IN RETAIL (NEW ZEALAND)
2020 EDITION

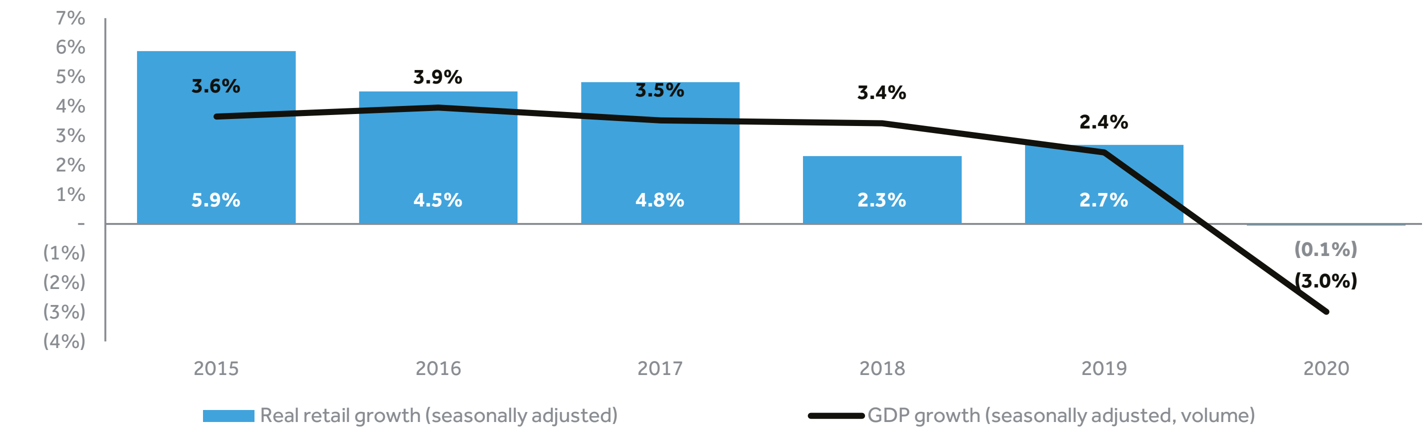
SNAPSHOT

- Calendar year 2020 finished better than expected, with real retail spend in line with 2019 despite a year of COVID-19 uncertainty and lockdowns, and ahead of the broader economy, which fell 3.0%. The loss of international tourism and students, plummeting net migration and predictions of high unemployment were offset by Government stimulus, domestic travel, consumer spending and strong employment.
- How you experienced 2020 as a retailer varied significantly by your geographic location and sector. The South Island tourist hotspots were hit hardest (down 4.7%), with Auckland and Canterbury flat, while Wellington grew 0.9% and the rest of the North Island grew 2.3% as domestic tourism and work from home (WFH) supported regions more than cities.
- The loss of international tourism and COVID-19 restrictions affected the accommodation and food and beverage services sectors the most, down 20.2% and 11.6% respectively. The vaccine rollout and Trans-Tasman bubble may provide limited relief for this sector.
- Naturally supermarkets and grocery stores, which stayed open during lockdowns, were clear winners with sales up 8.8% and the total share of retail sales growing from 27% to 30%. The consumer shift to focus on the home (and WFH) also increased demand for electronic goods (up 14.8%) and hardware and furnishings for home renovation (up 4.8%), despite lost trading during lockdowns. Given recent house price appreciation and increased residential construction, we expect this trend to continue.
- Unsurprisingly, e-commerce boomed, with domestic online sales growing 38.9% to reach 68% of online sales, clearly reversing the historical trend of New Zealand retailers losing market share to international retailers.
- Overall, 2020 was a challenging year filled with uncertainty for retailers, but that ended up better than expected. Support from the Government and most landlords limited retail closures. A number of retailers restructured during 2020, with Burger King and Max Fashions successfully executing creditor compromises, Office Max closing all retail stores, a reduction in footprint from Bunnings (seven stores), H&J Smith (six stores), David Jones (Wellington), Flight Centre (c.100 stores) and the insolvencies of Kikki K and Nido.
- Uncertainty is likely to extend throughout 2021, with subsequent waves of the pandemic worldwide, a slow vaccination program, continued border restrictions, changing consumer behaviour and supply chain disruptions. Retailers who continue to adapt will remain successful.

CORE RETAIL INDUSTRIES ("RETAIL")* FLAT, GDP FALLS FROM COVID-19

2020 real retail shrank 0.1% (nominal growth of 1.4%), contributing 7.1% of New Zealand's GDP and outperforming the 3% decline in GDP. As detailed later in this report, retail growth varied across segments and regions.

