

Business Weekly

Retail seeking some therapy

This Week

There were a few surprises in last week's labour market, both good and bad. The key results were a marked drop in wage growth, a moderate fall in employment and a surprisingly sharp lift in the unemployment rate.

Some positives to take out of the past week's news is that measures to limit job losses could be working – though we need to be careful we don't read too much into numbers that show a lot of quarter-to-quarter volatility. The figures showed a marked slowing of wage growth (implying pay freezes have picked up) and reduced working hours. Furthermore, the drop in the number of employed was milder than most expected. If this pattern repeats over the remainder of 2009 then overall job losses will be mild compared to the magnitude of the recession.

However, the bad news was the unemployment rate jumped by more than expected. The lift was less about a drop in the number of jobs but more about the surprisingly high number of people seeking work. Nevertheless, that has still left a lot of people who want to work but have been unsuccessful in finding work. Geographically the top half of the North Island and Gisborne/Hawke's Bay are being hit hardest, whilst the South Island is faring comparatively well. The unemployment rate has hit 23% for the 15-19 age group, the rule of thumb being the lower the age bracket the greater the joblessness.

Female unemployment has lifted more rapidly than male unemployment over the past year. That is a contrast to the US, which is in the midst of what has been dubbed a 'mancession'. There the gap between male and female unemployment rates is the highest it has ever been in the past 60 years, reflecting the substantial slump in the male-dominated housing construction, manufacturing (particularly autos) and finance sectors. In NZ male-dominated industries have also been hit. However, wholesale/retail trade employment has taken the biggest hit of any industry, all in female employment.

Related to this last industry, the focus for this week is Friday's retail sales figures for both the June month and the June quarter. Encouragingly, there are signs that nearly 18 months of retail contraction is at an end. We expect overall spending volumes for the quarter to be flat, which would be the first time since September 2007 that sale volumes haven't contracted. Consumer confidence is continuing to recover and car registrations have troughed, paving the way for a return to positive spending growth over the second half of the year. For the month of June, however, we expect a slight fall of 0.4% - the early start to winter meant we all rushed out and got rugged up in May rather than waiting a little longer.

Click here for:

[Foreign Exchange](#)

- NZD lifts further against a weak USD, setting fresh 2009 highs.

[Interest Rates](#)

- Local rates higher over the week. Offshore news continues to set the local tone.

[Week Ahead](#)

- Q2 retail trade figures on Friday is the local focus.

[Week in Review](#)

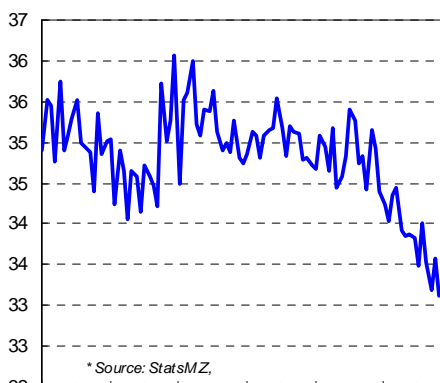
- The QII unemployment rate lifted to 6%, and wage inflation eased.

[Global Calendars](#)

- FOMC meeting is the main focus this week. JPN & US Industrial Production due.

Chart of the week

AVERAGE HOURS WORKED



Mar-86 Mar-90 Mar-94 Mar-98 Mar-02 Mar-06

- Average weekly hours work per person have been steadily declining over the past few years, now down to their lowest level since the Household Labour Force Survey began in 1986.
- NZ has gone through a transition from extreme difficulty in finding sufficient workers during a booming economy to grappling with a shrinking economy.
- As the recession started to bite, employers – having struggled for so long to find people – were initially reluctant to cut back on staff numbers. Employment levels remained resilient in 2008, but hours worked fell. This year there has been a greater focus on shorter work weeks as an alternative to redundancies.
- More so than in the past 2 recessions, pay freezes and reduced work hours are absorbing some of the pain.

General Advice Warning

As this report was prepared without taking into account your objectives, financial situation or particular needs, you should not take any action in reliance of this report without considering your particular circumstances and, if necessary, obtaining professional advice.

