McGrathNicol

IN RETAIL (NEW ZEALAND) 2024 EDITION

SNAPSHOT

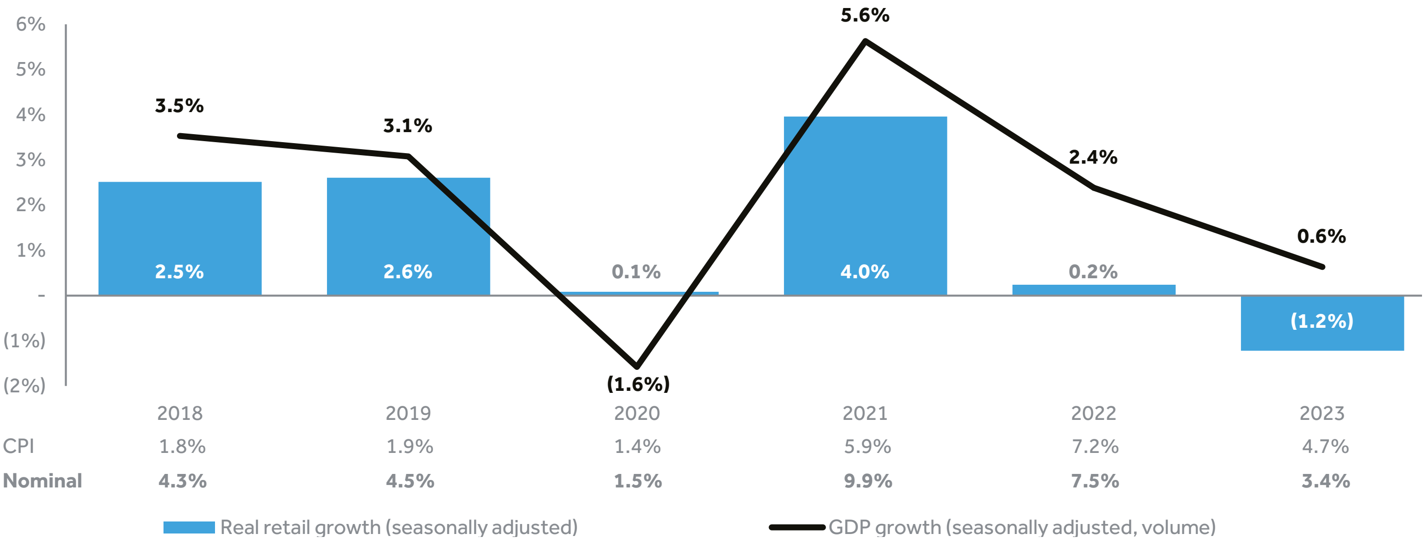
- 2023 was a tough year for retailers with core real retail growth of negative 1.2% (nominal 3.4%) compared with GDP growth of 0.6%. Consumers have significantly reduced consumption volumes with nominal retail growth falling consecutively each quarter in 2023 from 5.3% in Q1 to 1.0% in Q4, despite inflation. As expected in our previous In Retail edition, cost of living pressures and high interest rates have reduced discretionary budgets, compounded by consumers redirecting spending to travel and experiences.
- Domestic and international tourism has returned, with accommodation (up 17.0%) and food and beverage services (up 5.3%) both above pre-COVID spending levels on a real basis. Grocery (up 3.1%) was the only other retail category reporting positive real growth in 2023. Weaker real spending in the "home" categories, which performed strongly post-COVID, continued in 2023. Electrical and electronic goods was particularly weak, down 20.4% on 2022 following a similar result in that year, which is now at 80% of pre-COVID levels.
- All regions, except Rest of South Island (up 0.3%), reported negative real growth in 2023. Overall New Zealand retail growth declined 2.6%, after reporting modest growth of 0.8% in 2022. Auckland declined 1.7% following growth in 2022 and 2021, Wellington and the Rest of North Island were particularly poor performing, doubling and tripling the declines reported in 2022, falling 4.7% and 4.8%, respectively. Canterbury declined only 1.0% following a year of marginal growth in 2022.
- Online spending declined 4% in 2023, following a 5% fall the prior year according to NZ Post. Consumers appear to have moved back in store with 2023 being the first year since COVID without any lockdown disruptions and the return of tourism. The story for retail rents and vacancy rates is location dependent, prime CBD sites in Auckland and Christchurch are faring well, however elsewhere vacancies are rising.
- With low forecast GDP, elevated inflation, high mortgage rates and rising unemployment, we expect retail will struggle during 2024. So far, this year saw the collapses of retailers Godfreys, Silvermoon and others, alongside the Warehouse Group's sale of Torpedo7 for $1 and potential sale or closure of its ecommerce division, The Market. While net migration is at a record high, tourism has returned, and inflation is falling, although core inflation less so, consumer confidence fell 9% (ANZ-Roy Morgan) likely due to the concerns New Zealand is in recession and general market sentiment. Retailers must continue to carefully manage stock, staffing, and store decisions, with scenario analysis for forecast demand and inventory management to mitigate these risks.
- Note that we are not adjusting for COVID in this year's forecast review, with each year compared directly with the prior year.