Real retail and GDP growth



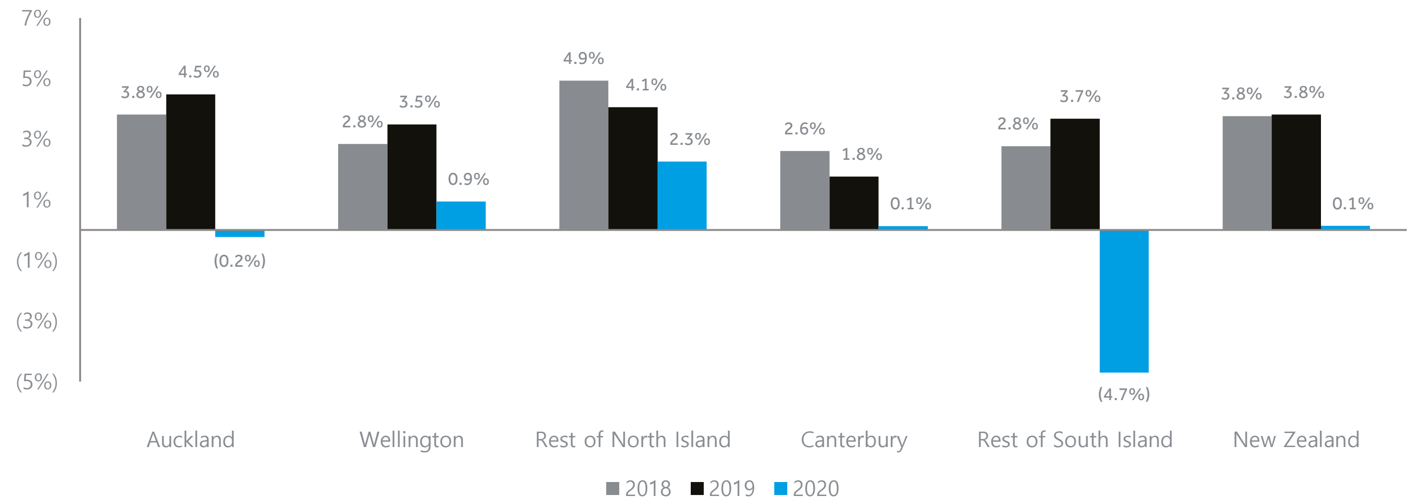
	2015	2016	2017	2018	2019	2020
CPI	0.0%	1.3%	1.6%	1.9%	1.8%	1.4%
Nominal	**5.9%**	**5.8%**	**6.4%**	**4.2%**	**4.4%**	**1.4%**

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

RETAIL SPENDING BY REGION VARIED SIGNIFICANTLY

COVID-19 was felt differently throughout New Zealand, with tourism hotspots hit hardest. Rest of South Island (Otago and the West Coast) saw retail spend decrease by 4.7% with the loss of international tourism. The loss of international students would also have impacted the Canterbury and Auckland regions. Interestingly, Wellington retail growth outperformed Auckland, potentially due to the second lockdown experienced by Auckland retailers in August. Rest of North Island saw the highest retail growth of 2.3%. Rural areas were less impacted by lockdowns, along with typical domestic holiday hot spots such as Northland, Hawke's Bay and Manawatu experiencing increased retail spend.

Retail growth by region 2018 to 2020 (includes non-core retail, seasonally adjusted)

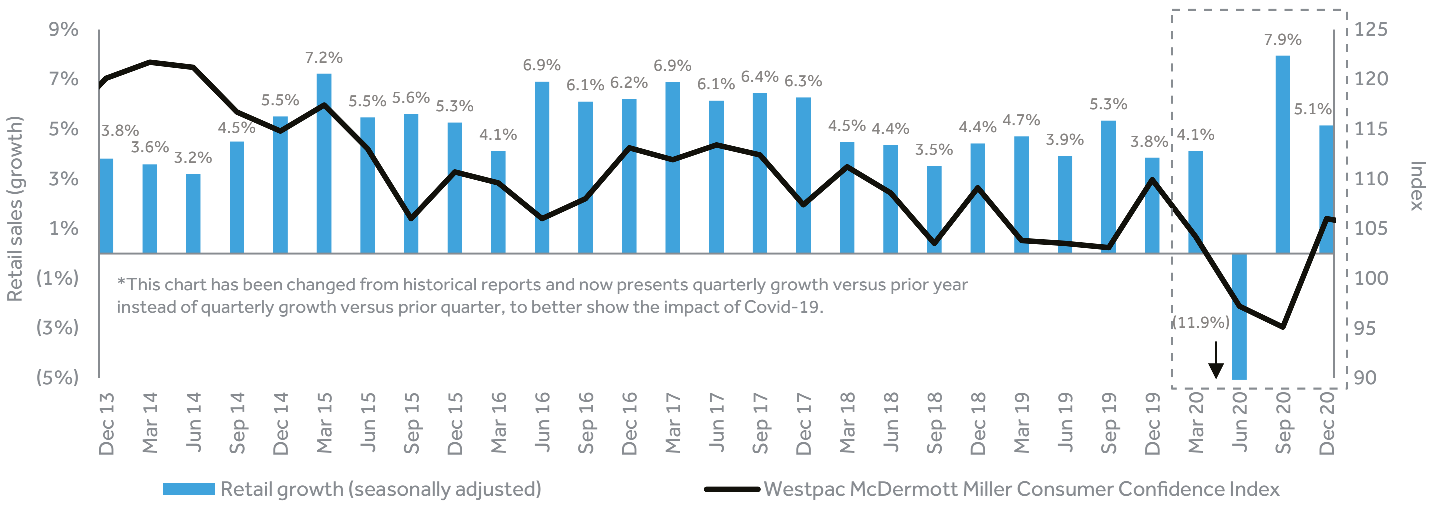


Source: Statistics NZ

A ROLLERCOASTER OF CONSUMER CONFIDENCE AND SPENDING

Consumer confidence fell to a record low of 95.1 for the Sep-20 quarter, lower than confidence levels during the GFC (96.0 in Mar-09). Border restrictions, lockdowns, unemployment forecasts and other pandemic news weighed on consumer confidence, not just in New Zealand, but worldwide. Retail spend fell 11.9% in the Jun-20 quarter compared to Jun-19 due to the lockdown from 25-Mar-20 to 13-May-20 (levels 4 and 3). The Sep-20 quarter grew by 7.9% as catchup spending and Government stimulus (wage subsidy) gave retailers a much needed boost. The Christmas Dec-20 quarter was up 5.1% on Dec-19 and consumer confidence rebounded to finish at 106.0.