Foreign Exchange Market

FX Rates	Current*	Week ago	Month ago	6 mths ago	Year ago	ST Bias	Support^	Resistance^
NZD/USD	0.6709	0.6627	0.6291	0.5262	0.7017	FLAT	0.6650	0.6850
NZD/AUD	0.8025	0.7908	0.8035	0.7875	0.7840	FLAT-DOWN	0.7900	0.8100
NZD/JPY	65.34	62.76	58.48	48.12	76.89	FLAT	64.00	66.00
NZD/EUR	0.4729	0.4651	0.4498	0.4069	0.4607	FLAT	0.4700	0.4800
NZD/GBP	0.4024	0.3959	0.3855	0.3570	0.3635	FLAT	0.3950	0.4100
TWI	62.7	61.6	59.6	52.9	64.3	FLAT	61.50	63.50

^Weekly support and resistance levels * Current is as at 12pm Monday; week ago as at Monday 5pm

- The NZD rose on all the cross rates last week, lifting 1.2% on a trade-weighted basis over the week.
- NZD was buoyed by ongoing recovery in risk appetites. The NZ dollar surged on the news that milk powder prices recorded at 25.8% increase on the previous month's price in Fonterra's latest on-line auction. The news was enough to push the NZ dollar from USD 0.664 through 67 cents on Wednesday morning, and it has traded largely above USD 0.67 ever since. The NZD was pushed to a new 2009 high by the better than expected US payrolls result on Friday night, briefly breaking through the 68 cent mark for the first time this year.
- We expect the New Zealand retail sales report this week to reveal further weakness in consumption as the local recession grinds on. This could cause the market to begin pricing RBNZ rate cuts. As the divergence between the Australian and New Zealand economies is becoming increasingly obvious, NZD/AUD should fall.
- The rally in the USD following the better than expected non-farm payrolls report and an equity market rally represented a change in FX behaviour that has the potential to be a game changer for the currency market going forward. However, it is unusual for the USD drivers to shift (on a longer lasting basis) from just one data report. The US industrial production, retail sales and consumer confidence reports are expected to show some further signs of improvement which could add to the markets' enthusiasm for 'green shoots'. We are not yet calling for a major turn higher in the USD, but emphasise some caution is warranted over this week. Most of the major bearish USD factors are still in place. The FOMC meeting will be of key interest to markets this week.

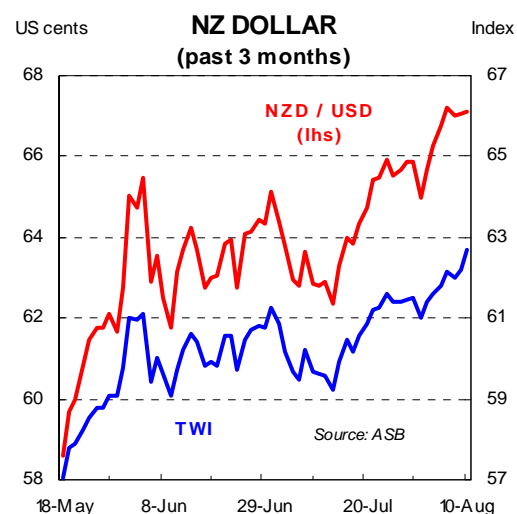
Short-term outlook:

Key data	Date	Time (NZST)	Market expects
July Electronic Card Transactions	11/8	10.45 am	-
July Food Price Index	13/8	10.45 am	-
Q2 Retail Trade (Real)	14/8	10.45 am	0.0%

Potential currency movers from the US this week: Trade balance, monthly budget statement, FOMC decision (12th), retail sales (13th), CPI, industrial production and consumer confidence (14th). Speakers: none.

Medium term outlook: [\[Last Quarterly Economic Forecasts\]](#)

- We expect the NZD to appreciate further against the USD over the next 6-9 months. Much of that story is about the USD, not the NZD.
- We continue to expect the USD to weaken into 2010. The reasons for the expected USD depreciation remain similar to the drivers in place since mid-March, namely:
 - US residents increase their offshore investment, encouraged by improvement in the global economy.
 - USD liquidity demand and safe-haven buying of the USD is reversing.
 - Diversification out of USD is expected to occur due to concerns about US government debt.
- Against the expected backdrop of USD weakness we also expect some moderate and broad-based NZD outperformance. Despite being mired in recession since the start of 2008, NZ's economy is holding up well compared to those of many key trading partners. Over time the NZD is likely to be buoyed by the rising tide of improving confidence in the global economic recovery and firmer commodity prices. Moreover, a buoyant AUD, on improved prospects for its resource exports and speculation of early 2010 rate hikes, will drag the NZD along on its coat-tails.
- We expect the NZD to firm noticeably against the USD and yen as those currencies remain under sustained pressure. Against other key currencies the NZD is likely to appreciate but to a more modest extent. However, the likelihood of the RBNZ intervening to try and weaken the NZD remains low given the NZD itself is not particularly elevated relative to both underlying economic fundamentals and past movements.



