

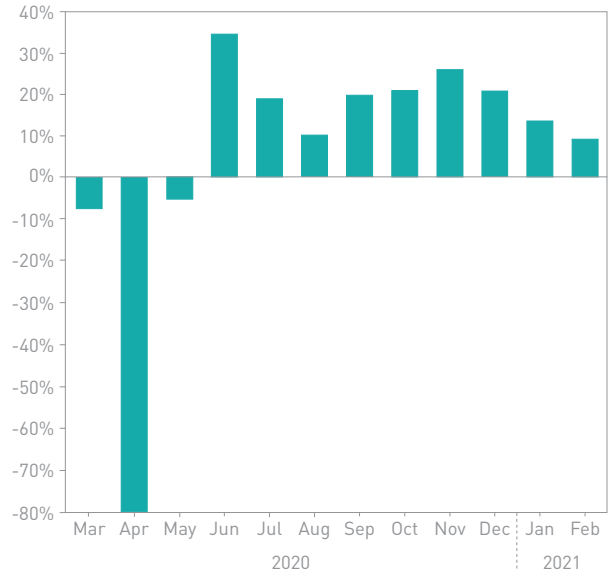
Spending through February was relatively strong, despite two moves back into lockdown in Auckland, but sales and retailer confidence is declining on the back of COVID-19 restrictions. While health considerations are important, retailers are also less satisfied with the Government's response to COVID-19 than they were six months ago.

Spending in February

Spending during February was up 9.2 per cent compared to the same month last year, notwithstanding the three-day lockdown in Auckland from 14 February. Results are mixed unevenly across the sector, however, with some businesses performing well and others faring poorly. The strong average sales reported mask the fact that many businesses are seriously hurting, and have not been able to pivot effectively into the new normal, or to manage lockdowns effectively. Total spending since March 2020 is up 6.7 per cent compared to the previous year. These numbers do not reflect the impacts of the March 2021 lockdown.

Retail NZ Sales Index

nationwide spending compared to the previous year*



New COVID-19 outbreak hits retail spending

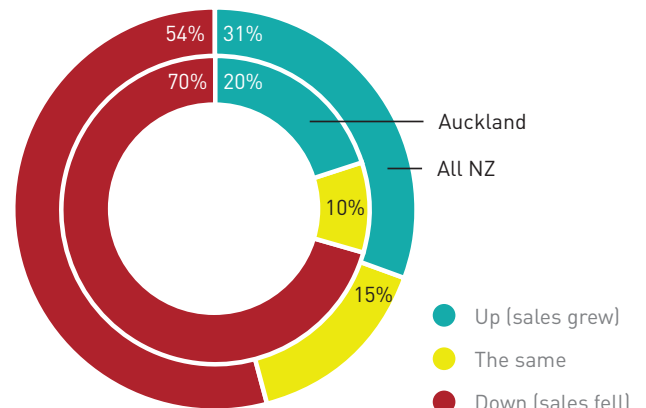
After a good recovery in the later months of 2020, the new community outbreaks in Auckland have seen retail sales take a serious hit. In a survey during the Level 3 lockdown 54 per cent of retailers reported that sales had fallen in February across New Zealand. This rose to 70 per cent for retailers in Auckland. This shows that despite the Alert Level changes happening for a shorter period of time than previous outbreaks, the effect on retail is significant.