Retail growth (quarterly versus prior year) and consumer confidence



Source: Statistics NZ; Westpac McDermott Miller Consumer Confidence Index (Dec 2020)

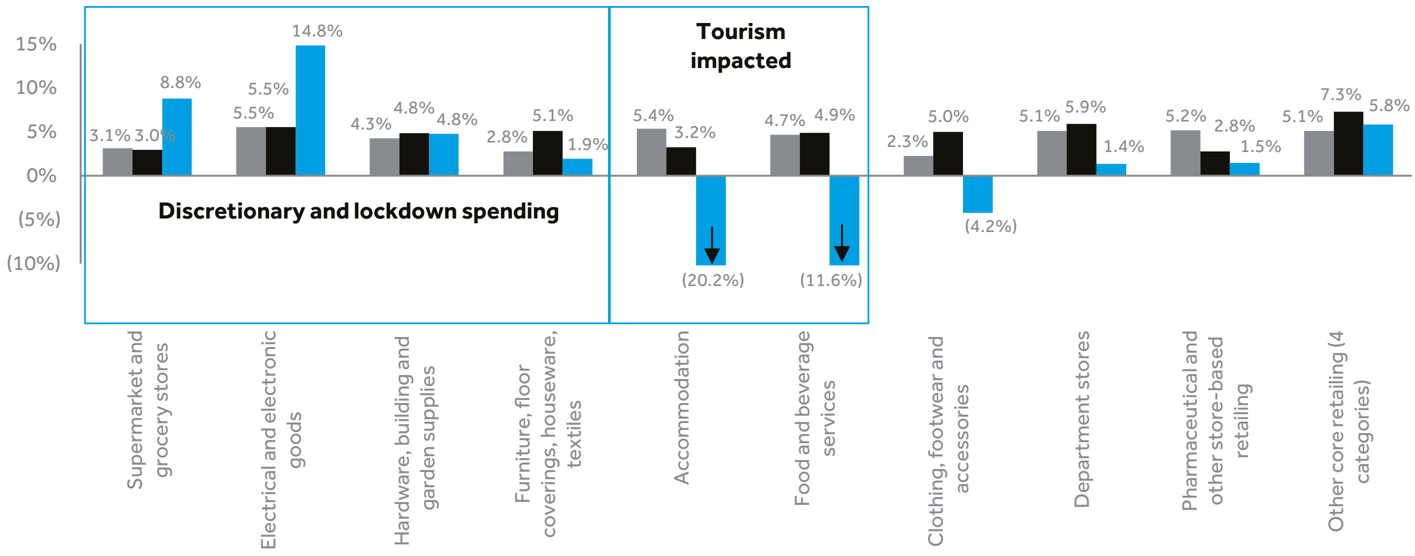
COVID-19 RETAIL WINNERS AND LOSERS

Results by sector were mixed in 2020, with some sectors impacted by border restrictions and lockdowns and others benefiting from changing consumer behaviour. The accommodation and food and beverage services sectors saw retail spend decrease by 20.2% and 11.6% respectively, as international tourists and students were lost and lockdowns resulted in an inability to open for extended periods. Apparel retail also decreased 4.2% as lockdowns and lower footfall reduced retail spend.

Supermarkets and grocery stores saw retail spend increase by 8.8% as they were allowed to trade through lockdowns, further benefiting from panic buying. Electrical and electronic goods saw the largest increase of 14.8%, as businesses adapted to WFH. A second wave of spending occurred at the end of 2020, with retail customers increasing discretionary spending on larger ticket items, as international travel restrictions and an improved economic outlook boosted local discretionary spending.

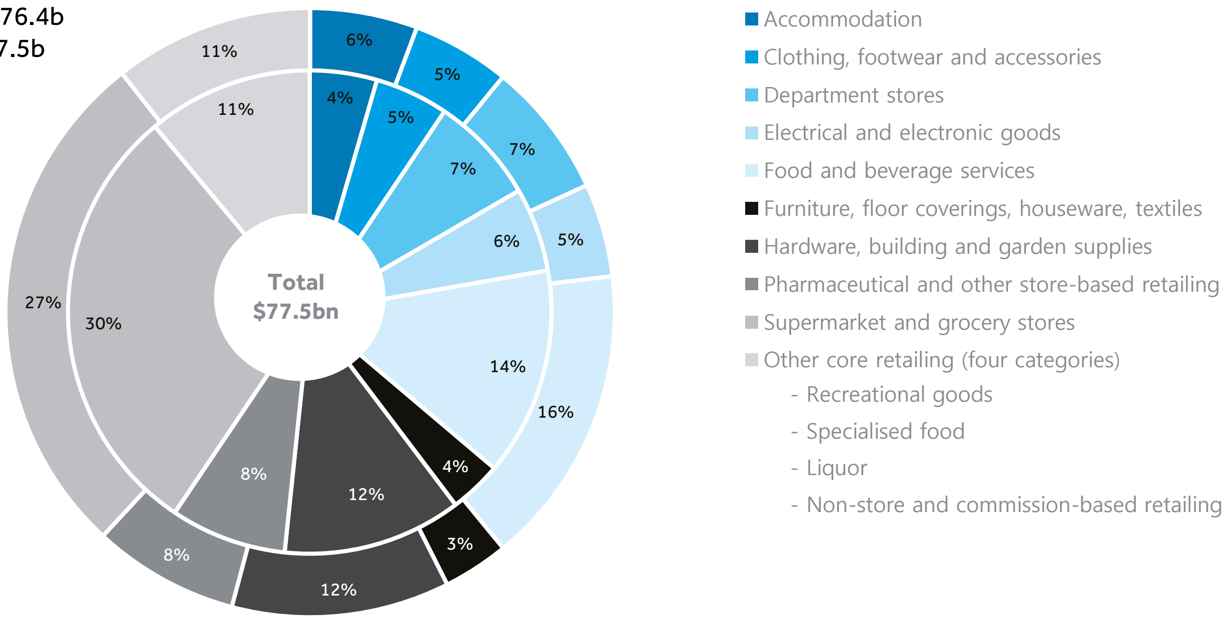
Hardware and furnishings saw modest growth of 4.8% and 1.9% respectively. Lost sales during lockdowns were more than offset by significantly greater spending pre- and post-lockdowns as people prepared to make use of their downtime and improve their new WFH environment.

