



SNAPSHOT

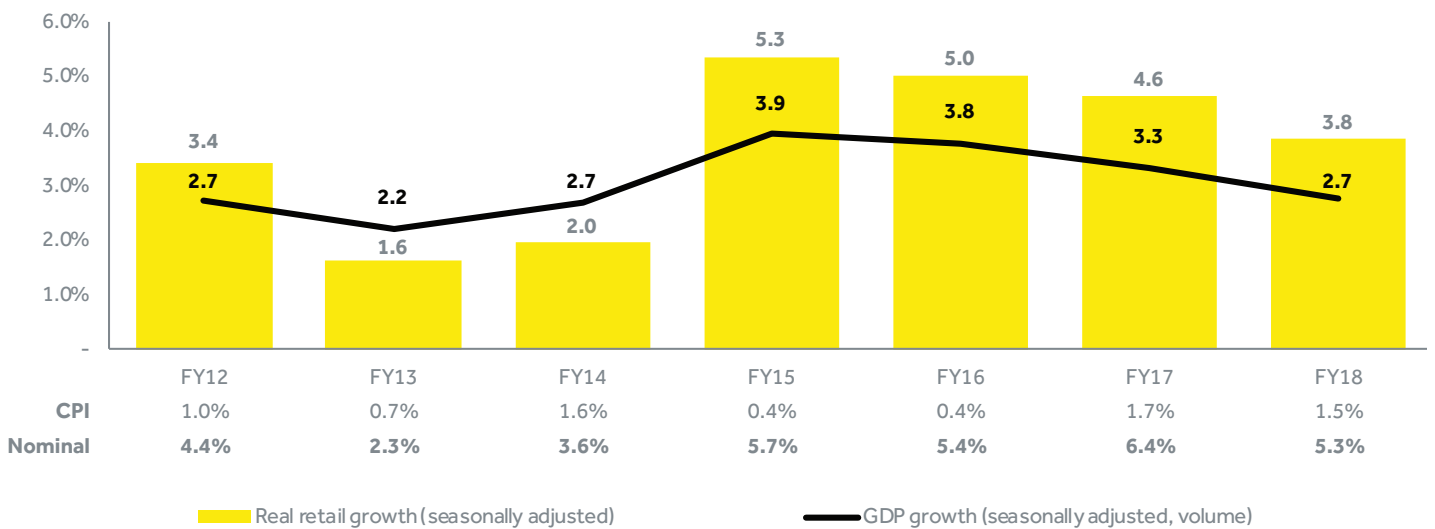
- FY18 retail growth was strong at 3.8%, outpacing the broader economy for the fourth year in a row, with GDP growing 2.7%. However, the rate of growth has declined for the last four years, as has GDP.
- Retail growth in FY18 was spread across the country, rather than being concentrated in Auckland, although Wellington and Canterbury continue to underperform the average.
- Stalling/falling house prices in Auckland and Canterbury appear to have slowed the significant historical growth rate in the hardware, building and garden supplies, and furniture, floor coverings, houseware and textiles sectors, despite residential building consents continuing at record levels.
- Tourism has continued to fuel growth in the accommodation and food and beverage services sectors, albeit domestic malaise appears to have curtailed historically high growth.
- The apparel sector has continued to recover, driven by clothing, while footwear retailers failed to see growth.
- FY18 saw fewer retail failures (Topshop, Andrea Moore, Meccano, The Native Plant Nursery), following some tough years for the sector. The outlook however appears mixed, with continued forecast GDP growth, but falling consumer confidence, perhaps linked to concerns of a property market downturn (now underway in Australia), unclear Government policy direction and potential global geopolitical instability. In addition, the Government’s plan to raise the minimum wage will increase retailer costs, perhaps offset by upside from GST reforms on low-value imports proposed to be implemented in October 2019.

CORE RETAIL INDUSTRIES (“RETAIL”)* GROWTH CONTINUES TO OUTPACE GDP

FY18 real retail sales grew 3.8% (nominal 5.3%), contributing 7.2% of New Zealand’s GDP and outpacing GDP growth of 2.7% for the fourth year in a row.

As detailed later in this report, retail growth varied across segments and regions.