Interest Rate Market

Wholesale interest rates	Current	Week ago	Month ago	6 mths ago	Year ago	ST Bias
Cash rate	2.50	2.50	2.50	3.50	8.00	FLAT
90-day bank bill	2.78	2.77	2.80	3.54	8.22	UP
2-year swap	4.11	3.89	3.72	3.53	7.28	UP
5-year swap	5.45	5.29	5.21	4.16	7.04	UP
11/11 gov't stock	4.87	4.77	4.61	3.92	6.19	UP
NZSX 50	3085	3042	2738	2767	3352	FLAT

* Current is as at 12pm Monday; week ago as at Monday 5pm

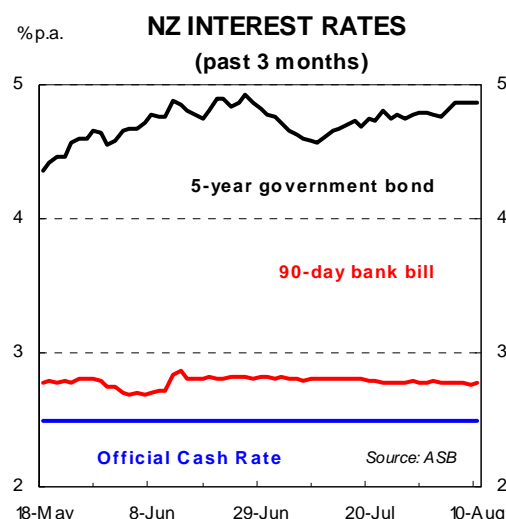
- NZ labour market data, disappointing with lower wage growth and higher unemployment, had little influence on the local markets. Offshore events remained the key driving force on higher longer-end interest rates in NZ. Meanwhile, the NZ 1-year swap rate has also lifted over the past week, due to banks' hedging activities as a result of fixing demand by borrowers at this horizon.
- NZ longer-term interest rates continue to be indirectly dragged up by rising rates in Australia. The RBA has formally shifted away from an easing bias to a more neutral stance, with markets now pricing in rate hikes from the RBA by year-end. Meanwhile, yields on US government bonds lifted strongly following the better than expected payrolls report, and a surprise decline in the unemployment rate.

Short-term outlook:

Key data	Date	Time (NZST)	Market expects
July Electronic Card Transactions	11/8	10.45 am	-
July Food Price Index	13/8	10.45 am	-
Q2 Retail Trade (Real)	14/8	10.45 am	0.0%

Comment: Retail spending becomes the focus for the week in NZ, with markets looking for retail volumes to stabilise in Q2 following the previous quarter's sharp decline. Increased confidence in overseas markets continues to underpin the rise in NZ longer-term interest rates. In that vein a relatively heavy data calendar overseas should be closely watched.

We expect the FOMC will leave its asset purchase scheme unchanged on Thursday morning's announcement (6.15 am NZT), although there is a small chance it could increase the programme, following the Bank of England's surprise move last week.



Medium term outlook: [\[Last Quarterly Economic Forecasts\]](#)