All quoted percentages, other than GDP, are in real terms

CORE RETAIL INDUSTRIES - NEGATIVE GROWTH

Although nominal core retail growth was positive at 3.4% in 2023, this falls to negative 1.2% when adjusted for inflation, underperforming the wider economy with 0.6% GDP growth. The post-COVID boost in spending is over and the year ahead looks to be challenging for retailers. However, with interest rates peaking and high net migration, green shoots may appear in 2025.

Real retail and GDP growth



	2018	2019	2020	2021	2022	2023
CPI	1.8%	1.9%	1.4%	5.9%	7.2%	4.7%
Nominal	**4.3%**	**4.5%**	**1.5%**	**9.9%**	**7.5%**	**3.4%**

Source: Statistics NZ & the Treasury

**Retail industries reported by Statistics NZ, excluding fuel, motor vehicles and parts.*

ACCOMMODATION AND GROCERY BUCK THE TREND OF DECLINE

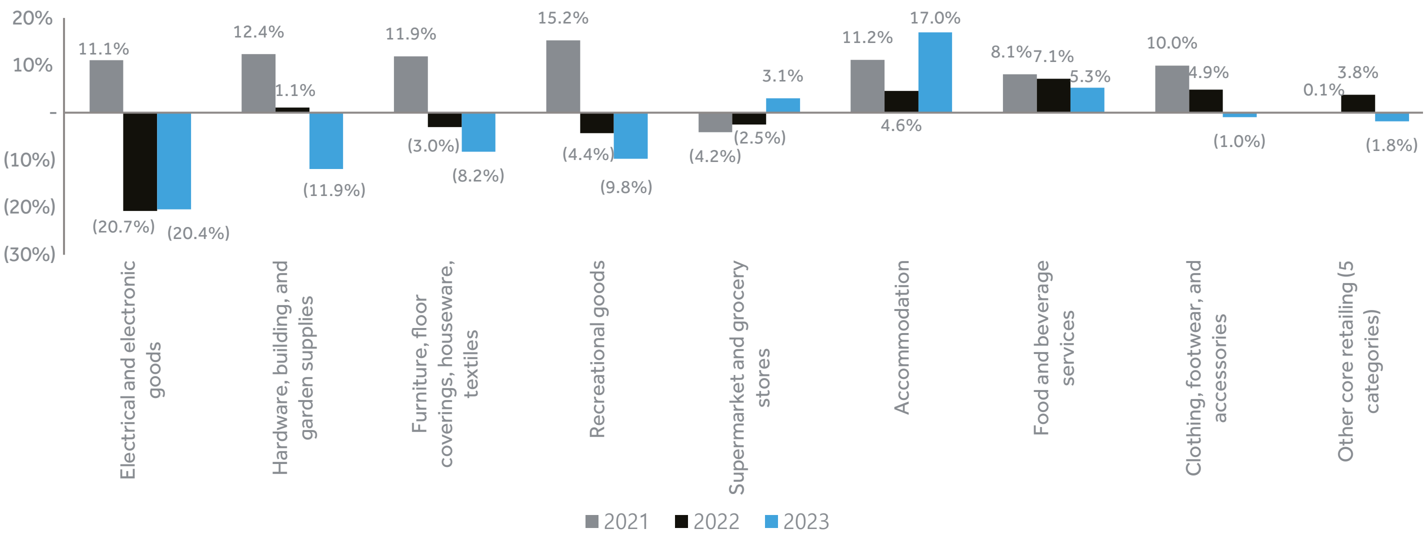
In another year of weak retail growth, the trends we saw in 2022 continued in 2023. Following three years of positive real growth, accommodation and food and beverage services recovered back to 2019 levels, driven by tourism and the shift in retail spending away from goods and towards travel and experiences. Accommodation had a very strong year with real growth of 17.0%, alongside grocery, being one of only two retail categories with higher real growth versus the prior year. Two-thirds of the retail categories reported negative real growth in 2023.

Weaker real spending in the "home" categories, which performed strongly post-COVID, continued in 2023. Electrical and electronic goods saw another poor result, down 20.4% on 2022 following a similar result in that year and now at c.80% of its level pre-COVID. Furnishings and recreational goods also deteriorated in 2023, falling 8.2% and 9.8% respectively, after experiencing significant boosts in 2021. Hardware also performed poorly during 2023 decreasing 11.9%, which is expected given the fall in house prices and declining building consent applications.

These "home" categories benefited from the post-COVID lockdown, work-from-home trends and from retail customers reallocating international travel budgets to big ticket discretionary items. We noted in prior reports that this spend may not be sustainable when travel and "normal" life resumed, with consumers gradually reverting to pre-pandemic spending habits, now seen in the decline in "home" spending.