Real retail and GDP growth



Source: Statistics NZ

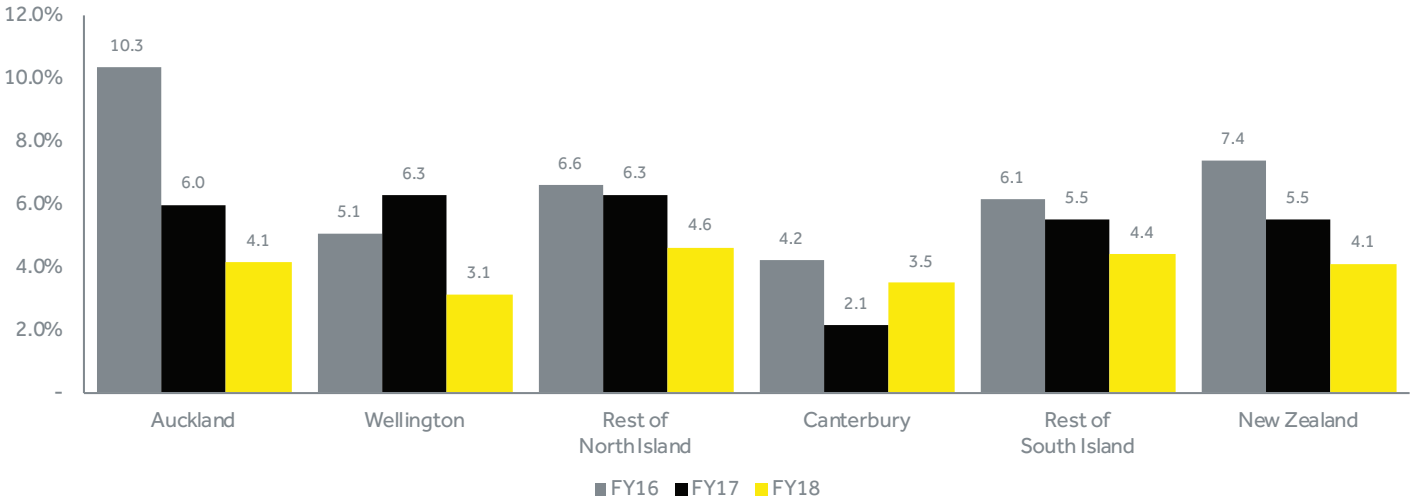
*Retail industries reported by Statistics NZ, excluding fuel and motor vehicles and parts



GROWTH SPREAD ACROSS THE COUNTRY AS HISTORICALLY STRONG AUCKLAND SLOWS

Record levels of tourism, building consents and high net immigration continued to be the key drivers of growth in FY18, albeit with growth slower than both FY17 and FY16. Auckland's retail growth is now in line with the national average, having slowed from historical highs as the property market cools, while Wellington and Canterbury continued to underperform the average. Within the regions, key winners were Hawkes Bay (7.3%), Gisborne (7.3%) and Tasman (10%).

Retail growth by region FY16, FY17 and FY18 (includes non-core retail, seasonally adjusted)

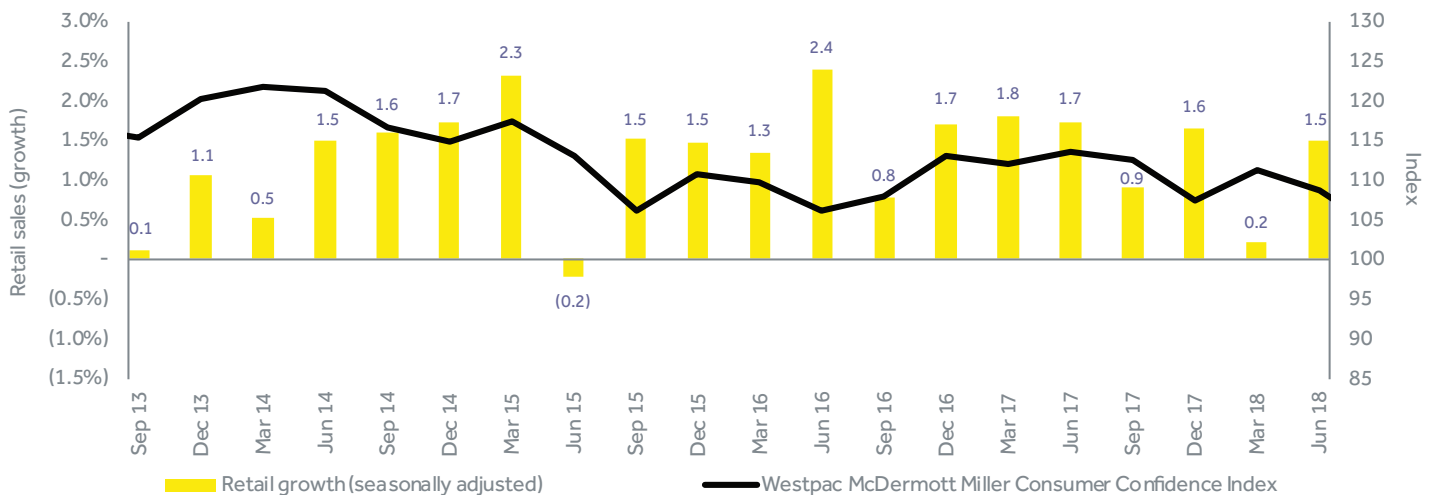


Source: Statistics NZ; note the basis of calculation was changed by Statistics NZ during the FY18 period and consequently this chart is not comparable to prior years

