

The Retail Market In New Zealand

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(Note: This updates the analysis released in 2002).

Source of information – unless otherwise stated all information has been drawn from Statistics New Zealand.

The Retail Market – The Big Picture

The retail sector is one of the most critical elements of the national economy. It is at the shop front that we see the interface between the end consumer and the manufacturing, importing and service sectors.

For the year ending December 2002 the retail sector, as defined by Statistics NZ, had a value of \$49.9 billion. Since then on a rolling basis the 12 months ending June 2003 has seen retail sales break through the \$50 billion mark for the first time. This 12-month period showed sales of \$51.2 billion. The significance of this is highlighted by the comparison against total gross domestic product (GDP) which for the 12 months ending March 2003 reached approximately \$128 billion.

This level of retail business is achieved through some 49,000 plus retail outlets including general retail outlets, service stations, cafes restaurants and the like.

Retail Outlets	Enterprises	32,767
	Geographic Units	38,236
Accommodation/Cafes/Restaurants	Enterprises	9,807
	Geographic Units	10,893

(as of February 2002)

Thus, in total the retail sector including accommodation/cafes/restaurants accounts for 15% of business enterprises in the country and 16% of geographic units.

Market Performance

That's the big picture but how has the market actually performed?

12 Months Ending Dec	Actual Retail Sales \$m	% Growth
2002	49,910	+7.8
2001	46,282	+6.4
2000	43,498	+6.0
1999	41,035	+5.2
1998	39,013	+1.1

The growth in the market last year at 7.8% was very strong and it would be fair to say that the retail sector lead the way.

How is 2003 shaping up? Is the growth of the last three years being sustained?

Quarterly Performance

<u>Quarter Ending</u>	<u>% Change Same Quarter Last Year</u>
June 2003	+4.6
March 2003	+6.5
December 2002	+7.2
September 2002	+8.1
June 2002	+8.2
March 2002	+8.2

It would appear that the market growth is slowing but we need to remember we are coming off a very strong performance in 2002. We believe that 5.0% - 5.5% is the most likely growth range for 2003.

One item that can impact on the overall picture is the motor vehicle sector – both motor vehicle retailing and motor vehicle services (which includes petrol). This sector accounts for 29% of total retail sales. As we know both imported second hand car prices and more particularly petrol prices are subject to significant upwards and downwards movement.

So, what does the recent trend look like excluding these items?

% Change Same Quarter Last Year (excluding motor vehicle sales and services)

<u>Quarter Ending</u>	<u>%</u>
June 2003	+5.7
March 2003	+5.9
December 2002	+7.5
September 2002	+8.0
June 2002	+7.4
March 2002	+8.3

While not as dramatic the softening of the market is still evident over the first six months of 2003.

Regional Performance

Attached is a supplementary analysis covering a regional perspective over the last 5 calendar years.

In summary this shows the following:

	<u>% Change 1998-2002</u>
Auckland Region	+31.8
Waikato Region	+35.3
Wellington Region	+16.3
	<u>% Change 1998-2002</u>
Rest of the North Island	+22.7
Canterbury Region	+30.0
Rest of the South Island	+29.7
Total NZ	+27.6

Across the whole country over this five-year period retail sales grew by 27.6 % Auckland and Waikato Regions were the strongest at over 30% and Wellington region was well behind everyone else at only 16.3%.

Performance Across Sectors

The total market has shown considerable growth over the last couple of years or so. Where has the growth come from? Which sectors of the industry have performed the best?

(Note: in reviewing the two tables below it needs to be remembered that Statistics New Zealand's definitions of store types are based on store type and not product category. For example, sales of home appliances or footwear through the Warehouse or Farmers would be included in 'department stores' and not appliance or footwear categories).