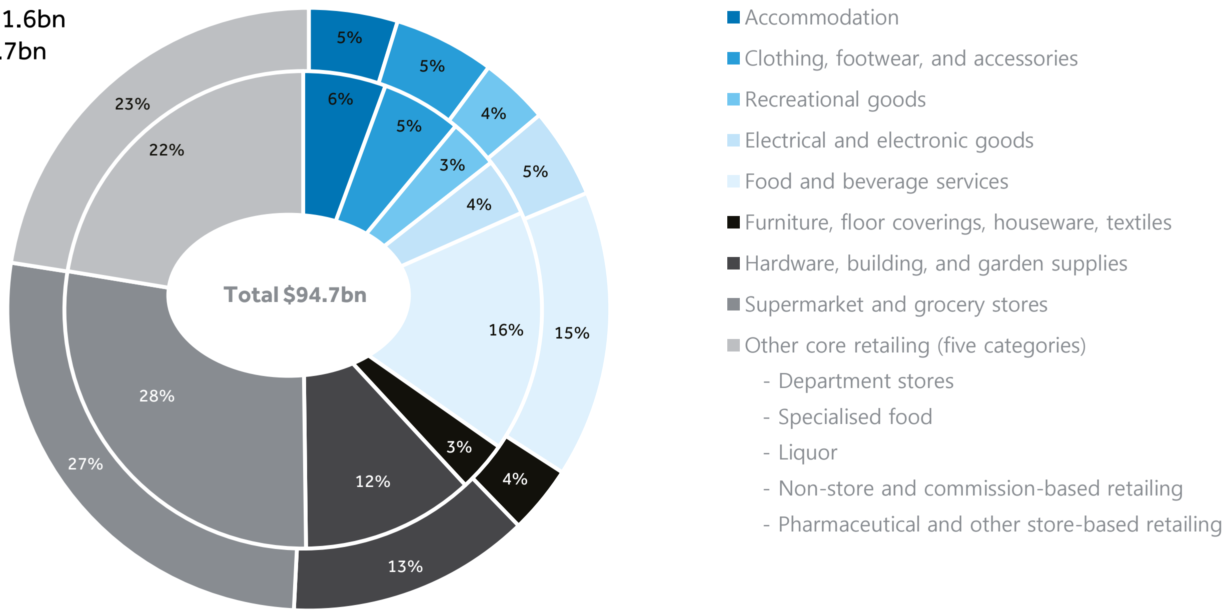
We expect 2024 to be another challenging year for retailers, as the cost-of-living crisis and potential increase in unemployment further erodes consumers' discretionary budgets. However, green shoots may emerge as inflation cools and when consumer confidence rises.

Real retail growth by category versus prior year (seasonally adjusted)



Source: Statistics NZ

Core retail categories
2022 (outside) $91.6bn
2023 (inside) $94.7bn



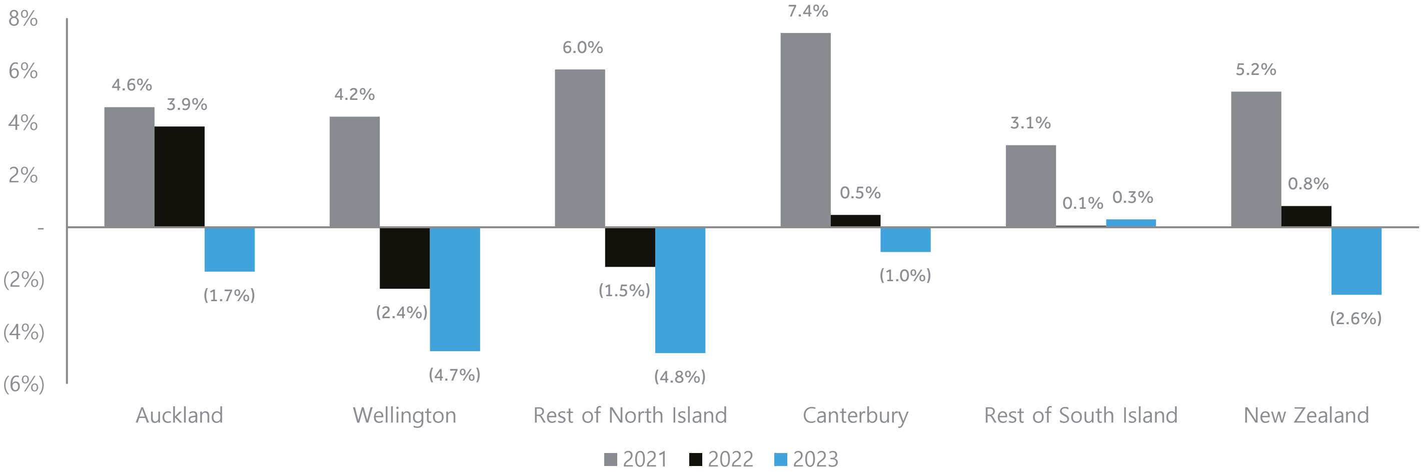
Source: Statistics NZ

WIDESPREAD NEGATIVE GROWTH, REGIONAL SOUTH ISLAND OUTPERFORMS

All regions, except Rest of South Island, reported negative real growth in 2023. Overall New Zealand retail real growth declined 2.6%, after reporting modest growth of 0.8% in 2022. Auckland declined 1.7% following growth in 2022 and 2021, Wellington and the Rest of North Island were particularly poor performing, doubling and tripling the declines reported in 2022, falling 4.7% and 4.8%, respectively.