CONSUMER CONFIDENCE SLUMPS AGAIN

Consumer confidence fell during FY18, heading back towards levels last seen in FY16. Excluded from the chart below is a further decline in confidence to 103.5 at September 2018, the lowest level in six years. Such low consumer confidence is more commonly seen during recessions. Unlike FY16, we cannot point to depressed commodity (dairy) prices for the cause of consumers' concerns. New Zealanders may be concerned about high household debt levels in light of possible interest rate rises (driven by global cost of funding increases) and the perception that housing markets, especially in Auckland and Canterbury, will not appreciate (and in fact may fall) in the near term. In addition, rising fuel costs driven by crude prices as well as additional taxes will impact consumer spending. Finally, a falling New Zealand dollar will result in upward price pressure for New Zealand retailers relying on imported goods.

Retail growth and consumer confidence (quarterly)



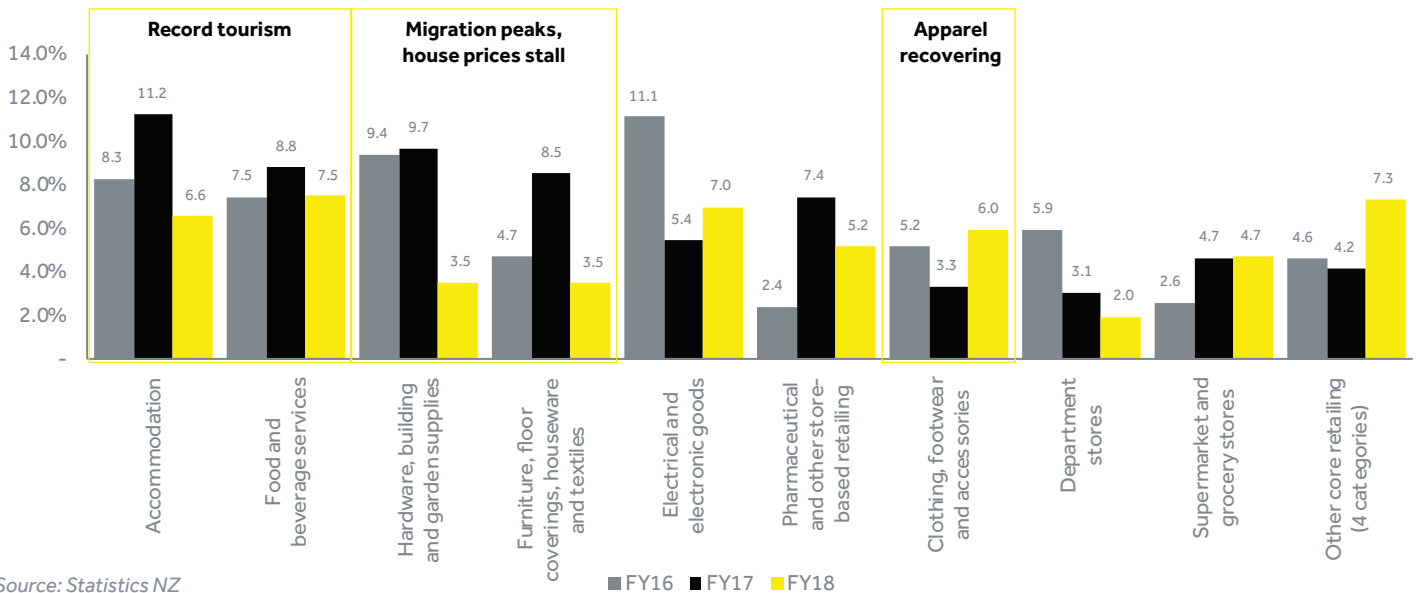
Source: Statistics NZ; Westpac McDermott Miller Consumer Confidence Index (June 2018)