- The RBNZ continues to hold the cash rate at 2.5%, although has a very strong easing bias. The RBNZ has cut the cash rate 575 basis points in less than a year in response to the financial crisis offshore. The RBNZ has previously expressed reluctance to cut the OCR below 2%, which leaves just 50 bp of rate cuts up its sleeve.
- The RBNZ's July statement was extremely dovish, choosing to ignore any green shoots or positive developments and highlighting the vulnerabilities in the export sector. The RBNZ also stepped up its easing bias, repeating the potential for the OCR to move lower and its expectation to hold the OCR at current levels until the latter part of 2010. In addition, the RBNZ explicitly stated its willingness to "reassess policy settings" if the NZ dollar and wholesale interest rates remain at current levels.
- The RBNZ June MPS forecasts have CPI inflation fall briefly through the bottom of the target band later this year then recover to remain 'comfortably' in the middle of the target band. In contrast, our higher NZ dollar outlook suggests considerable downside risk to the inflation outlook.
- The market has underestimated the RBNZ's willingness to cut further, with market pricing implying the easing cycle is over – and that the OCR will increase as early as the start of 2010. This is despite the RBNZ becoming more explicit, expressing its intention to cut the OCR further if wholesale interest rates and the NZ dollar remain elevated at current levels (both have subsequently *increased*). In our view, the NZ dollar is likely to remain strong and we have pencilled in two 25 basis point cuts for September and October, although the timing of these are partly dependent on the NZ dollar.
- The OCR remains the RBNZ's primary tool, although it has started to lose traction at very low levels. While the RBNZ has investigated other options, it remains very reluctant to use them while there is potential to cut the OCR further.

NZ Data Preview: a look at the week ahead

Data	Date	Time (NZST)	Previous	Market expects	ASB expects
July Electronic Card Transactions	11/8	10.45 am	-1.0%	-	-
July Business NZ PMI	13/8	10.30 am	46.2	-	-
July Food Price Index	13/8	10.45 am	2.8%	-	-
June Retail Trade Survey (Total, real)	14/8	10.45 am	-2.9%	0.0%	0.0%
July REINZ house sales			+9.4%	-	-

Friday 14th August

Q2 Retail Trade Survey

Total, real Previous: -2.9%, ASB(f): +0.0%

Ex-auto, real Previous: -1.2%, ASB(f): +0.1%

June month: Total, nominal: Previous:+0.8% ASB(f) -0.4%

We expect ex-auto sales to decline over the June month, reversing out most of the previous month's surge (induced by the early timing of cold weather). Meanwhile, the auto component is likely to contribute positively, with car sales stabilising and petrol prices increasing. Tuesday's electronic card transactions should provide some direction on retail spending for July.

For the quarter, we anticipate that much of the increase in nominal spending over recent months (+0.9% qoq) was likely to be related to prices, and we expect that volumes remained reasonably flat (and we note the risks are skewed towards a weaker number). The retail trade deflators are likely to print much stronger than the quarterly CPI increase (+0.6% qoq). The retail trade survey does not incorporate the sectors which are driving the moderation in inflation as they are mostly tied to the housing market (i.e. construction costs) and air fares. Instead retail prices are experiencing quite a sharp increase (despite anecdotes of discounting which is fairly typical in winter), in particular food, petrol, vehicle prices and imported goods (a lagged response to the fall in the exchange rate last year).

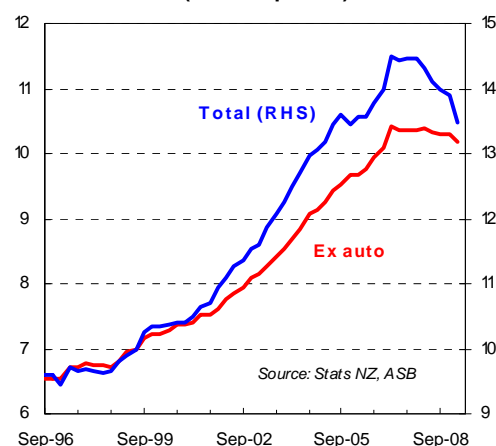
This week: REINZ house sales - July

House sales surged over the period from March through to June, initially as potential buyers finally stepped in off the sidelines as interest rates reached very low levels. Despite rises in long-term rates since March, sales volumes have been significantly up on year-ago levels. Mortgage approval data suggest that July should be another reasonable month for the housing market. Barfoot & Thompson data for Auckland also point to sales for July remaining similar to June levels in the REINZ nationwide report.