Canterbury declined only 1.0% following a year of marginal growth in 2022 and an exceptional year in 2021. Rest of South Island was the clear outperformer with growth of 0.3%. However, this region is still 2.9% down on pre-COVID retail spending levels on a real basis, as while international tourists have returned (except China), local retail spending is weak, and the region was hit particularly hard during COVID (down 6.2% in 2020).

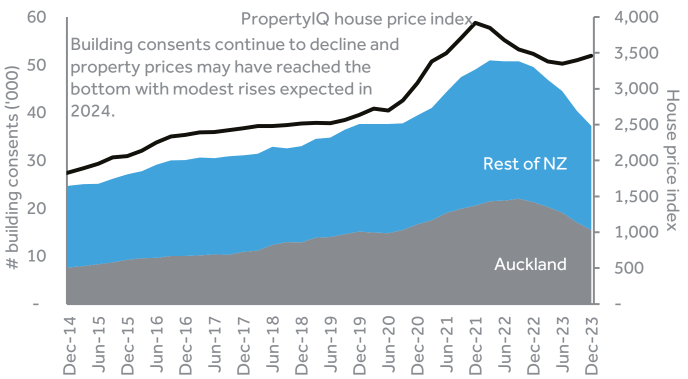
Real retail growth by region versus prior year (includes non-core retail, seasonally adjusted)



Source: Statistics NZ

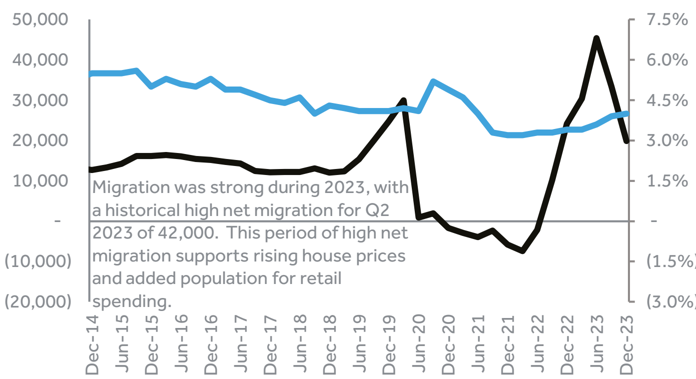
OTHER ECONOMIC INDICATORS

Residential building consents and PropertyIQ house price index



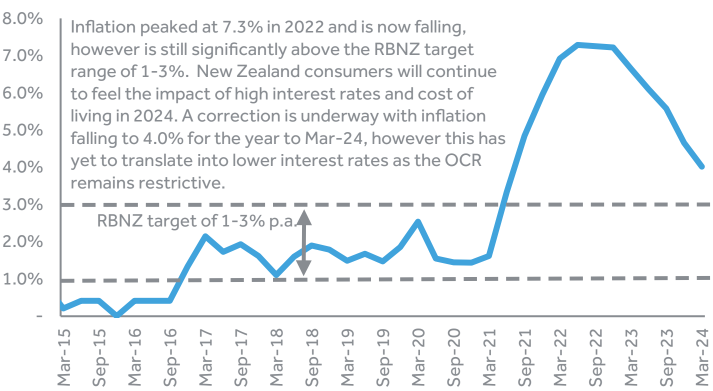
Source: Statistics NZ; Reserve Bank of New Zealand

Net migration (# black) and unemployment rate (% blue)



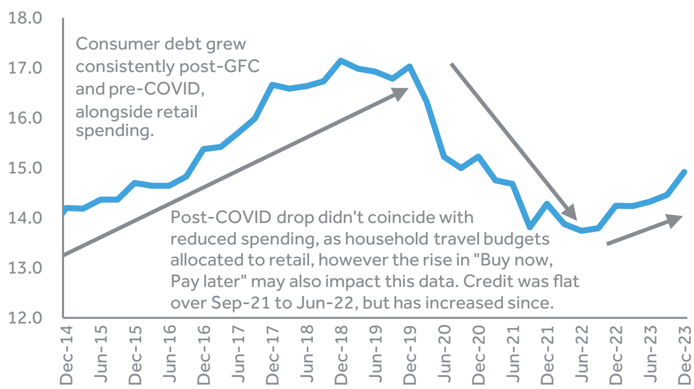
Source: Reserve Bank of New Zealand

Consumer price index (LTM)



Source: Reserve Bank of New Zealand

Household consumer credit $'bn (non-property debt)