New rounds of lockdown will continue to impact sales

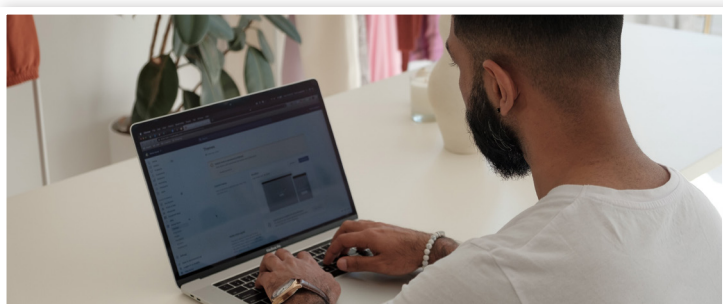
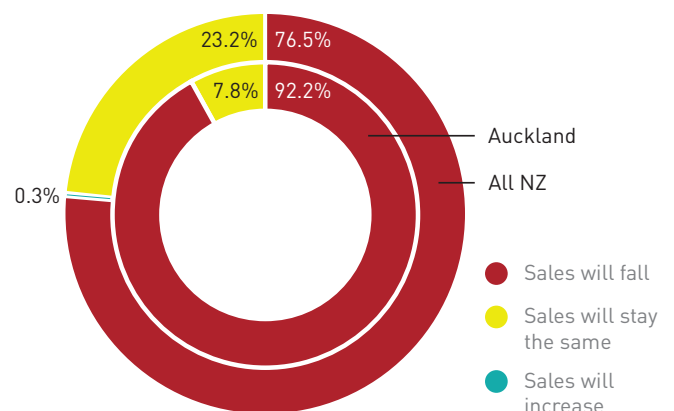
As expected, retailers are very concerned about the impact of the new community outbreaks of COVID-19 in Auckland. The most recent change in Alert Levels (commencing 28 February) is expected to result in a drop in sales for 77 per cent of retailers across New Zealand, and 92 per cent of retailers in Auckland.

Although retailers are highly adaptable, and most have shifted to new contactless methods of doing business, shopping clearly declines significantly at Alert Levels 2 and 3.

Sales for the past month compared to the same time last year



How will the latest change in COVID-19 Alert Levels affect sales in your business?



Supply chain pressures

The supply chains of many retailers are under substantial pressure. On average, retailers expect to order around 11 per cent more containers in 2021 than in 2020. At the same time there is reduced freight capacity coming to New Zealand, and there continues to be severe congestion at the Ports of Auckland. This is driving significant additional costs for retailers. On average, the cost of seafreight has more than doubled and is reported to be 103 per cent more expensive than at the same time last year. The cost of air-freight is up by 136 per cent.

It is not sustainable for retailers to absorb these cost increases, and they will flow through to the price of consumer and business goods over the next year.

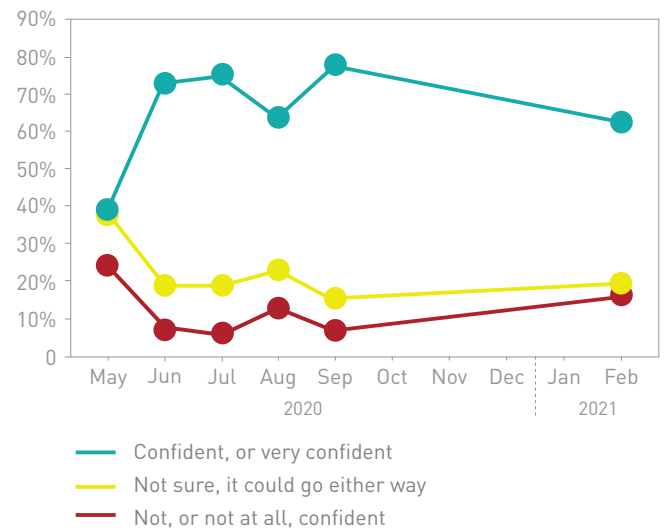


Retailer confidence

Confidence that retail businesses will survive the next 12 months also fell in February. 37 per cent of retailers are reporting that they are not confident, or unsure if their business will survive the next 12 months. Confidence rebounded strongly after the initial lockdowns in March and April almost a year ago, after New Zealand was able to eradicate COVID-19. However as the pandemic wears on, retailer confidence is declining. Just 63 per cent of retailers are confident that their business will survive, compared to 78 per cent in September, when this question was last asked of retailers.

Retail businesses typically operate on very low net margins, and if customers are unable to shop, there are real cashflow issues that threaten the survival of retail businesses.