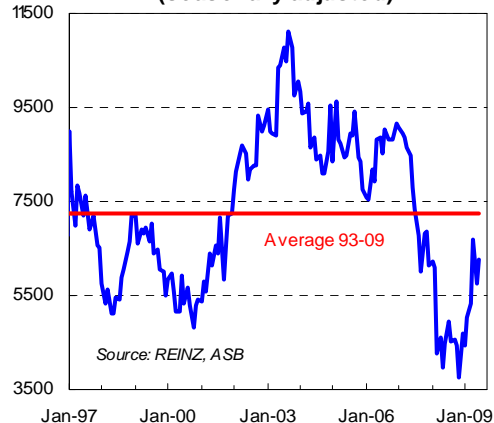
Despite the lift in activity, monthly turnover is still below the long-run average, and well off the peak of the boom. Over the coming months, still-low short-term interest rates and a turn around in net migration should continue to provide support to housing demand. However any recovery is likely to be muted by low affordability and rising unemployment.

House sales provide a 3-6 month lead on house prices and, with housing demand picking up off its lows, house prices are likely to soon stabilise. The QV index showed year-on-year house price declines moderating further, down 5% on year-ago levels from the peak annual decline recorded back in March of 9.7%. ASB's Housing Confidence Survey indicates flat expectations for house prices going forward. This contrasts to the expectations of declines recorded in the surveys conducted over the previous year.

NZ RETAIL SALES VOLUMES
(\$b 1995 prices)



MONTHLY DWELLING SALES
(seasonally adjusted)



NZ Data Review: weekly recap

Q2 Labour Cost Index and Quarterly Employment Survey

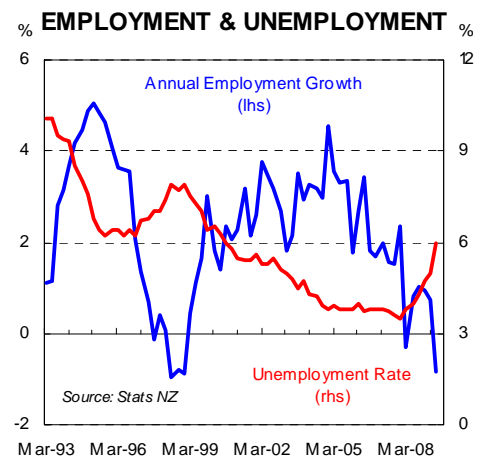
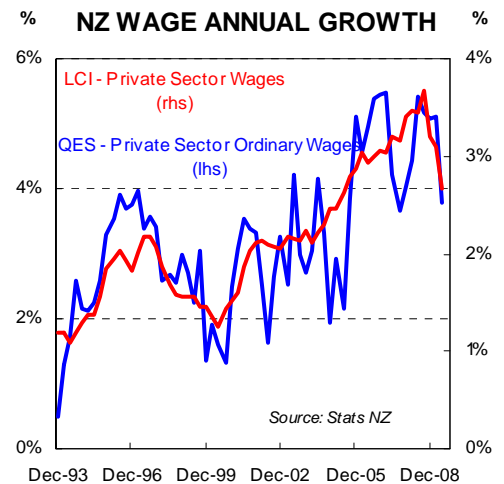
The Labour Cost Index and Quarterly Employment Survey revealed wage inflation pressures are abating faster than expected. Wage freezes have become evident very quickly in the data with the Labour Cost Index registering an increase of 0.3% over Q2, below market expectations. Annual wage inflation is now moderating, registering 2.9% increase on year-ago levels compared to 3.4% in March. The Quarterly Employment Survey measure of average hourly earnings (which is subject to composition change within the work force, i.e. promotions) also confirms a slowing in wage inflation. Private sector ordinary time average hourly earnings increased 0.7% qoq, and the annual increase slowed to 3.8% from 5.1% in March.

Firms and workers are in part responding to falling economic demand by containing wage increases or even freezing wages. Unsurprisingly, the weakness was prominent in construction, wholesale trade and manufacturing, with reductions in pay rates tied to the economic downturn and significant fall in activity recorded in these industries.

Household Labour Force Survey

The unemployment rate shot up to 6% from 5%, higher than the market expectations, the sharpest increase in the unemployment rate since September 1988. However, the increase was unusual in that it was not due to a large decline in employment, employment fell just 0.4%. Rather, the rise in unemployment came from stronger population growth and an increase in labour participation increasing the size of the labour force. Overall there are more people hunting for jobs which, combined with the modest decline in number of people employed, saw the unemployment rate increase sharply.

While the number of jobs has held up, the economic weakness has impacted the labour market via hours worked falling 1.9%, implying a drop in average hours worked per person and consistent with the increase in part-time jobs offsetting the fall in full-time jobs. The data strongly back up anecdotes that the pain of falling labour demand is in part being borne by wage freezes or reduced work hours rather than outright layoffs.