RETAIL GROWTH SLOWS ACROSS MOST CATEGORIES

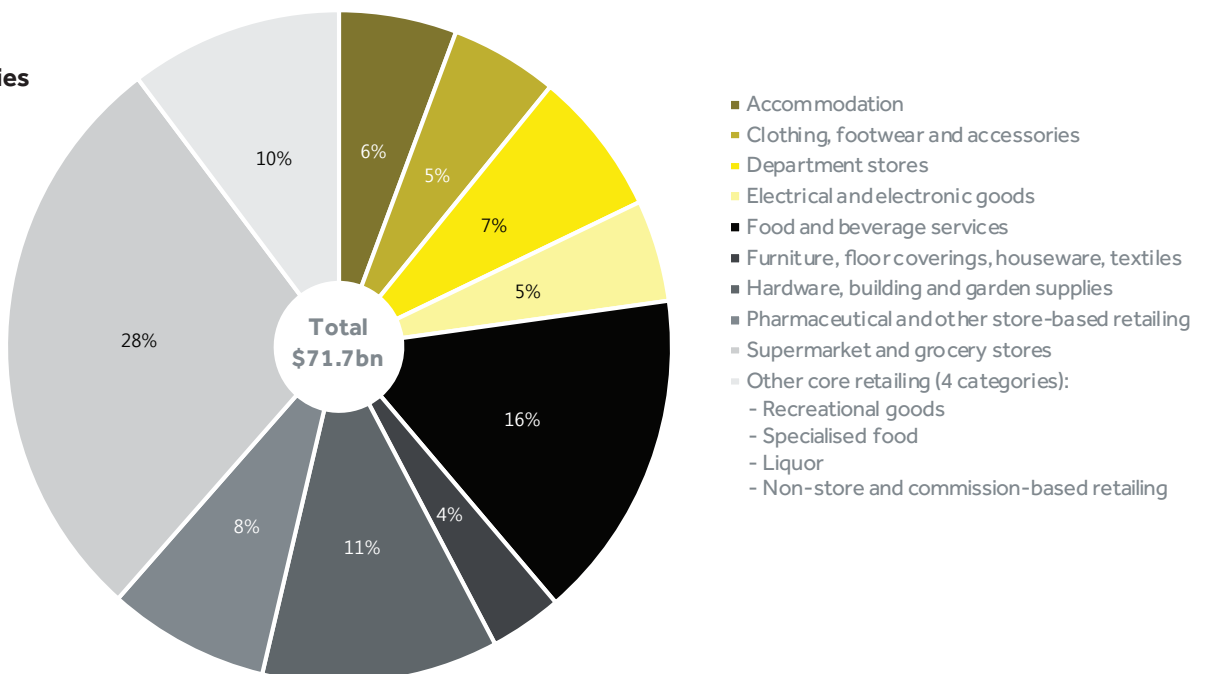
- Accommodation and food and beverage services grew strongly in FY18...
Hardware, building and garden supplies and furniture, floor coverings, houseware and textiles growth rates fell...
Clothing, footwear and accessories continued its recovery...

Retail growth by category FY17 and FY18 (seasonally adjusted)