Retailer confidence - next 12 months

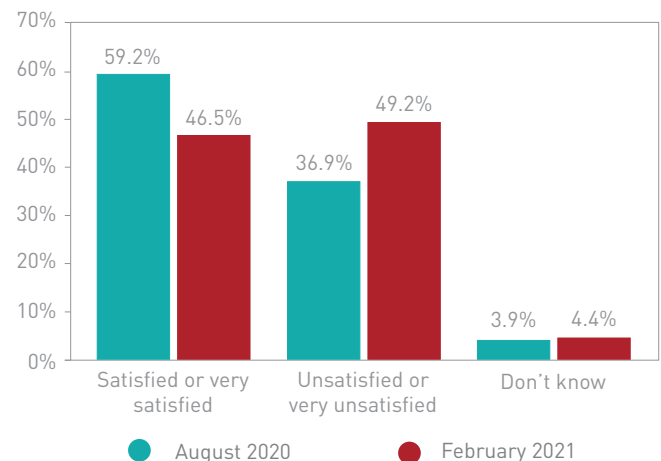


Retailers satisfaction with the Government's response to the pandemic is slipping

Retailers are feeling less satisfied with the Government's handling of the COVID-19 situation overall. 49 per cent report feeling unsatisfied or very unsatisfied with the response, up from 37 per cent in August 2020. It is not clear whether this can be attributed to a general frustration with COVID-19 and its impacts, which continue to impact our lives almost 12 months after the initial outbreak in New Zealand, or to specific actions taken or not taken by the Government.

Some retailers would have liked to see a more localised (suburb specific) lockdown in February and March rather than a lockdown across the whole Auckland region. There is a general view from some outside Auckland that the rest of the country should not have moved up the Alert Levels. Others would have preferred to see the initial lockdown (which was just a three-day period) be extended which may have prevented or limited the second round of lockdowns just under two weeks later. Most retailers are simply wanting more certainty about the future and, while this is difficult during a global pandemic, any efforts by Government to provide certainty and predictability would be appreciated by the business community.

How satisfied are you with the Government's handling of the COVID-19 situation?



New rounds of Government subsidies

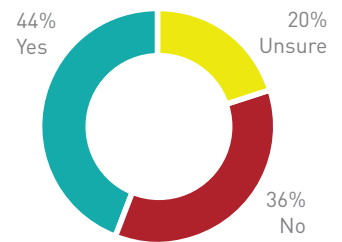
Following the two February rounds of Alert Level changes, the Government has announced two new support packages for businesses that experience a drop in revenue. While many retailers will be waiting to see if the decline in sales meets the required 30 or 40 per cent, many are reporting that they will be using the subsidies at this early stage.

44 per cent of retailers have used, or plan to use, the COVID-19 Resurgence Subsidy. A smaller proportion, 16 per cent, have used the Government's COVID-19 Leave Support Scheme or Short-term Absence Payment to pay workers that are unable to work.

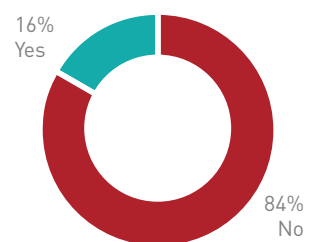
Some retailers are experiencing issues with the Government support, particularly the complexity of the new schemes (both in understanding the schemes and making applications), and the time taken for payments to be made. An ongoing issue is the inequitable treatment of businesses with stores both within and outside Auckland. A business that sees a drop in revenue at the Auckland sites, may not qualify for support because revenues across the whole business nationally may not hit the 40 per cent threshold for the new Wage Subsidy.

Struggling retailers are also concerned about the lack of support for the other overhead costs of running a retail business, such as leases and the increasing costs of freight, or compensation for the loss of sales.

Have you, or do you plan to, use the Government's COVID-19 Resurgence Subsidy?



Have you used the Government's COVID-19 Leave Support Scheme or Short-term Absence Payment?



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. The Retail NZ Sales Index reports changes in average credit and contactless debit card spend per site at Retail NZ members which process their sales with Westpac.