Source: Reserve Bank of New Zealand

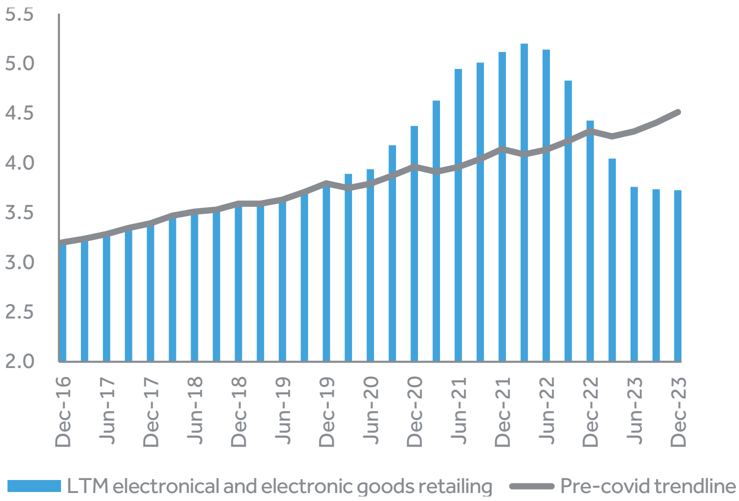
DISCRETIONARY SPENDING CONTINUES TO DECLINE

Retail categories linked to the home (below) saw buoyant growth in 2020 and 2021, up 13% to 30% on pre-COVID levels. This discretionary spending began to decline in 2022, and in our review last year we noted that *"The risk is that these trends continue, as the issues highlighted last year have persisted throughout the 2023 year to date, depressing these categories further. Residential construction in particular appears likely to reduce significantly in the coming year, given trends in building consents and availability of capital for development. As we noted previously, retailers in these categories should consider that the abnormal levels of sales may have been temporary when considering stock levels and store/staff investments."*

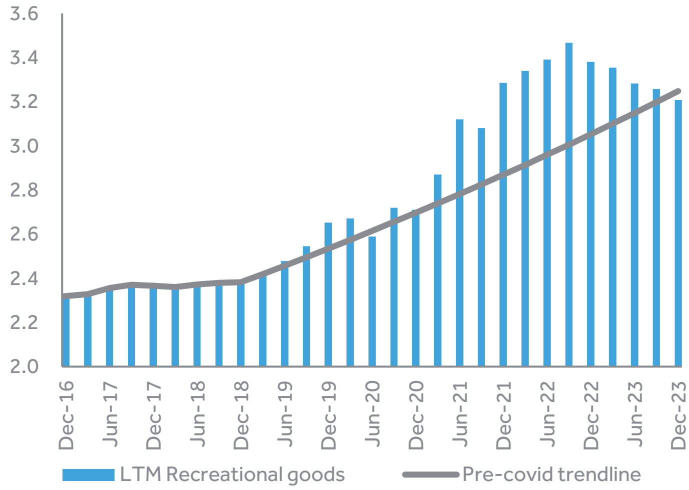
This foresight proved to be accurate, with electrical and electronic goods down 17.0% ($0.7bn) from $4.4bn for the year to December 2022 to $3.7bn for the year to December 2023, with total spending now nearly a fifth less than the pre-COVID trendline. Since June 2023 spending declines in this category have plateaued but remain weak and below the level reached in the year to December 2019. Recreational goods, hardware, and building and garden supplies experienced declines over the year ended December 2023, but remain near the pre-COVID trendlines, and so should be performing better. Furnishings is the relative outperformer and is the only category materially above its pre-COVID trend line, potentially supported by strong net migration during 2023 and Cyclone Gabriel related insurance claims.

Downside risk exists for these categories through 2024, as high interest rates, falling building consents and rising unemployment continue to weigh on household budgets. The outlook could darken further for these categories if net migration slows. Retailers in these categories should continue to monitor inventory levels, ranging and store/staff investments for what is shaping up to be another challenging year ahead.

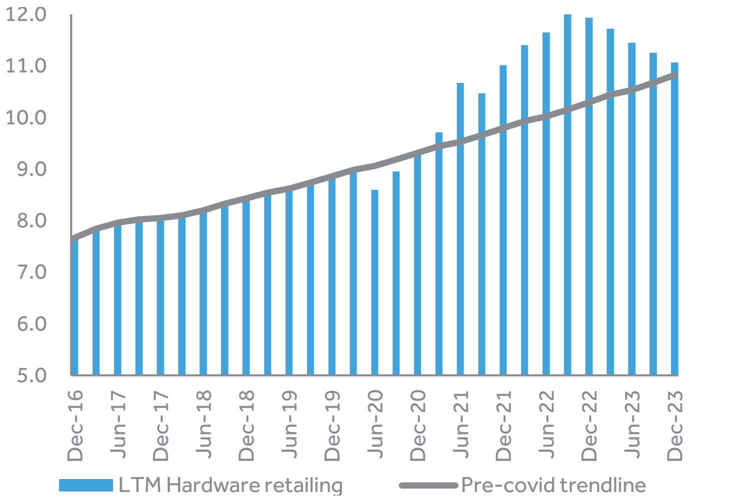
Electrical and electronic goods retailing ($'bn)



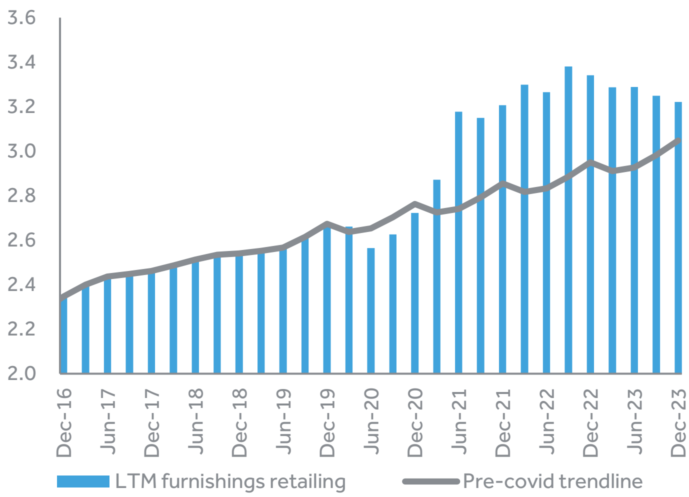
Recreational goods retailing ($'bn)