Retail growth by category 2018 to 2020 (includes non-core retail, seasonally adjusted)



Source: Statistics NZ

Core retail categories
2019 (outside) $76.4b
2020 (inside) $77.5b

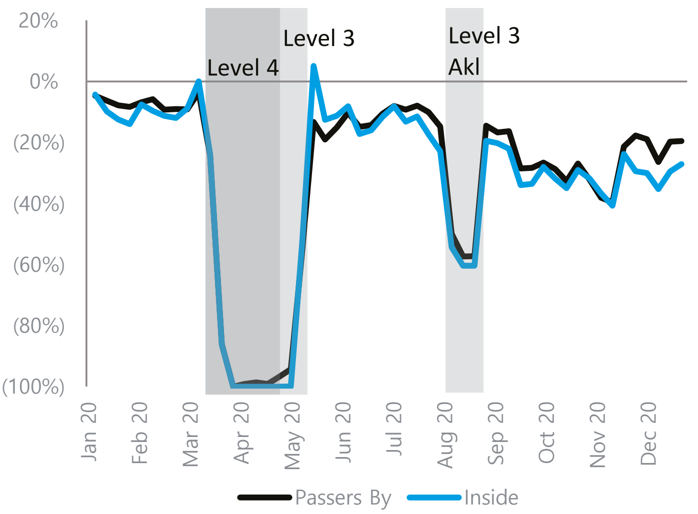


Source: Statistics NZ

ONLINE SALES BOOSTED BY COVID-19 WHILE FOOTFALL FELL

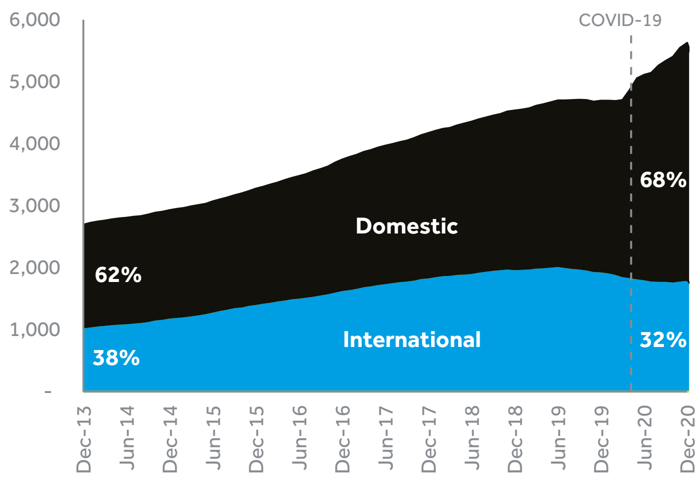
The Kepler Retail Index in the first chart below shows the large decrease in footfall during lockdowns. Surprisingly, average inside footfall for September to December was 30% below prior year, as shoppers appear to have switched to online. Domestic online sales grew 38.9%, as retailers adapted to lockdowns and reduced footfall. Interestingly, international online sales dropped by 7.1%, with the "buy local, support local" narrative and delayed international shipping shifting preferences. Domestic now accounts for 68% of online sales, a marked reversal in the previous trend of domestic retailers losing market share to international.

Footfall (YoY % Change)



Source: Kepler Analytics – Kepler Retail Index

LTM online sales ($'m)

