

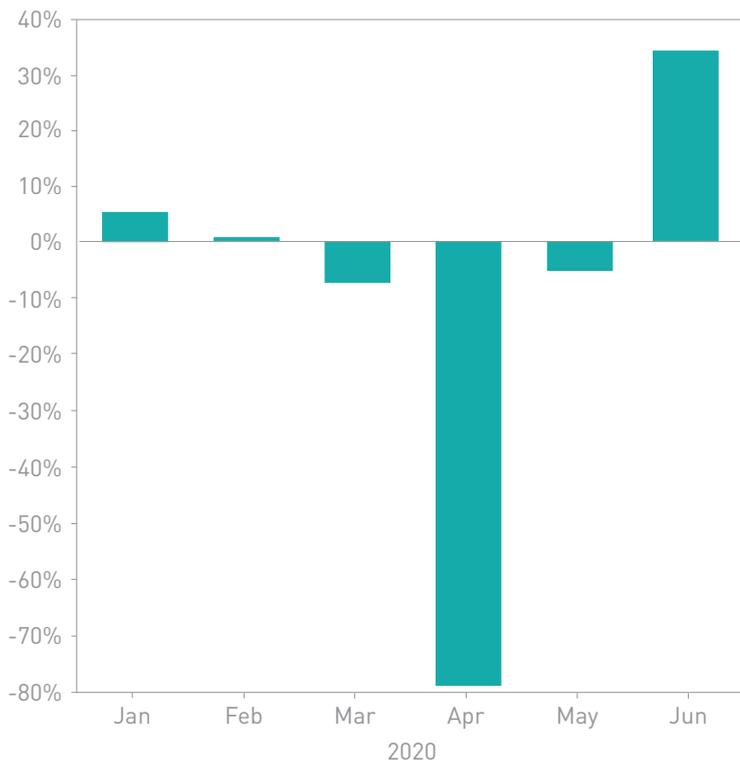
Strong spending during June has contributed to a significant improvement in retailer confidence, but significant clouds remain on the medium-term horizon in the post-Election period.

Spending in June

The latest Retail NZ Sales Index reports that spending in June 2020 was 34 per cent ahead of spending in June 2019. This reflects strong pent-up demand from consumers for accessing goods and services that they were unable to purchase during the lockdown, as well as the fact that New Zealanders are currently unable to spend money on overseas travel.

While the June results were more positive than expected, total spending over the past four months has not recovered to 2019 levels. Overall, spending for the period from March to June 2020 remains 16 per cent down compared to last year.

Retail NZ Sales Index - spending compared to the previous year

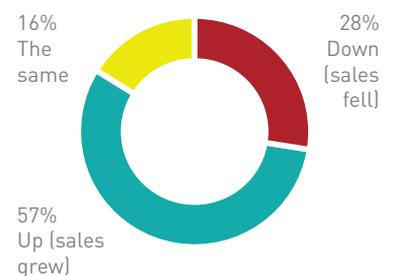


Two-speed sector emerges

Strong performance has been reported in categories across the sector, but has not been consistent across all retailers, even retailers in the same category. We are seeing the emergence of a two-speed retail sector. In a survey of Retail NZ members, 28 per cent report that sales in June fell compared to last year, while 57 per cent report an increase. The **average decline was 17.6 per cent**, while the **average increase was 15.8 per cent**.

While there is no apparent pattern by category, retailers which do not trade online were slightly more likely to report a fall in sales, and those trading online were slightly more likely to report increased sales.

June 2020 sales compared to last year



Retailer confidence improves

Notwithstanding the challenges since March, and the uncertainties ahead, the improved trading conditions in June have delivered a significant uplift in retailer confidence, with 73 per cent of retailers now expressing confidence that their businesses will survive the next 12 months. Only one per cent of retailers are now saying that they are almost certain to close their business, down from five per cent.

Retailer confidence - next 12 months



However, there remains significant concern about the medium-term economic situation. Retailers are aware that many jobs across the economy are at risk once the Wage Subsidy comes to an end, and that reduced household incomes will lead to further reductions in spending, once Mortgage Holidays and other household support mechanisms reach their end point. Retailers are expecting consumer spending to tighten further in the last quarter of the year.

More ecommerce transactions

The number of ecommerce transactions recorded remains substantially higher than in the pre-COVID 19 world. The Retail NZ Sales Index suggests that the number of online sales in June was 60 per cent higher than last year, but the average transaction value was 18 per cent lower. This suggests that consumers are making more frequent but smaller purchases online, and that ecommerce is substituting for a substantial number in-store visits.