Hardware, building and garden supplies ($'bn)



Furnishings retailing ($'bn)



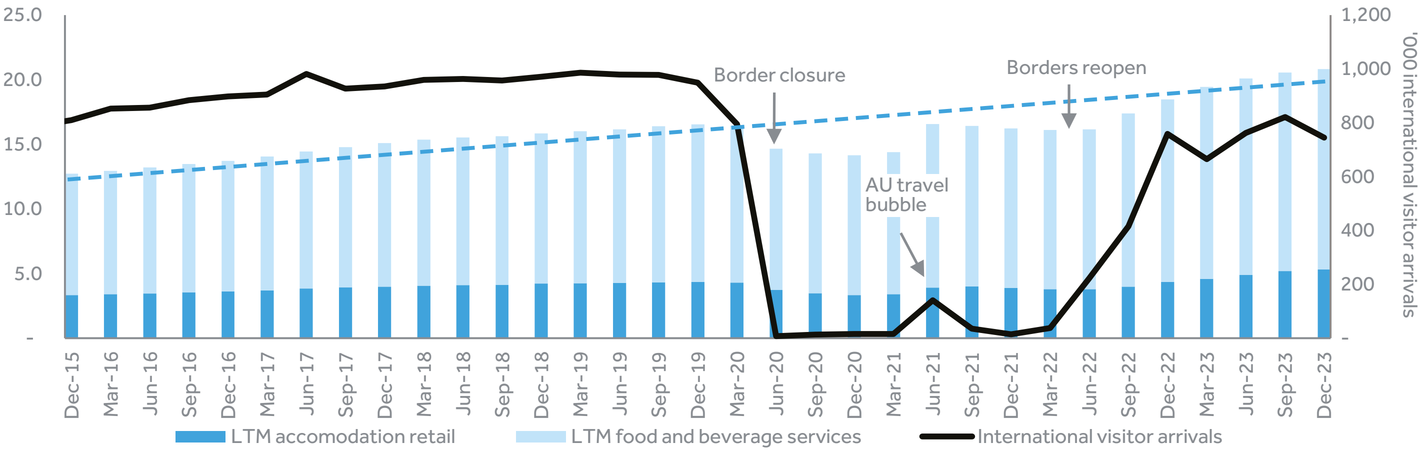
Source: Statistics NZ ; all figures are LTM quarterly and seasonally adjusted but not inflation adjusted

TOURISM RELATED SECTORS CONTINUING TO RECOVER

International visitors have now mostly returned following COVID, with year ended December 2023 arrivals at 3.0m, an increase of 1.6m (108%) compared to the year ended December 2022 (although the border only reopened in Q2 2022). However, international visitor arrivals remain 900k (23%) below the level achieved in year ended December 2019 of 3.9m. Chinese visitors appear to be the slowest to return and remain below their pre-pandemic proportion of international tourists (7% of international visitors in January 2024 versus 11% in January 2019).

The return of tourism appears to have supported a sustained recovery in both accommodation and food and beverage retail, who reported sales growth of $2.3bn (13%) in 2023, exceeding the pre-COVID trendline. Stats NZ reports that January 2024 set a monthly record for outbound tourism with 328k New Zealand resident travelers returning from overseas, 102% of the level achieved in January 2019. If foreign tourist numbers continue to recover, as outbound tourism now has, this provides a positive outlook for accommodation and food and beverage retailers and supports wider GDP growth.

Food and beverage services + accommodation retail ($'bn) and international visitor arrivals



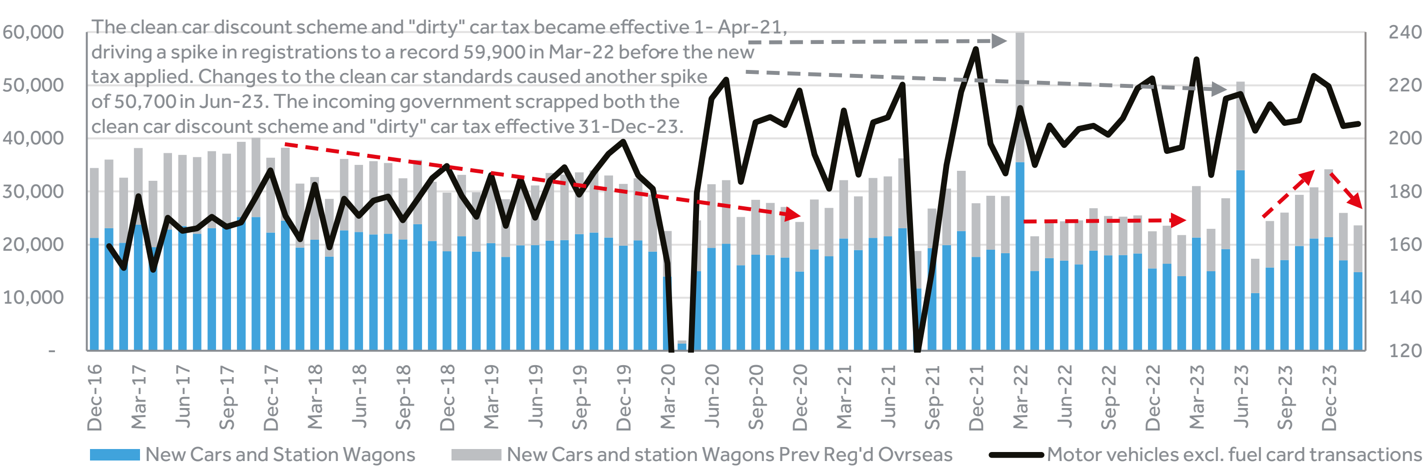
Source: Statistics NZ; all figures are LTM quarterly and seasonally adjusted but not inflation adjusted