Share of Retail Sales (Source: Statistics New Zealand)

	2000		2001		2002	
	Sales \$m	% Share	Sales \$m	% Share	Sales \$m	% Share
Food/Grocery	9,917	22.8	10,688	23.1	11,452	23.0
Footwear	247	0.6	263	0.6	286	0.6
Clothing/Softgoods	1,565	3.6	1,685	3.6	1,808	3.6
Furniture	1,139	2.6	1,168	2.5	1,347	2.7
Appliances	1,446	3.3	1,494	3.2	1,618	3.3
Hardware	788	1.8	847	1.8	918	1.8
Chemists	1,291	3.0	1,343	2.9	1,460	2.9
Department Stores	2,556	5.9	2,695	5.8	2,859	5.7
Recreational Goods	1,736	4.0	1,893	4.1	2,055	4.1
Cafes/Takeaways/Restaurants	3,607	8.3	3,737	8.1	3,992	8.0
Accom/Hotels/Liquor	3,003	6.9	3,272	7.1	3,541	7.1
Personal/Household Services	1,209	2.8	1,273	2.8	1,355	2.7
Other Stores	2,420	5.6	2,584	5.6	2,799	5.6
Sub Total	30,923	71.1	32,940	71.2	35,488	71.1
Motor Vehicle Retailing	6,064	13.9	6,508	14.0	7,357	14.7
Motor Vehicle Services	6,511	15.0	6,835	14.8	7,078	14.2
Total All Retail Sales	43,498	100%	46,282	100%	49,923	100%

Food/groceries, cars/petrol and wining/dining are the three big sectors of retail – this is where we spend two thirds of the dollars we spend at retail.

This is how the market splits up...but how has each of the sectors grown over recent years?

Growth by Retail Sector (Source: Statistics New Zealand)

% Change On Prior Year				
	12Months Ending December 99	12 Months Ending December 2000	12 Months Ending December 2001	12 Months Ending December 2002
Food/Grocery	5.3	5.2	7.8	7.1
Footwear	-0.1	8.8	6.4	8.7
Clothing/Softgoods	6.2	6.7	7.7	7.3
Furniture	6.9	1.7	2.5	15.3
Appliances	4.7	7.7	3.3	8.3
Hardware	1.8	1.3	7.5	8.4
Chemists	3.4	2.3	4.0	8.7
Department Stores	12.3	8.3	5.4	6.1
Recreational Goods	2.6	6.0	9.0	8.6
Cafes/Takeaways/ Restaurants	2.2	-1.2	3.6	6.8
Accom/Hotels/liquor	11.2	5.9	9.0	8.2
Personal/Household Services	7.5	5.4	5.3	6.4
Other Stores	9.9	7.7	6.8	8.3
Sub Total	6.1	4.8	6.5	7.7
Motor Vehicle Retailing	1.0	2.4	7.3	13.0
Motor Vehicle Services	5.1	15.9	5.0	3.6
Total All Retail Sales	5.2	6.0	6.4	7.8

Comments

- 1 All sectors performed well in the latest year with growth rates ranging from 6.1% to 15.3% (except motor vehicle services at 3.6% which reflects petrol pricing).
- 2 The high growth in furniture sales is reflective of the high level of new home formation.

The Financial Performance

The strong growth in retail sales over the last year reflected a positive consumer outlook and a stable economy. However, what lies below the surface? Have sales been achieved at the expense of margin?

The Annual Enterprise Survey conducted by Statistics New Zealand looks below the surface and identifies some other key indicators.

The latest data available is for the year of 2001.

Category	Closing Stock % To Sales *	Salaries/Wages % To Sales **	Gross Margin*** %	Income Per FTE \$000	Surplus Per FTE \$000
Total Retail <i>(excl accom/cafes/restaurants)</i>	9.6	10.8	23.1	210.1	8.4
Supermarkets	25.2	8.2	19.1	279.4	8.8
Department Stores	6.1	12.7	31.7	218.9	6.8
Clothing Retailing	5.7	12.8	41.1	173.8	12.6
Footwear Retailing	5.2	15.6	39.4	183.1	10.9
Furniture Retailing	6.0	11.8	32.7	258.2	18.8
Floor Covering Retailing	8.4	14.0	30.5	260.7	16.1
Domestic Hardware & Houseware	4.9	15.0	32.2	173.6	9.4
Domestic appliance retailing	7.2	9.7	23.0	297.5	9.0
Sport & Camping Equipment	4.4	11.7	28.8	201.6	6.7
Newspaper/Books/Stationery	5.4	13.3	32.4	146.5	5.8
Chemists	10.5	16.7	29.8	210.1	22.6
Garden Supplies	7.0	15.7	32.4	128.4	6.6

Definitions

- * 1 Closing stock to sales – this is a crude measure of stock turn based on stock valued at cost. For example, total sales by supermarkets was recorded at \$7,442 million and closing stock at \$295 million. The rates of 25.2 shown in the above table is simply \$7442m divided by \$295 million.
- ** 2 Salaries and Wages/Sales – this figure is the total cost of salaries and wages including salaries and wages paid to working proprietors divided by total sales. For example, supermarkets paid out a total of \$608 million in salaries and wages which is 8.2% of sales.
- ** 3 Gross Margin – this has been calculated on the basis of ‘sale of goods not further processed minus purchases of good for resale divided by sale of goods not further processed’. Thus, in the case of supermarkets the calculation was: $(\$6,972m - 5,643m) / \$6,972m$
- 4 FTE – Full time equivalent staff member.