Source: Statistics NZ

FY18 retail categories



Source: Statistics NZ

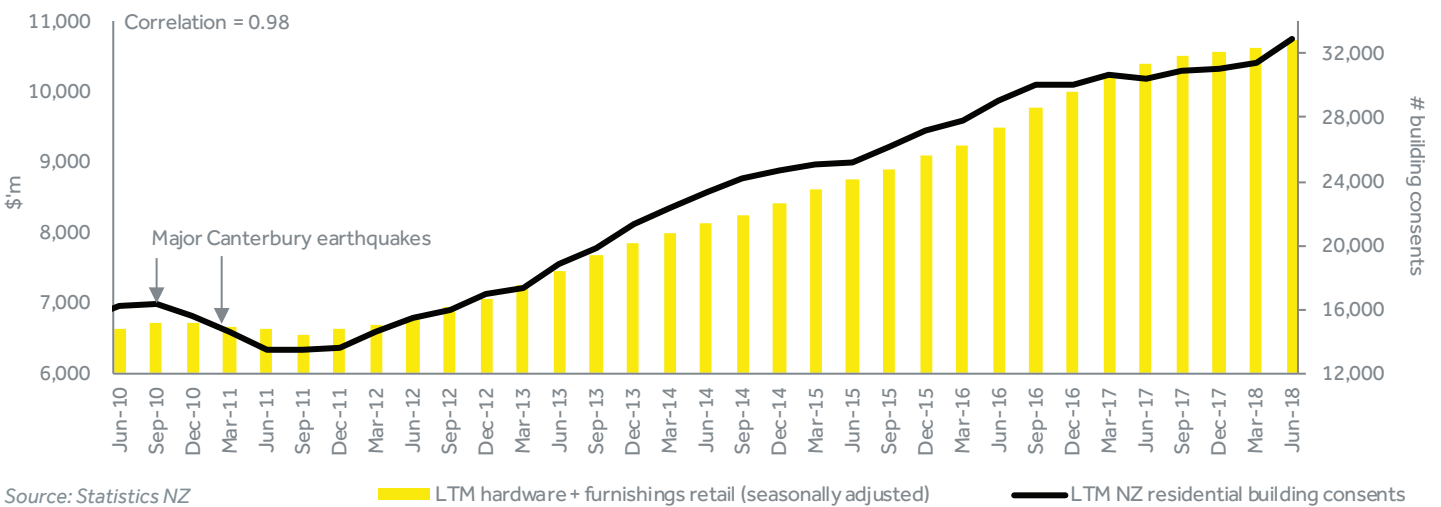


IMMIGRATION/BUILDING EFFECT COOLS

We noted last year that a cooling housing market, Canterbury rebuild unwind and political pressure on immigration might slow growth in the hardware, building and garden supplies and furniture, floor coverings, houseware and textiles sectors. As expected, growth in these sectors fell to 3.5%, compared with 9.7% (hardware, building and garden supplies) and 8.5% (furniture, floor coverings, houseware and textiles) in FY17. Spending in these categories has historically been closely correlated to residential building activity. While activity remains high nationally, the Canterbury region is in decline. Similarly, house price appreciation has plateaued in Auckland and Canterbury (but is still visible in the rest of New Zealand*). Net migration also appears to have peaked, but remains high. We therefore expect these sectors to continue to show more modest growth going forward, with trading subject to a potential shock from any sharp correction in the housing market or fall in discretionary income driven by homeowners' cost of borrowing increasing.

*Source: REINZ Monthly HPI Report, Jun 2018

Hardware + furnishings retail and residential building consents (quarterly)



Source: Statistics NZ

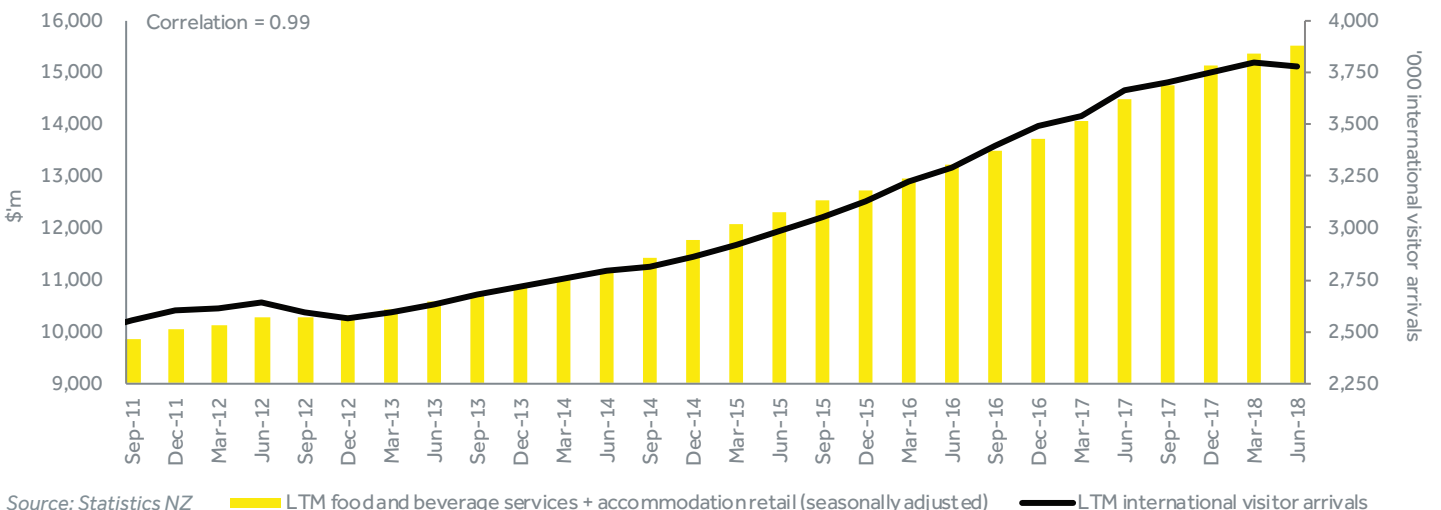
TOURISM GROWTH CONTINUES

Accommodation and food and beverage services grew strongly at 6.6% and 7.5% respectively in FY18, albeit reduced from growth seen in FY17. This growth correlates strongly with the continued, although decreasing, growth in international visitor arrivals (tourism) to 3.75 million in FY18, an increase of 3.1% in the last 12 months. With MBIE forecasting continued growth of 4.6% per annum to 5.1 million visitors per annum by 2024*, the outlook continues to appear positive, barring any major geopolitical incident causing visitor numbers to fall. However, future growth in the food and beverage sector may be muted if low consumer confidence flows through to reduced discretionary spending, as domestic consumption accounts for 85% of food and beverage spend**.