MOTOR VEHICLE RETAILING IMPACTED BY GOVERNMENT INCENTIVES BUT TRENDING DOWN

Despite recent volatility caused by government incentives, vehicle registrations have continued to trend downwards since 2017. New Zealand new and used registrations averaged 36,500 per month for the 13-months to December 2017, peaking at 40,000 in November 2017. Excluding COVID volatility, this trend appeared to be reversing during 2021. However, supply-chain constraints and deteriorating macro-economic conditions kept vehicle registrations at an average of 28,000 per month for the two years to February 2024. This includes two major spikes in registrations related to government actions, 60,000 registrations in March 2022 before the "clean car" tax, and 51,000 registrations in June 2023 prior to changes in the "clean car" tax. The incoming government cancelled the scheme at the end of December 2023, potentially driving higher registrations in the final quarter of that year. Registrations have fallen in 2024 reaching 24,000 in February 2024, approximately 15% below the average for 2023 of 28,000.

However, card spend remains elevated, from $180m pre-COVID to $210m in 2023, despite fewer registrations, suggesting inflation. Demand going forward remains uncertain as discretionary spending remains weak, possibly offset by the return of tourism and high net migration.

New and ex-overseas motor vehicle registration (# LHS) and motor vehicle (excl fuel) card transactions ($'m RHS)



Source: Statistics NZ

CONSUMERS RETURNING TO STORES

Unfortunately, we no longer have access to the detailed footfall, in-store and online spending data to continue analysing trends in consumer habits and online spending. However, NZ Post data showed online spending down c.4% in 2023, following a c.5% drop in 2022. 2023 was the first full year since COVID without any lockdown disruptions to physical retail and also marked a return of tourism and increased services spending.

JLL's February 2024 retail market report showed Auckland CBD retail vacancies peaked at 8.6% in June 2022, up from c.2% at December 2019, reducing to 7.3% at December 2023. Average prime CBD rents increased 4.1% to $2,525 per sqm at Q4 2023, up approximately 10% on Q4 2022, with a full year increase of c.4% forecast in 2024. Suburban retail vacancies continued to rise to 10.9% at December 2023, although remain below the peak of over c.12% in June 2021, still well above the c.6% levels pre-COVID. Wellington vacancies increased one-point-four percentage points to 8.1% in December 2023 while rents remained flat, with Lambton Quay rents at $1,800 per sqm for the seventh consecutive quarter. Christchurch prime CBD rents rose 3.8% in Q4 2023, resulting in a total increase of 17.4% for 2023. Overall Christchurch vacancies remain low and fell one percentage point to c.5%, CBD vacancies fell half a percentage point to 2.6%.