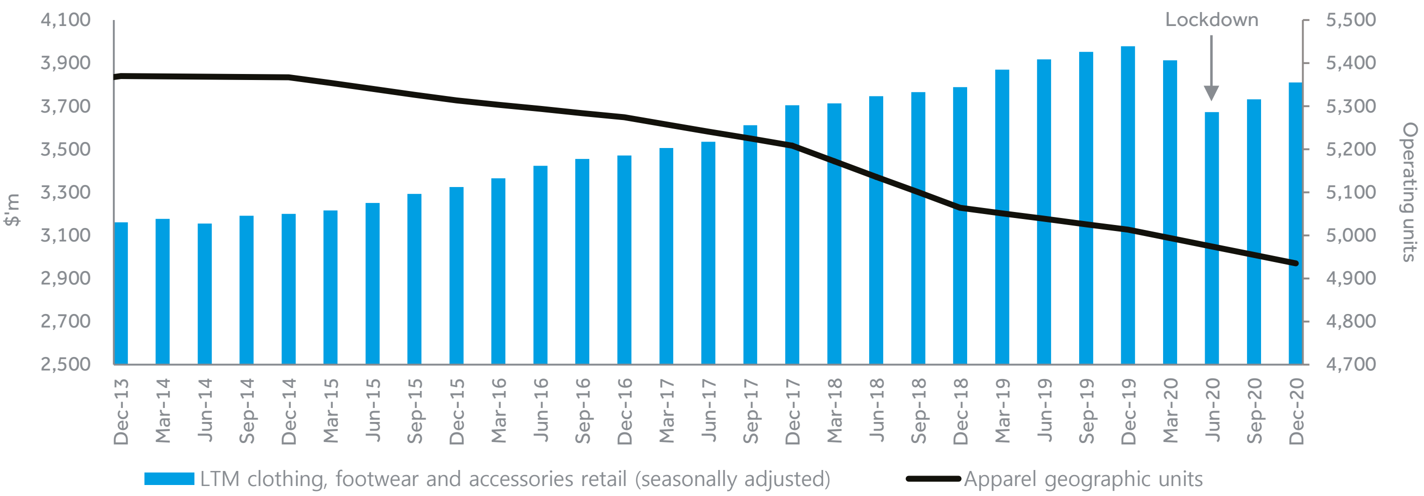


Source: BNZ Online Retail Sales, MarketView & NZ Post eCommerce Spotlight

APPAREL SECTOR IMPACTED BY LOCKDOWNS

Apparel retail declined 4.2% in 2020. Sales were already down 6.5% in the Mar-20 quarter (pre-lockdown), with shoppers nervous as pandemic news spread, further impacted by a week of lockdown at the end of March. The Jun-20 quarter was down 24.3% versus prior year with the country in level 4 and 3 lockdown for a total of six weeks in this quarter. The Sep-20 and Dec-20 quarters bounced back with 5.9% and 7.8% growth versus prior year. The apparel sector recovered slower than others, with shoppers remaining home and shifting to online sales, reflected in lower footfall. This highlights the importance of retailers having an online presence. Recent trading results (to Mar-21) indicate that large listed retailers have performed well, beating sales and profit estimates. Kathmandu and Hallenstein Glasson both reported improved profitability, driven by increased online sales and cost cutting. The declining trend in number of operating units continued, reducing by 78 stores (1.6%) from 2019 to 2020.

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

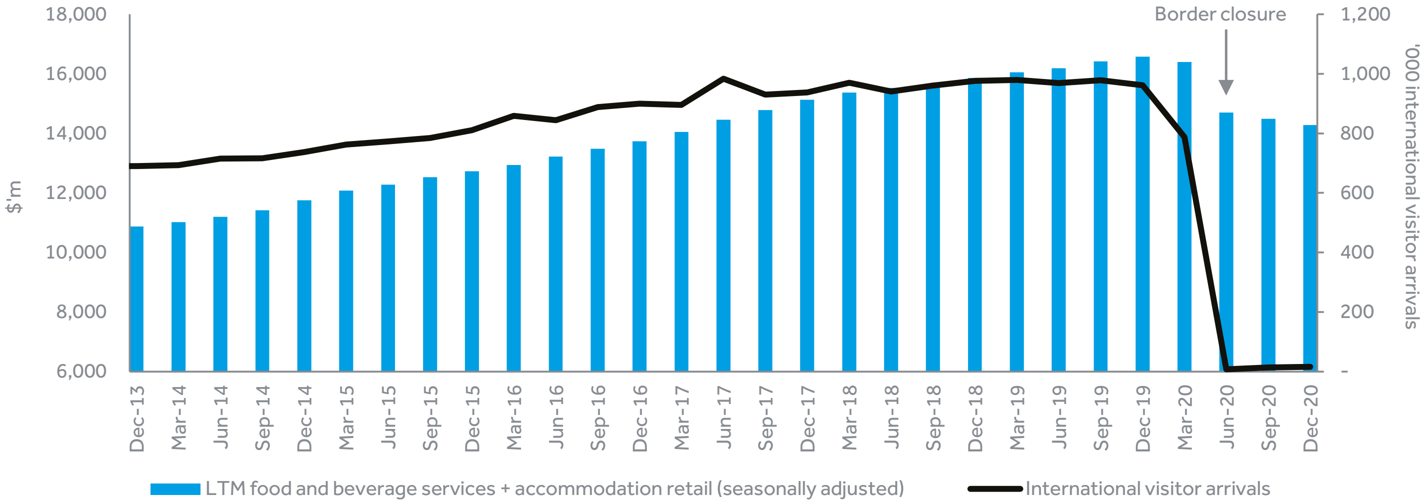


Source: Statistics NZ

TOURISM RELATED SECTORS WERE HARDEST HIT

International visitor arrivals were down 99% since 25-Mar-20 when the border closure was put in place. A push by Tourism New Zealand to promote domestic travel, encouraging Kiwis to travel locally to capture the estimated $9 billion (NZ Tourism estimate) previously spent on overseas travel, cushioned the impact somewhat. However, tourism sectors were still hit hard, with accommodation down 20.2% and food and beverage services down 11.6%, with the South Island tourist hot spots hit hardest. Once lockdowns ended, physical distancing requirements limited a potential "bounce back" in sales for food and beverage services. One aspect supporting accommodation is the MIQ facilities. Approved hotels have been fully booked with returning New Zealanders seeing out their two weeks of quarantine, cushioning the impact of lost tourism.