*Source: New Zealand Tourism Forecasts 2018-2024, MBIE, May 2018

**Source: ANZ Client Insights market update on Restaurants, Cafes, Bars and Nightclubs, April 2018

Food and beverage services + accommodation retail and international visitor arrivals (quarterly)



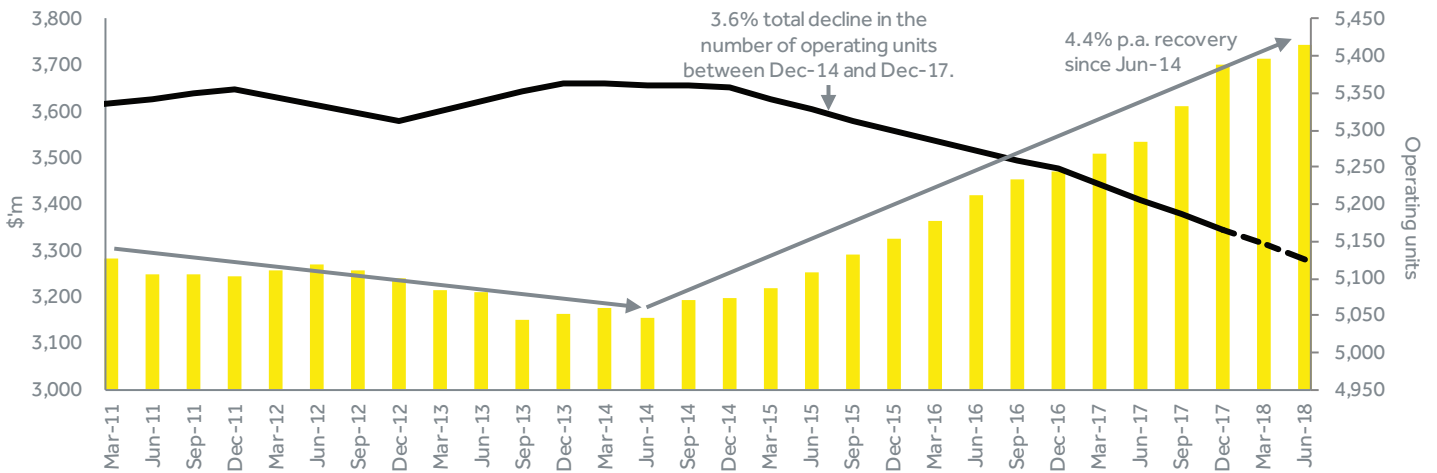
Source: Statistics NZ



APPAREL SECTOR CONTINUES RECOVERY AS INTERNATIONAL RETAILERS SETTLE IN

Overall, the recovery of the apparel sector (clothing, footwear and accessories) is now firmly established, with 4.4% growth per annum (18.7% total) since FY14. This is despite the number of operating units (stores) reducing by 3.6% (total) over the last three years. Although there have been a number of apparel failures in recent years (e.g. Topshop, Andrea Moore, Pumpkin Patch, Wild Pair, Nicholas Jermyn and Banks Shoes), other apparel retailers have delivered strong returns, including Hallenstein Glasson Holdings and Kathmandu. Given the sector is growing, the cause of these failures therefore appears to be the quality of the retailer, rather than wider sector issues. Delivering on retail best practice continues to be the key to success for apparel (and other) retailers. The Inland Revenue Department's proposed GST reform on low-value imported goods, expected to be implemented in October 2019, may also have a positive impact on New Zealand retailers.

LTM clothing, footwear and accessories retail and operating units (quarterly, seasonally adjusted)