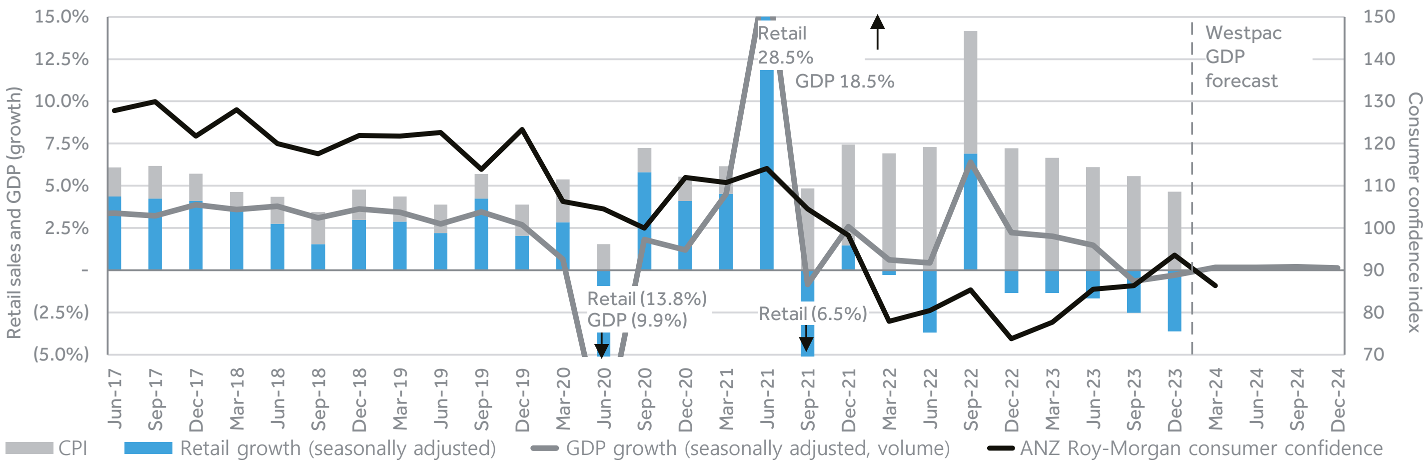
RETAIL OUTLOOK LOOKS GLOOMY WHILE CONSUMER CONFIDENCE DECLINES

Consumer confidence tentatively rose in 2023, after falling to the lowest level since records began in 1988 during 2022. Consumers remain pessimistic but not at historically low levels. ANZ's confidence index shows a similar story for 2023, although the most recent March 2024 data reports a nine-point fall to 86.4 on the back of recession news and weak GDP. ANZ's comparison of consumer confidence by country shows New Zealand and Australia now lagging the United Kingdom and the United States. Despite consumer confidence rising slightly, consumers are reducing spending, with nominal retail growth falling consecutively from 5.9% to 1.0% from Q4 2022 to Q42023; i.e., consumers are reducing consumption volumes rather than pay higher prices.

Inflation drove all retail growth in 2023, with growth of 1.0% and inflation at 4.7% meaning real growth was negative 3.6% for Q4 2023. Consumers are withholding spending habits, notably at seasonal events such as promotional activities such as Black Friday and Boxing Day sales. Retail spending continues to lag GDP growth, as the impact of cost-of-living inflation and high interest rates impact consumers' discretionary budgets.

Last year we noted that the post-COVID spending boost ended, with spending shifting away from goods and towards services, supported by tourism returning towards pre-COVID levels. We noted that consumers' discretionary spending would continue to be negatively impacted by rising costs of living, inflation and high interest rates. These predictions turned out to be accurate, with leisure increasing and tangible goods sales slowing to varying degrees. Given Westpac forecasts little GDP growth over the next year and although interest rates and inflation may have peaked, we expect tough trading conditions in retail this year, potentially easing in the last quarter if monetary conditions loosen. Retailers will need to carefully manage stock, staffing, store, and working capital decisions, with scenario analysis for demand forecasting and inventory management to mitigate these risks.

Retail and GDP growth (quarterly vs PY) and consumer confidence index



Source: Statistics NZ; ANZ Roy Morgan Consumer Confidence Index; Westpac New Zealand economic and financial forecasts

FOR MORE INFORMATION, PLEASE CONTACT OUR RETAIL SPECIALISTS

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Who do we help?

We help retailers, both listed and private, including some of New Zealand and Australia's best-known organisations to perform better.

Project	Engagement type	Sector	Role
Bobux	Receivership	Shoe wholesaling	Ran an accelerated, global, sale process to preserve value in the Bobux brand, achieving a sale as a going concern to Munro Footwear Group.
Gull NZ	Hold Separate Manager	Fuel retailing	Managed the day-to-day operations of the Gull fuel retail network during a divestment period on behalf of the Commerce Commission.
Liquor King	Sale advisor	Liquor retailing	Managed the successful divestment of the Liquor King retail store network for parent Lion Nathan.
Max Fashion	Creditors compromise	Fashion retailer	Developed and implemented a restructuring plan that reduced payments to suppliers, closed unprofitable stores and reduced rent on remaining stores, saving jobs and the company from insolvency.
Nido	Receivership	Furniture retailer	As receivers, we executed an efficient stock realisation strategy to maximise returns for creditors and ultimately close New Zealand's largest furniture retailer.
Project Rain	Retail advisory	Clothing retail	Assisted the Board to refresh their digital and store strategy through providing benchmarking data and analytical tools. Subsequently assisted with Covid-19 preparation and contingency planning.
Project Pew	Retail advisory	Furniture retailing	Assisted with landlord negotiations for Covid-19 relief and contingency planning.
Ziera Shoes	Voluntary administration	Shoe retailing	As administrators, we deployed technology and a trading strategy that increased turnover five-fold, whilst securing a sale of the IP, resulting in secured creditors being repaid in full and creditors receiving c90% of their claims.
Project Clip	Retail advisory	General retailing	Detailed independent business review, forecasting and ongoing monitoring to improve profitability and redirect the business's strategy.
Topshop	Receivership	Fashion retailer	As receivers we leveraged our retail expertise to maximise returns from stock through targeted marketing and merchandising.
Identity	Receivership	Fashion retailer	As receivers, we closed unprofitable stores whilst selling down stock and completed a sale of the business and assets as a going concern.
Project Black	Retail advisory	Sports hardware retailer	Detailed independent business review and on-going monitoring and advice to improve profitability, including recommending changes in product mix, supply chain and strategic direction.
Project Music	Retail advisory	Music retailer	High-level independent business review to identify key issues and provide recommendations and strategy to improve profitability, including recommending the closure of stores and advice regarding online competition.

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