



ECONOMIC BULLETIN

Retail Spending Pulse.



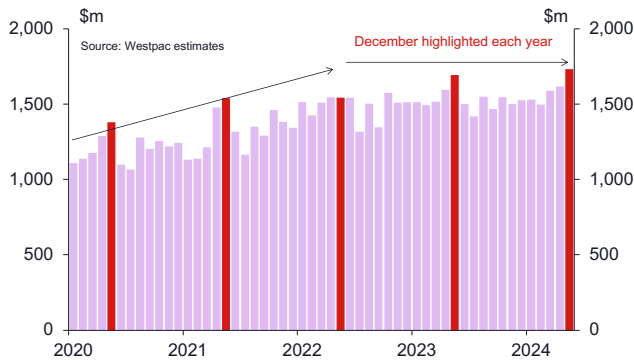
16 Jan 2025 | **Satish Ranchhod**, Senior Economist | +64 9 336 5668 | +64 21 710 852 | satish.ranchhod@westpac.co.nz

It was a soft end to the year for many New Zealand retailers. Our retail tracker showed that spending on Westpac issued credit and debit cards was up just 2% in December compared to the previous year. While it's encouraging that spending is rising, that's still a very muted gain, especially given the large increases in operating costs that many retailers have faced over the past year. In addition, with New Zealand's population increasing by about 1% last year, it also points to very limited growth in per-capita spending levels.

It was also a very mixed picture across sectors. Spending on groceries has been on the rise, climbing about 3%. We're also spending more on furnishings and appliances (+5%) and travel (+2%).

However, we're continuing to see lean times in the hospitality sector, with reduced spending on entertainment activities and dining out.

Spending growth still sluggish



Agricultural regions firm, while the Capital remains in the doldrums.

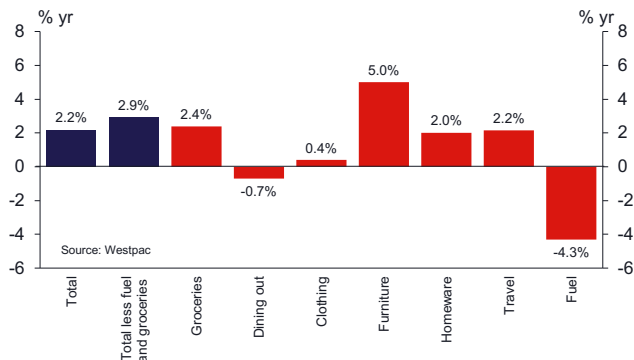
Spending trends have also been mixed across the country. Areas with strong agricultural backbones, like Southland, Otago, Northland and Waikato, have seen larger lifts in spending, potentially reflecting the improvement in agricultural export prices.

In contrast, spending growth has been more modest in Auckland (up 1% over the past year). Auckland has borne the brunt of the recent downturn in population growth, and that's likely to have restrained spending.

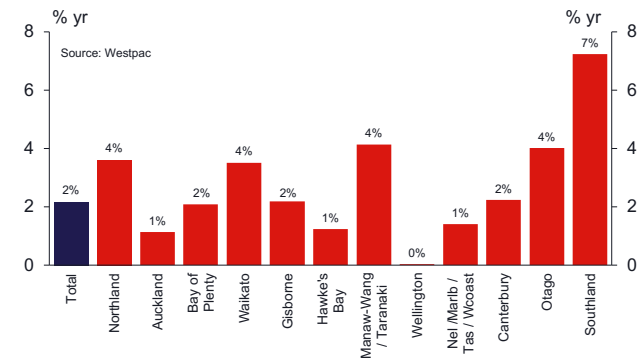
And in Wellington, spending growth has essentially stalled over the past year in the face of public sector cutbacks and low consumer confidence.

Spending on home furnishings rising, hospitality spending still weak.

Spending growth (December vs same time last year)



New Zealand spending growth by region (December vs same time last year)

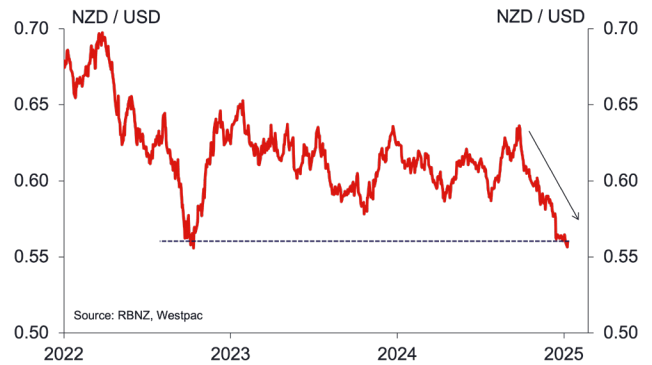


Spending to gradually lift over 2025, but there are still some challenges.

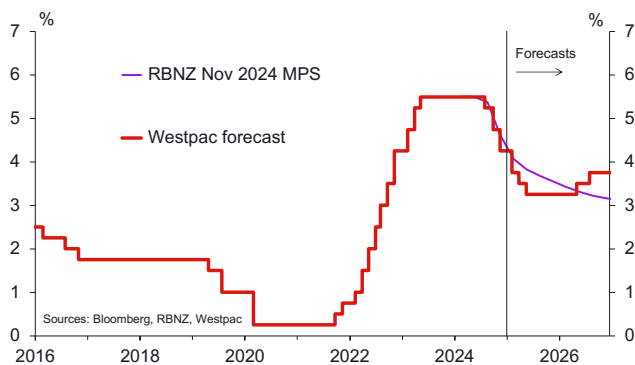
Looking to the year ahead, we think 2025 will be a better year for households and retailers, with some of the big financial headwinds we've been wrestling with now easing off. Inflation has dropped back and is now sitting close to 2%. And that better contained inflation outlook has allowed the RBNZ to cut the Official Cash Rate in recent months. We're picking another 50bp cut at the upcoming February meeting, with further cuts likely over the year ahead.

It will take time for the easing in financial pressures to ripple through the economy. But over the course of this year, we expect to see a firming in both household spending and the housing market. We've already seen consumer confidence pushing higher in recent months.

New Zealand dollar



Official Cash Rate forecasts



However, we are still facing some challenges. Unemployment has picked up to 4.8% and is set to push above 5% over the coming months.

We're also seeing an increasingly rocky global backdrop, with the NZ dollar falling sharply, earlier this week touching its lowest level since 2022. That's welcome news for New Zealand exporters and tourism operators, who could see a bump in their earnings. However, for households the lower dollar is likely to push the price of some imports higher, including petrol. That will add to the pressure on households' finances and will also be an important consideration for the RBNZ when they decide how far the OCR will be cut this year.

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