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

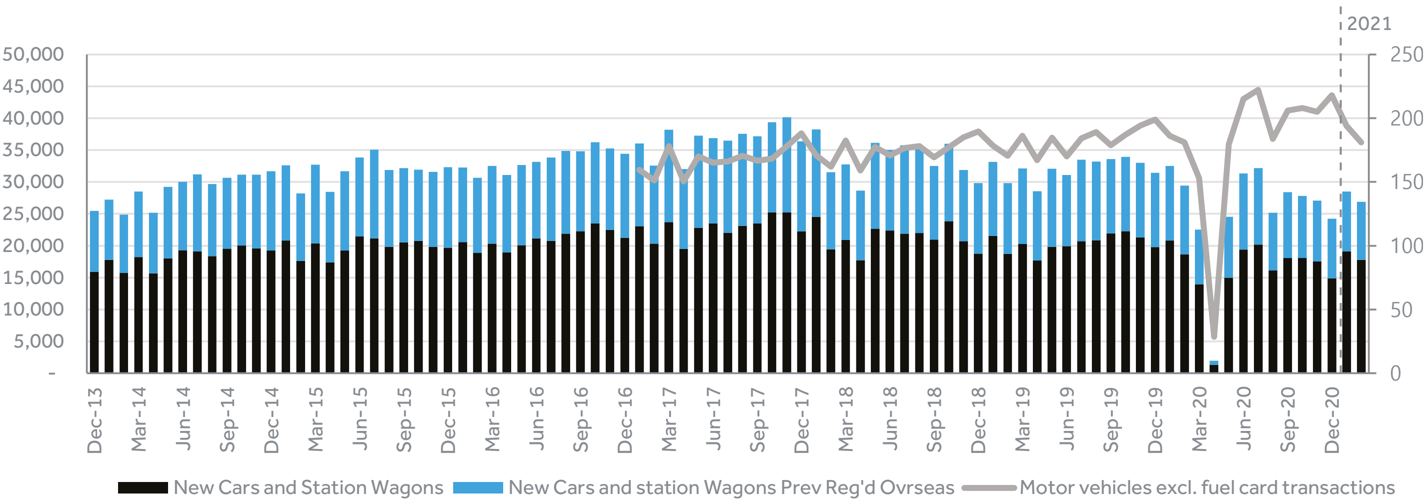


Source: Statistics NZ

MOTOR VEHICLE RETAILING IMPACTED BY SUPPLY CHAIN DELAYS AND INCREASED DEMAND

The motor vehicle sector showed interesting but conflicting results for 2020. New vehicle registrations decreased steadily following the April lockdown, down 15% from prior year from Jun-20 to Dec-20 (post lockdown). Factory closures due to COVID-19, border restrictions and delayed shipping has impacted the number of new cars arriving in the country. In Dec-20, Toyota warned of a 6-week delay for delivery to New Zealand. Contrary to these results, motor vehicle card transactions increased considerably, up 12% for the same post-lockdown months. The improved economic outlook and New Zealanders saving on planned international travel boosted expenditure on these big discretionary items. This conflicting data (falling registrations but increasing consumer spending) could be explained by a combination of factors, such as corporate and rental vehicle fleet sales declining, but consumer car buying increasing, and de-stocking by motor vehicle dealers.

New and ex-overseas motor vehicle registration and motor vehicle (excl fuel) card transactions



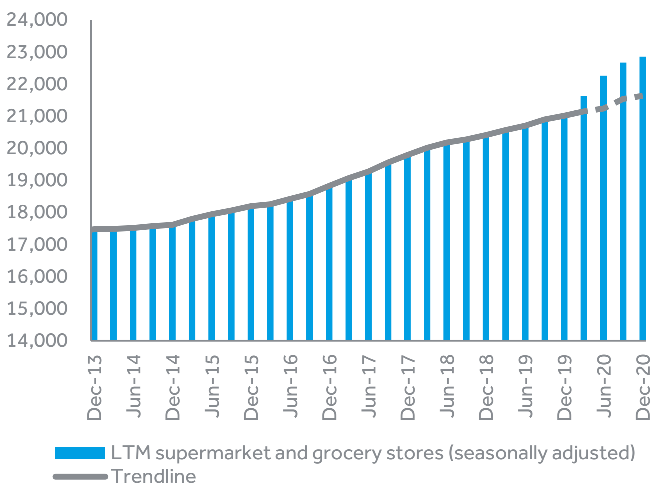
Source: Statistics NZ

SUPERMARKETS AND ELECTRONIC GOODS BENEFITED FROM CHANGING CONSUMER BEHAVIOR

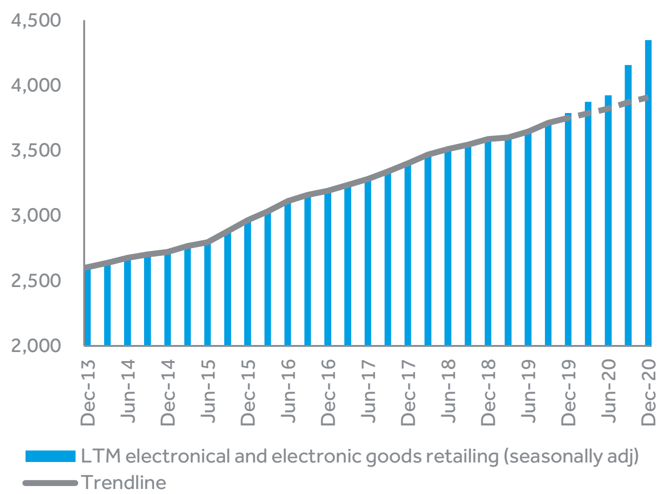
Supermarkets and grocery stores saw sales increase throughout 2020, up 8.8% for the year. The growth in sales started in the Mar-20 quarter (up 11.6%) as people prepared for the lockdown with a certain amount of panic buying. This sector benefited from the ability to trade through lockdowns, with demand and sales growth continuing throughout the June (12.4%) and September (7.7%) quarters. As shown in the chart below, 2020 sales increased above the long-term trend line to $22.9 billion versus $21.6 billion on trend.