Number of ecommerce transactions

60% ↑

Average ecommerce transaction value

18% ↓

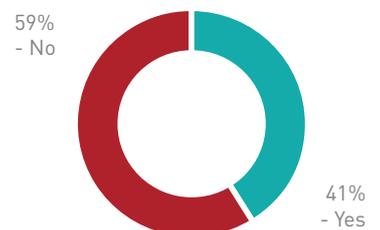
Employment intentions

Retailers are still expecting to reduce headcount substantially over the coming months although, in line with improved confidence, fewer redundancies are now expected than previously reported. Additionally, a small number of retailers is expecting to increase headcount, but this will not offset the job losses expected. Overall, we forecast a net loss of around 6,000 jobs across the sector over the three months.

Stock and logistics challenges

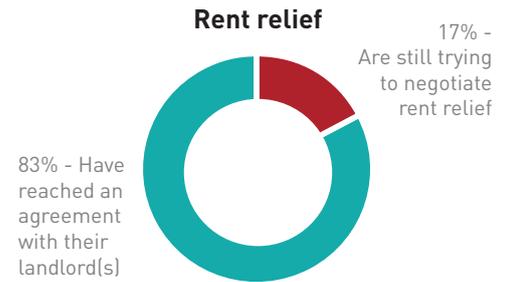
41 per cent of retailers are reporting that they are having problems sourcing stock at present, mainly because of reduced production levels overseas, and significant delays with the management of inbound freight from Asia. A variety of books, fitness equipment, bicycles, hardware, clothing and homeware items have been specifically reported to be in short supply, particularly when sourced from China and other Asian economies.

Are you having problems sourcing stock?



Landlord negotiations are ongoing

17 per cent of retailers have still been unable to negotiate rent relief with the landlords to cover the lockdown period and losses incurred by COVID-19. The announcement by Government that it would legislate to require fair rent relief and support arbitration had been welcomed by the retail community, as it got landlords and tenants around the negotiating table. Some retailers report that the stalling of this legislation has also led to negotiations stalling.



Minimum Wage increase should be halted

Retailers are concerned about the potential for a further increase in the Minimum Wage next April. Generally, retailers are keen to ensure that their employees are paid well, but these are extraordinary times, and economic conditions will make it challenging for businesses to absorb extra wage costs without shedding jobs. 84 per cent of retailers think that there should be no increase in the Statutory Minimum Wage in April next year.

Should the Minimum Wage increase in April 2021?

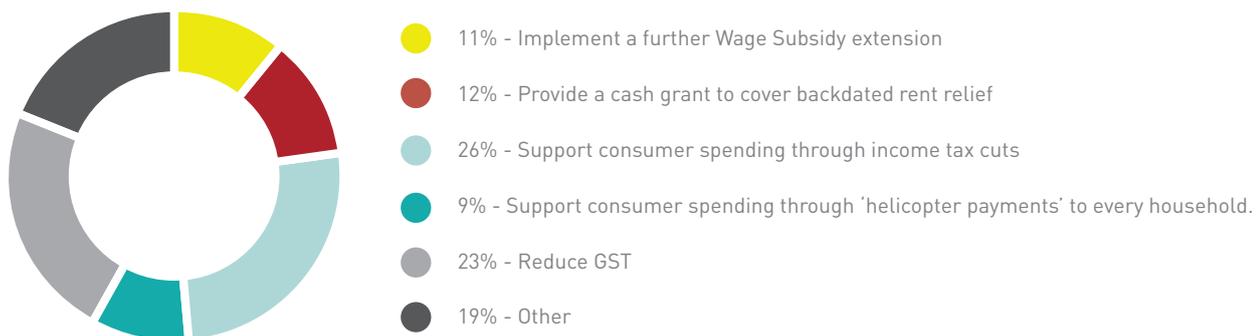


Support from Government

There remain real risks to businesses given the economic situation, and retailers would like to see additional support from Government to help businesses survive.

Supporting consumer spending through income tax cuts and reduced GST have been identified as the most important steps Government can take to help support the economy, although there remains strong support for a further extension to the Wage Subsidy, cash grants to businesses for rent relief or other purposes, and for "helicopter payments" to every household. Many retailers also noted that safeguarding the border and keeping COVID-19 out of the country is critical to rebuilding the economy.

Most important thing Government can do



Methodological notes:

This special Retail Radar report presents the results of turnover recorded in the monthly Retail NZ Sales Index, as well as a survey of Retail NZ members conducted after the end of June. Last month's Sales Index results have been restated.

* The Retail NZ Sales Index reports changes in average spend per site at Retail NZ members which process their sales with Westpac.

The numbers reported in the Retail NZ Sales Index do not completely align with the results of the survey of Retail NZ members. The Retail NZ Sales Index reports changes in average sales per site while the survey reports on the performance of individual *businesses*.