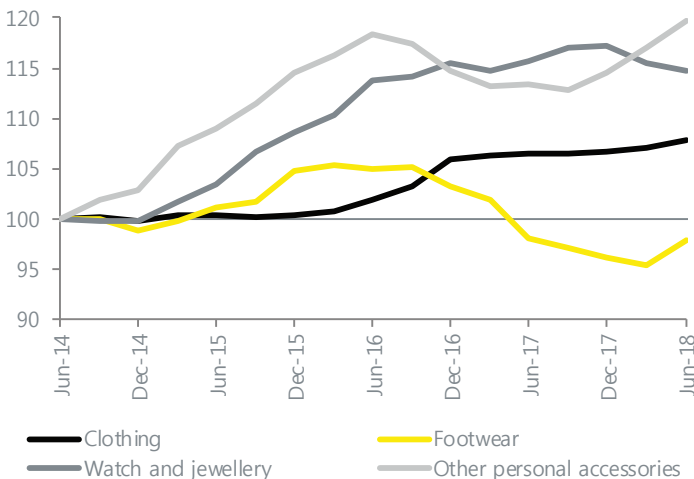
Source: Statistics NZ

CLOTHING AND ACCESSORIES WINS WHILE FOOTWEAR STRUGGLES

Despite the overall growth of the apparel sector, when considered on a sub-sector basis* a disparity is apparent. Clothing, which is the largest sub-sector of apparel, grew 7.9% between FY14 and FY18, while watch and jewellery and other personal accessories enjoyed 14.6% and 19.7% total growth respectively. However, despite initial growth, New Zealand's footwear sector declined 2.2% during the same period, before inflationary pressures on stock, rent and wages are considered. FY18 saw the insolvency of Banks Shoes following their attempted entry into the Auckland market. It also saw specialist turnaround private equity firm Allegro take ownership of an historically declining Hannahs and Number One Shoes.

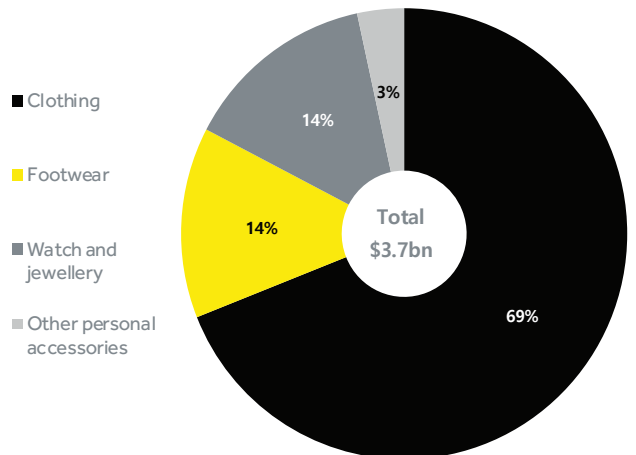
*Sub-sector data provided by Statistics NZ is not seasonally adjusted and so is not directly comparable to data in the chart above

Apparel retail index (quarterly, unadjusted)



Source: Statistics NZ

FY18 apparel retail categories revenue



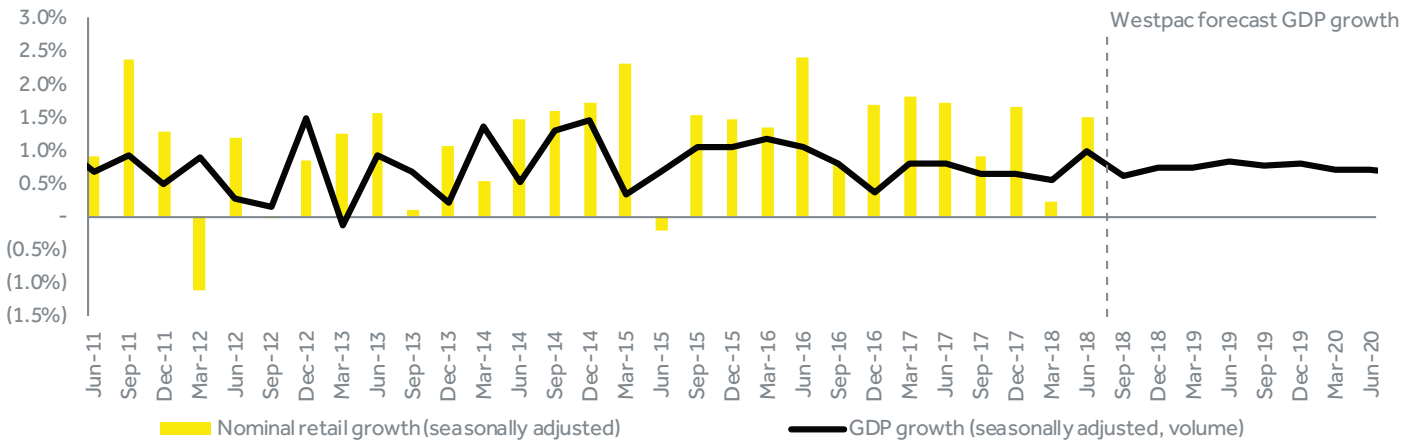
Source: Statistics NZ



OUTLOOK: POSITIVE, EXTERNAL SHOCK POTENTIAL THREAT

Forecast overall GDP growth remains low but positive based on increasing Government spending offsetting slowing housing markets and headwinds facing the construction sector. In the short to medium term we expect the high, albeit declining, levels of immigration and the current building pipeline and tourism forecasts to maintain positive growth in the retail sector. However, we expect consumer confidence to impact discretionary spending, which will be compounded if borrowing costs rise. As always, the economy remains vulnerable to external shocks such as global geopolitical instability, a steeper housing market correction and falling net migration.

