending growth by region (three months to February vs same time last year)**



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