Lockdowns forced businesses to adapt and implement WFH practices. As a result, the demand for electronic goods grew 14.8% for the year. Sales grew strongly in the Sep-20 (24.1%) and Dec-20 (19.5%) quarters, with consumer discretionary spend on luxury electronics further driving growth, increasing sector spending to $4.4 billion versus $3.9 billion on trend.

Supermarket and grocery stores ($'m)



Electrical and electronic goods retailing ($m)

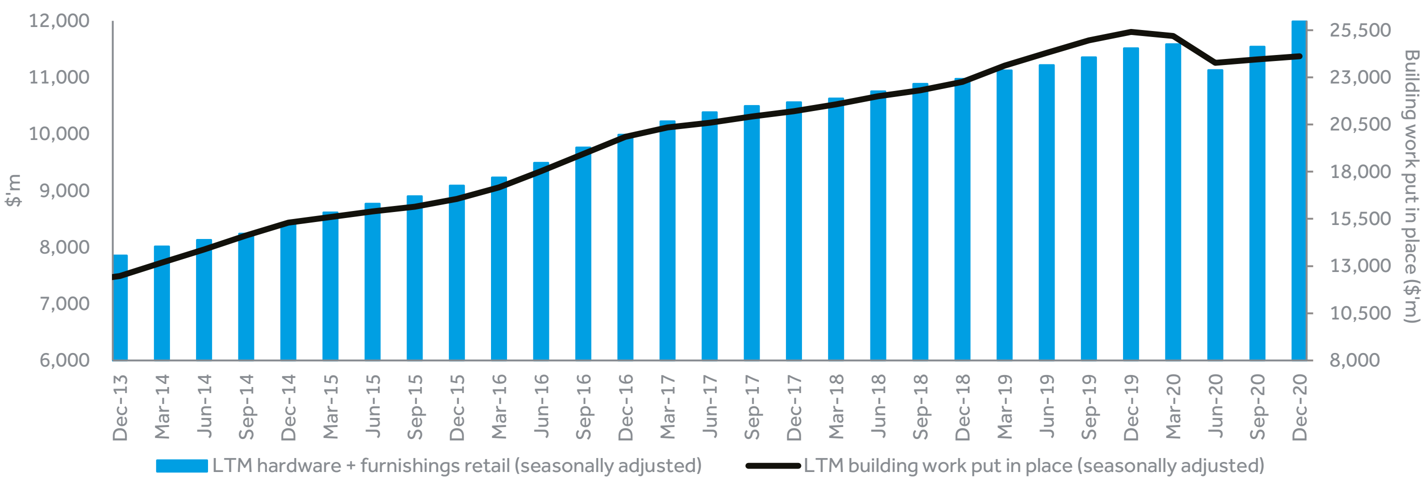


Source: Statistics NZ

HARDWARE AND FURNISHINGS REBOUNDED FROM LOCKDOWN TO FINISH HIGHER THAN 2019

Hardware and furnishings retailers had a volatile trading year, benefiting from a pre-lockdown boost in spending as consumers prepared to make use of their time, up 2.5% for the Mar-20 quarter. The lockdown severely impacted sales, with store closures and minimal online presence for this sector resulting in sales decreasing 16.0% in the Jun-20 quarter. Sales bounced back for the second half of the year, with Sep-20 and Dec-20 sales up on prior year by 14.2% and 15.4% respectively. With customers spending more time at home, and potentially saving from cancelled overseas travel plans, home renovation, DIY projects and refurnishing boosted sales to be up 4.1% on 2019. Given the significant growth in residential house prices and forecast increase in construction, we expect this sector to continue to perform strongly, even more so if borders open and net migration returns to historical levels.

Hardware + furnishings retail and building work put in place (quarterly)



Source: Statistics NZ

McGrathNicol

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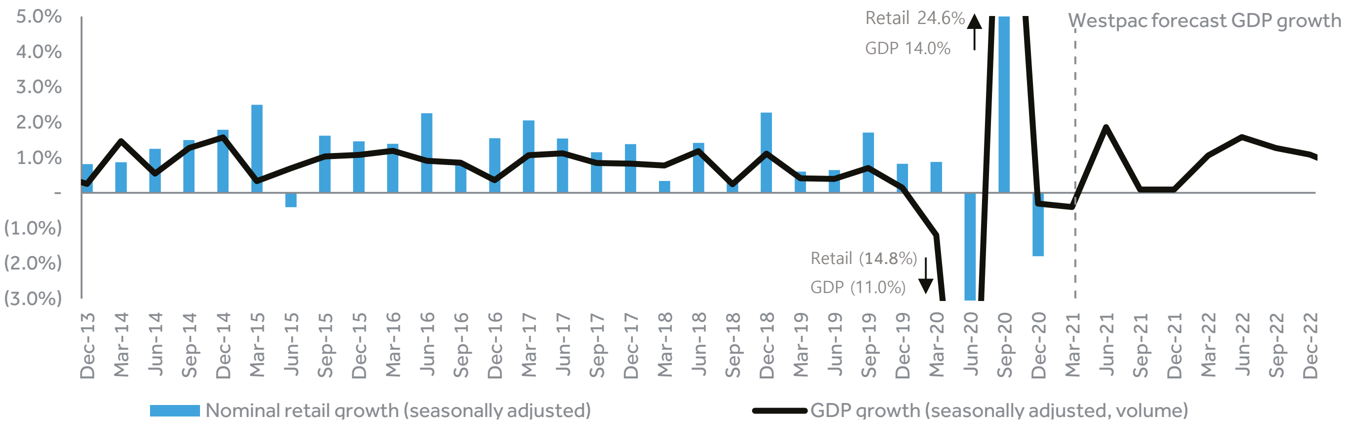
OUTLOOK: OPTIMISTIC DURING UNCERTAIN TIMES