The above paints a picture of some of the key performance indicators but how do the ‘bottom lines’ compare. Set out over we have calculated the ratio of ‘operating surplus before tax’ as a percentage of total income.

	2000 Net %	2001 Net%
Supermarkets	2.3	3.2
Department Stores	4.0	3.1
Clothing Retailers	6.3	7.2
Footwear Retailers	7.2	5.9
Furniture Retailers	5.8	7.2
Floor Covering Retailers	6.7	6.1
Domestic Hardware & Houseware	6.2	5.4
Domestic Appliance Retailing	2.8	3.0
Sports, Camping Equipment	7.2	3.2
Chemists	11.1	10.7
Garden Supplies	8.6	5.1
All Retailing	4.4	4.0

Comments

Overall net margin slipped a little in the 2001 year compared with 2000 (4.0% vs 4.4%)

The individual sector figures do need to be treated with a little caution as the figures are at a lower level than that normally published by Statistics New Zealand. Thus, there is a higher level of potential sampling error.

Employment – How Significant Are We?

As we have seen above the retail sector is a significant part of the national economy, it operates on very fine margins and pays some \$4 billion plus in salaries and wages.

How many people earn their living from our sector?

Retail Trade Number Employed (2002)						
Stores Employing	0-5 People	6-9 People	10-49 People	50-99 People	100 + People	Total
Number Employed						
Full Time	52,880	23,880	34,230	10,950	12,560	134,510
Part Time	30,100	14,830	23,180	13,740	13,580	95,430
FTEs	67,940	31,300	45,820	17,820	19,350	182,230
Number of Stores	30,485	4,582	2,788	258	123	38,236
FTE/Store	2.2	6.8	16.4	69.0	157.3	4.8

(Source: Statistics NZ Business Demographic Study)

(Retail trade excludes accommodation/cafes/restaurants)

Thus, the retail sector employs 134,500 full time staff, 95,400 part time staff which equates to 182,200 full time equivalents.

If we include the accommodation/cafe/restaurant sector the numbers go up to 177,800 full timers, 152,00 part timers (330,000 people) which equates to 254,000 full time equivalents. This is equal to 17% of the total work force.

Conclusion

- Retail is a major component of the NZ economy.
- Retail growth has been strong relative to the rest of the economy
- Retail is responsible for nearly one in every five employees in the country
- Retail operates on very fine net margins.

Notes

- 1 Some finer detail is available on request but the quality of such data is not particularly robust.
- 2 Attached is a five year review of retail sales by region - Appendix I.
- 3 Store type classifications/definitions are attached - Appendix II.

Is It Different Out In The Provinces?

A Look At Retail Sales By Region

Background

Often we look at the retail sales statistics and comment on what has happened this month or quarter compared with the same period last year.

But, what of the longer term? How have the various regions performed over time?

The analysis below looks at the last five calendar years starting from 1998. Where the figures are indexed, the 1998-year has been set at 1000.

Note: figures exclude motor vehicle retailing and services.

The Numbers

1 Index of growth

	1998	1999	2000	2001	2002
Auckland Region	1000	1075	1142	1222	1318
Waikato Region	1000	1046	1097	1220	1353
Wellington Region	1000	1050	1096	1128	1163
Rest of North Island	1000	1038	1058	1121	1227
Canterbury Region	1000	1091	1162	1237	1300
Rest of South Island	1000	1054	1107	1175	1297
Total New Zealand	1000	1061	1118	1184	1276

