UPDATE

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Economics

October ECT: Post-GST Durables Retreat

Economics | New Zealand

Economist: Philip Borkin
+64 9 357 3206
philip.borkin@gs.co.nz

Key Points:

- Total retail spending on electronic cards rose 0.8%mom for October (5.6%yoy). However, excluding motor vehicle related spending core ECT spending was flat.
- The October ECT results incorporate the impact of both a higher rate of GST (12.5% to 15%) and also personal tax cuts. It is difficult to therefore decipher the relative impacts of both. Our initial thoughts are that the impact of tax changes has been relatively muted overall.
- However, the sectoral impact is more noticeable. Fuel retailing and consumables rose 8.4%mom and 2.4%mom respectively. We suspect this is largely price related as all the GST increase is passed on. On the other hand, durables spending retreated 6.0%mom - a pull-back from the 4.1%mom pre-GST spend up in September.
- Looking forward, with the labour market showing signs that it has turned we expect household consumption to continue a gradual recovery over 2011. However, headwinds remain, particularly a weak housing market.
- Our monetary policy views remain unchanged. That is, we expect the RBNZ to resume tightening in March next year.

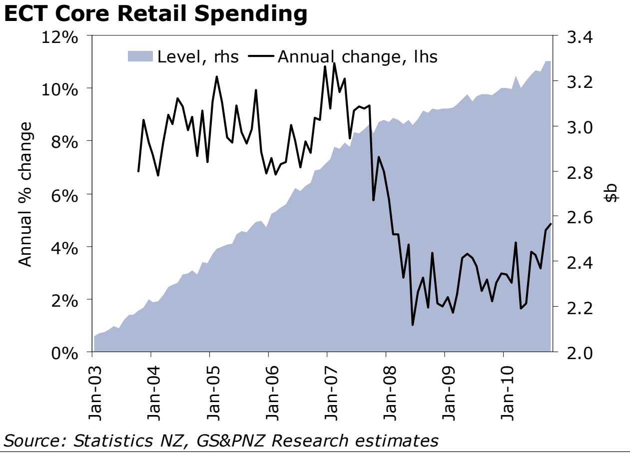
Key Data

ECT	Oct-10		Sep-10	
Monthly Nominal	mom	yoy	mom	yoy
Total	0.8%	5.6%	1.7%	4.5%
Core	0.0%	4.8%	1.5%	4.6%
Source: Statistics NZ				

Soft underlying spending on post-GST durables retreat

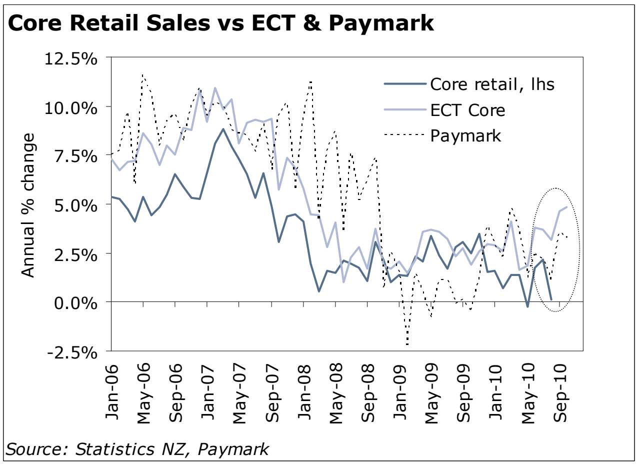
Total retail spending on electronic cards rose 0.8%mom in October. This follows a 1.7%mom increase in September taking annual growth to 5.6%yoy. Excluding motor vehicle related spending, core ECT spending was flat following a 1.5%mom increase in September. Nevertheless annual growth of 4.8%yoy for core ECT spending is the strongest since January 2008.