After a turbulent 2020, forecast GDP is low but positive for 2021 at 1.7%. The loss of international tourism and students in the Mar-21 quarter, normally a peak period, will be felt throughout the economy. A lot of attention will be on the vaccine rollout, potential to reopen borders, but with risk of continued international supply chain disruption. The confirmed travel bubble with Australia commencing on 19-Apr-21 may provide some relief for the tourism sector. In other sectors, we foresee an ongoing trend of consumers spending time at home, with some businesses formalising WFH and online shopping gains not being lost. Retailers without online presence will continue to struggle while retailers that have adapted will continue to succeed.

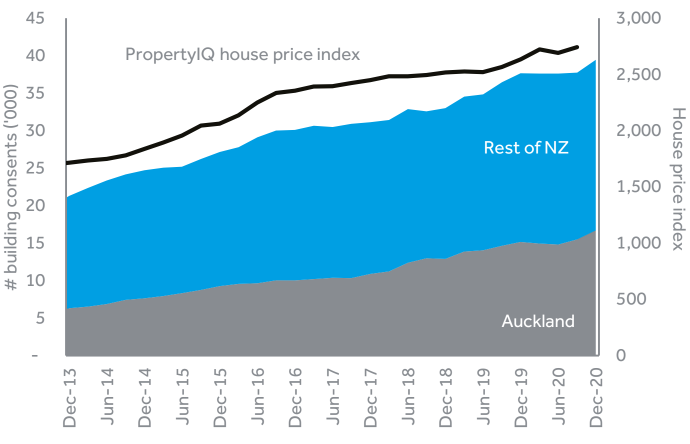
Seasonally adjusted nominal retail growth and GDP growth (quarterly)



Source: Statistics NZ; Westpac New Zealand economic and financial forecasts (March 2021)

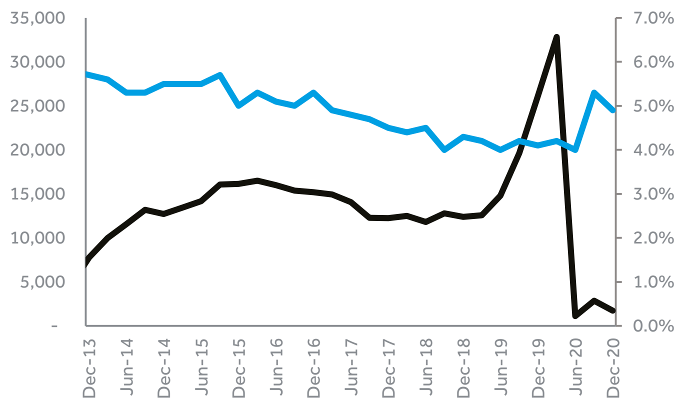
OTHER ECONOMIC INDICATORS

LTM residential building consents and PropertyIQ house price index



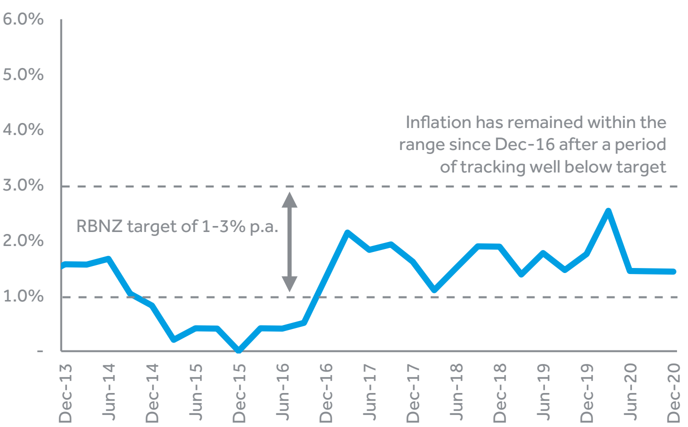
Source: Statistics NZ; Reserve Bank New Zealand

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



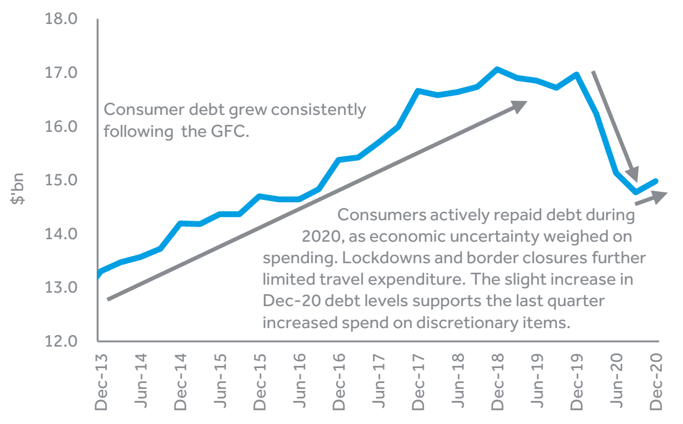
Source: Reserve Bank New Zealand

Consumer price index (LTM)



Source: Statistics NZ

Household consumer credit (non-property debt)



Source: Reserve Bank New Zealand