2 % Change Year On Year

	1999 vs1998	2000 vs1999	2001 vs 2000	2002 vs 2001
	%	%	%	%
Auckland Region	+7.5	+6.2	+7.0	+7.9
Waikato Region	+4.6	+4.9	+11.2	+10.9
Wellington Region	+5.0	+4.4	+2.9	+3.1
Rest of North Island	+3.8	+1.9	+6.0	+9.5
Canterbury Region	+9.1	+6.5	+6.5	+5.1
Rest of South Island	+5.4	+5.0	+6.1	+10.4
Total New Zealand	+6.1	+5.4	+5.9	+7.8

3 Growth Over Five-Year Period

	Total Growth 1998-2002
Auckland Region	+31.8
Waikato Region	+35.3
Wellington Region	+16.3
Rest of North Island	+22.7
Canterbury Region	+30.0
Rest of South Island	+29.7
Total New Zealand	+27.6

4 Comments/Analysis

- Over the period from 1998 to 2002 the Waikato Region lead the way with total growth of over 35%. This compared with the national average of 27.6%. The poorest performer was Wellington Region, which managed less than half the growth of Waikato of 16.3%.
- The regional performance over the five-year period has been quite variable. The Auckland region, for example, has operated in a tight and very positive range from 6.2% growth to 7.9%. On the other hand, the Waikato Region has demonstrated year on year growth that ranges from a low of 4.6% to a high of 11.2%.

5 Regional Performance

Let's consider each region's performance over the 1998/2002 period...

Auckland Region

- Consistently performed at above the national average
- Very consistent growth pattern.

Waikato Region

- The growth in 1999 vs 1998, and again in 2000 v's 1999 was well below the national average.
- In 2001 and 2002 the growth in this region was ahead of all other regions.
- In spite of the slow start, Waikato finished the review period strongly enough to post the highest level of growth between 1998 and 2002.

Wellington Region

- The growth in the Wellington region has been restricted compared with the rest of the country.

- Through 1999 and 2000 the growth on prior year was not far behind the national average but in 2001 and 2002 the gap between the Wellington region and the rest of the country widened.

	2001/2000	2002/2001
Wellington	+2.9%	+3.1%
National Average	+5.9%	+7.8%

Rest Of North Island

- Growth through 1999 (relative to 1998) and 2000 (relative to 1999) was very restricted at 3.8% and 1.9% respectively. However in the last two years, and more particularly in 2002 this region has performed well.

	2001/2000	2002/2001
Rest of North Island	+6.0%	+9.5%
National Average	+5.9%	+7.8%

Canterbury Region

- The growth in the Canterbury region in 1999 compared with 1998 lead the way in the regional growth race.
- Since this stirring start in the first year of the review period Canterbury's growth has eased somewhat.

	1999/1998	2002/2001
Canterbury Region	9.1%	5.1%
National Average	6.1%	7.8%

- Over the full period (1998 – 2000) retail sales in Canterbury have grown by 30% compared with the national average of 27.6%.

Rest Of The South Island

- Following average performance in growth through 1999, 2000 and 2001 the region came away strongly in 2002 showing growth of 10.4% compared with 2001. This compared with the national average of 7.8%
- Over the full period the growth was 29.7% which compared with the national average of 27.6%

So... how have all these various movements impacted on the share of national retail sales accounted for by each region.

	1998	1999	2000	2001	2002
	%	%	%	%	%
Auckland Region	31.9	32.3	32.7	32.9	32.9
Waikato Region	8.3	8.2	8.2	8.6	8.8
Wellington Region	12.8	12.7	12.6	12.2	11.7
Rest of the North Island	22.4	21.9	21.3	21.1	21.5
Canterbury Region	13.0	13.4	13.6	13.6	13.3
Rest of the South Island	11.6	11.5	11.6	11.6	11.8
Total	100%	100%	100%	100%	100%

While the movements above may not seem significant it needs to be remembered that excluding the motor vehicle sales and services sector the retail sector is valued at \$35.5b (this does include cafes, restaurants and takeaways). A one percentage point shift in share as demonstrated by Auckland over the period has a value of some \$35m.

In answer to the question posed...

Yes, it is different in the provinces - New Zealand does not behave in a uniform way across the country. Retail sales respond to a whole variety of stimuli from new home formation generated by immigration to higher agricultural prices. In a sense retail is at the end of the food chain and is impacted on by those elements further up the chain.

The key is consumer confidence and consumer numbers.

Definitions

Auckland Region: Includes Auckland, Manukau, North Shore, Waitakare cities and Franklin, Papakura and Rodney districts.