Figure 1: Annual core ECT spending growth strongest since January 2008



Source: Statistics NZ, GS&PNZ Research estimates

Figure 2: Extent of spending recovery varies from data source however



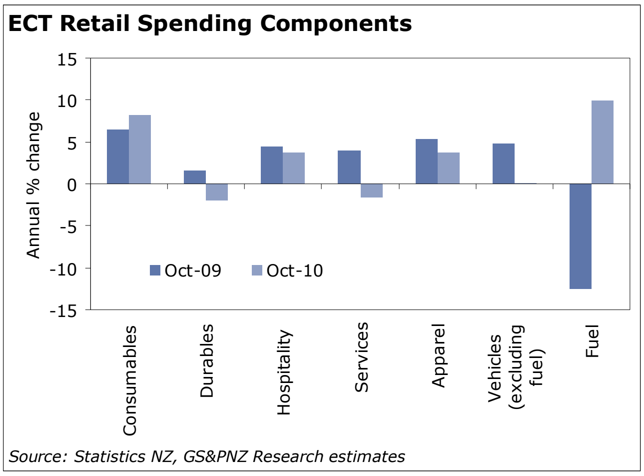
Source: Statistics NZ, Paymark

The October ECT results incorporate the impact of both a higher rate of GST (12.5% to 15%) and also personal tax cuts. It is difficult to therefore decipher the relative impacts of both. *Ceteris paribus*, the higher rate of GST would have boosted the value of transactions in the month given higher prices. However, there are a number of factors that need to be taken into account. These include: 1) whether all the GST impact was passed on and the extent of discounting that retailers are still applying to drive turnover; 2) whether the underlying volume of spending was impacted by higher disposable incomes; and 3) whether there was any payback from a pre-GST spend-up evident in September. Our initial thoughts are that the impact of GST and personal income tax changes has been relatively muted overall.

Some may emphasise that with the number of ECT retail transactions up 5.9%yoy (6.7%yoy for core), this indicates a better spending backdrop. While this may indeed be the case, we are hesitant to come to that conclusion yet given that the volume data has an inherent bias given spending on electronic cards has been gaining a higher proportion of total retail spending and the value per transaction has generally been on a downward trend (figure 4).

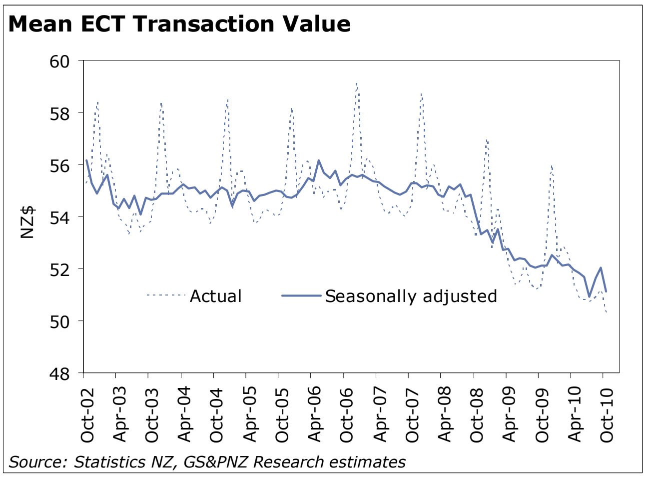
While the impact of the GST change is unclear on the headline figures, it appears to have had a bigger impact on certain sectors. Fuel retailing rose 8.4%mom (seasonally adjusted) and consumables rose 2.4%mom. We suspect all of the GST increase will have been passed onto petrol and food prices. However, durables spending fell 6.0%mom - a pull-back from the 4.1%mom pre-GST spend up in September.

Figure 3: Durables spending impacted by post-GST hangover



Source: Statistics NZ, GS&PNZ Research estimates

Figure 4: Interpretation of ECT volume figures need to account for a lower mean transaction value



Source: Statistics NZ, GS&PNZ Research estimates

Looking forward (and putting monthly volatility aside), with the labour market showing signs that it has turned (ignoring data quality issues) we expect household consumption to continue a gradual recovery over 2011. However, with the housing market remaining weak, farm profitability squeezed (despite high prices) and balance sheet repair ongoing, we doubt consumers will come roaring out of the blocks any time soon.

Our monetary policy views remain unchanged. That is, we expect the RBNZ to resume tightening in March next year.

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