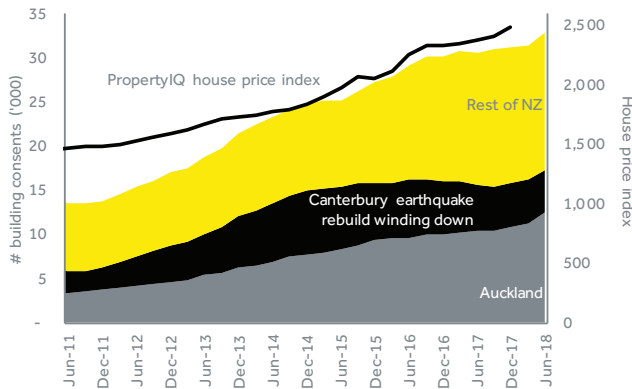
Seasonally adjusted nominal retail growth and GDP growth (quarterly)



Source: Statistics NZ; Westpac New Zealand economic and financial forecasts (21 August 2018)

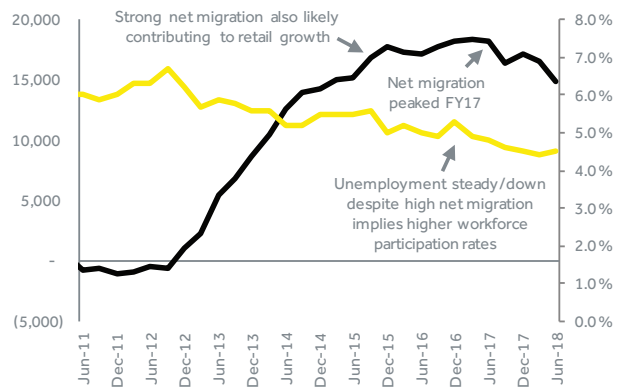
OTHER ECONOMIC INDICATORS

LTM residential building consents and PropertyIQ house price index



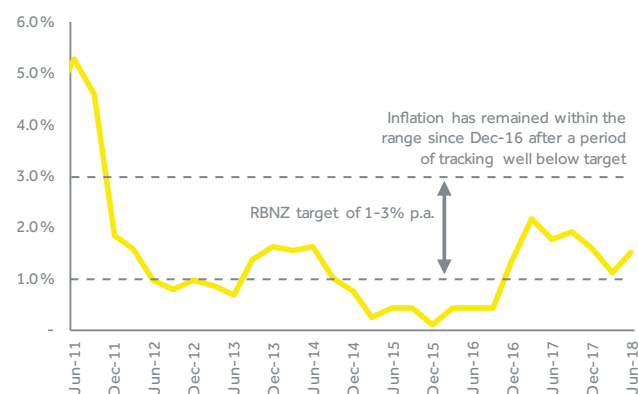
Source: Statistics NZ; Reserve Bank New Zealand

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



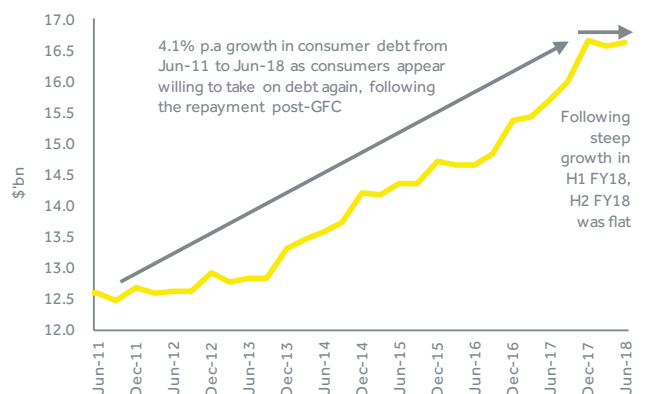
Source: Reserve Bank New Zealand

Consumer price index (LTM)



Source: Statistics NZ

Household consumer credit (non-property debt)



Source: Reserve Bank New Zealand



RECENT RETAIL ENGAGEMENTS (from October 2017)

Engagement name	Category	Engagement type
Project Archive	Women's apparel	IBR / IA / Monitoring (distressed)
Andrea Moore & Co Limited	Women's apparel	Receivership
Project Fish	Food retailing	Pre-lend review
Hardy's Healthy Living	Supplements retailing	Receivership
Liquor King	Liquor retailing	Sale advisor
Project Clip	General retailing	Retail advisory
Project Everest	Furniture & furnishings retailing	Project feasibility
Topshop	Apparel retailing	Receivership
Project Outdoor	Furniture retailing	IBR / IA / Monitoring (distressed)
Project Zebra	Apparel retailing	IBR / IA / Monitoring (distressed)

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