Waikato Region: Includes Hamilton city and Franklin, Hauraki, Matamata-Piako, Otorohanga, Rotorua, South Waikato, Taupo, Thames – Coromandal, Waikato, Waipa and Waitomo districts.

Wellington region: Includes Lower Hutt, Upper Hutt, Porirua and Wellington Cities and Carterton, Masterton, Kapiti Coast, South Wairarapa and Tararua districts.

Rest of North Island: North Island, excluding the above.

Canterbury Region: Includes Christchurch city and Ashburton, Banks Peninsula, Hurunui, Kaikoura, Mackenzie, Selwyn, Timaru, Waimakariri, Waimate and Waitaki districts.

Rest of the South Island: South Island excluding Canterbury region.

Technical Notes.....

The redesigned Retail Trade Survey was first published in the May 1995 release.

Storetype descriptions

An activity unit is included in a storetype based on its predominant activity in terms of sales. For example a footwear store will sell shoes and boots but it may also see bags and accessories. It will be classified to the Footwear storetype if most of its sales income comes from the sale of shoes. The 15 storetypes are defined as follows.

Food Retailing	ANZSIC
Supermarket and Grocery Stores	5110
Fresh Meat, Fish and Poultry	5121
Fruit and Vegetable	5122
Bread and Cake	5124
Milk Vending	5126
Specialised Food Retailing nec	5129
Footwear	
Footwear	5222
Clothing and Softgoods	
Clothing	5221
Fabrics and other soft Goods	5223
Furniture and Floorcoverings	
Furniture	5231
Floorcovering	5232
Appliance Retailing	
Domestic Appliance	5234
Recorded Music	5235
Hardware	
Domestic Hardware & Houseware	5233
Chemist	
Pharmaceutical, Cosmetic and Toiletry	5251
Department Stores	
Department Stores	5210
Cafés Restaurants and Takeaways	
Cafes and Restaurants	5730
Accommodation, Hotels and Liquor	
Accommodation	5710
Pubs, Taverns and Bars	5720
Clubs (Hospitality)	5740
Liquor	5123

Automotive Vehicle Retailing

Car Retailing	5311
Motor Cycle Dealing	5312
Trailer and Caravan Dealing	5313

Automotive Vehicle Services

Automotive Fuel	5321
Automotive Electrical Services	5322
Smash Repairing	5323
Tyre Retailing	5324
Automotive Repair & Services nec	5329

Other Stores

Antique and Used Goods	5252
Garden Supplies	5253
Flowers	5254
Watch and Jewellery	5255
Household Equipment Repairs (Electrical)	5261
Household Equipment Repairs nec	5269
Retailing nec	5259

Personal and Household Services

Video Hire Outlets	9511
Personal and Household Goods Hiring nec	9519
Laundries and Drycleaners	9521
Photographic Film Processing	9522
Photographic Studios	9523
Funeral Directors, Crematoria & Cemeteries	9524
Gardening Services	9525
Hairdressing and Beauty Salons	9526
Personal Services nec	9529

Recreational Goods

Sport and Camping Equipment	5241
Toys and Games	5242
Newspaper, Book and Stationary	5243
Photographic Equipment	5244
Marine Equipment	5245

Survey Design

Using the Australian and New Zealand Standard Industrial Classification (ANZSIC), all geographic units that are classified as

Retail Trade (ANZSIC division G)

Accommodation, Cafes and Restaurants (ANZSIC division H) and

Personal Services (ANZSIC subdivision 95 of division Q)

On the Business Frame are part of the population for the Business Trade Survey. The ANZSIC classification is based on the predominant activity of the geographic unit.

Enterprises with a turnover of \$30,000 or more are eligible for selection.

Sample Design

This survey population was stratified according to store type and size (in terms of full time equivalent persons engaged). Because of the contribution that large enterprises have on sales, they are included in the sample. A portion of the remaining enterprises are also included in the sample. In total, about 4,000 enterprises have been selected for the sample to represent the entire population. All geographic units (business locations) belonging to these enterprises, which are classified as retailers under ANZSIC are sent a questionnaire.

Disclaimer: While all care is taken in the giving of advice, it is given on the condition that the New Zealand Retailers Association Inc and its officers, employees, and Board members, are not liable for the results of any actions taken in reliance upon this advice.