Global Data Calendars

Note: Calendar 2 is in UK times. Add 11 hours for NZ times.

Calendar – Australasia, Japan and China

Date	Time		Econ Event	Period	Unit	Last	Forecast		
	NZT						Market	ASB/CBA	
Mon 10 Aug	11.50	JP	Current account (sa)	Jun	JPY bln	1,015.8	~	~	
	11.50	JP	Trade balance (BoP basis)	Jun	JPY bln	387.3	~	~	
	13.30	AU	Housing finance	Jun					
			no. owner occupier		m%ch	2.2	1.8	1.0	
			value of all loans		m%ch	2.3	~	1.5	
17.00	JP	Eco watchers survey: outlook	Jul	Index	45.6	~			
Tue 11 Aug	~	JP	BoJ rate announcement	Aug	%	0.1	0.1	0.1	
	~	CH	Trade balance	Jul	USD bln	8.25	10.17	~	
			Exports		y%ch	-21.4	-23.8	~	
			Index		y%ch	-13.2	-15.1	~	
	13.30	AU	Business confidence	Jul	Index	-2	~	~	
	13.30	AU	Business conditions	Jul	Index	4	~	~	
Wed 12 Aug	11.50	JP	DCGP	Jul	m%ch	-0.3	~	~	
					y%ch	-6.6	~	~	
	13.00	AU	Consumer confidence	Aug	m%ch	9.5	~	~	
	13.30	AU	Wage cost index	QII	q%ch	0.8	0.8	1.0	
	14.00	CH	Retail sales	Jul	y%ch	15.00	14.9	~	
	14.00	CH	Industrial production	Jul	y%ch	10.7	12	~	
	16.30	JP	Industrial production (f)	Jun	y%ch	-23.4	~	~	
	17.00	JP	BoJ monthly report						
Thur 13 Aug	10.30	NZ	Business PMI	Jul	Index	46.2	~	~	
	10.45	NZ	Food prices	Jul	m%ch	2.8	~	~	
	12.30	AU	CBA/HIA housing affordability	QII	q%ch	14.6	~	~	
	13.00	AU	Inflation expectations	Aug	%	3.2	~	~	
	13.30	AU	Average weekly earnings	May	q%ch	1.2	0.7	1.1	
					y%ch	5.6	5.3	5.9	
Fri 14 Aug	10.45	NZ	Retail sales	Jun	m%ch	0.8	-0.3	-0.4	
			ex auto			1.6	-0.5	-1.4	
	10.45	NZ	Retail sales ex inflation	QII	q%ch	-2.9	0.2	0.0	
	11.30	AU	RBA Governor's semi-annual parliamentary testimony						
	11.50	JP	BoJ monetary policy minutes for July						

Calendar – North America & Europe

Please note all days and times are UK time, not local release day/times

Date	UK		Period	Unit	Last	Forecast		
	time	Econ Event				Market	CBA	
Mon 10 Aug	09.30	EC Sentix investor confidence	Aug	Index	-31.3	~	~	
Tue 11 Aug	00.01	UK RICS house price balance	Jul	y%ch	-18.1	~	~	
	07.00	GE CPI EU harmonised (f)	Jul	y%ch	-0.6	-0.6	~	
	09.30	UK Total trade balance	Jun	GBP mln	-2,168	-2,400	~	
	13.15	CA Housing starts	Jul	000	140.7	140.7	~	
	13.30	US Non-farm productivity (p)	QII	q%ch	1.6	4.7	~	
	15.00	US Wholesale inventories	Jun	m%ch	-0.8	-1.0	~	
Wed 12 Aug	09.30	UK Jobless claims change	Jul	000	23.8	26.0	~	
	09.30	UK ILO unemployment	Jul	%	7.6	7.7	~	
	10.00	EC Industrial production	Jun	m%ch y%ch	0.5 -17.0	0.1 -16.4	~ ~	
	10.30	UK BoE Quarterly Inflation Report						
	13.30	CA International goods trade	Jun	CAD bln	-1.4	-0.7	~	
	13.30	CA New house price index	Jun	CAD bln	-0.1	~	~	
	13.30	US Trade Balance	Jun	USD bln	-26	-28.5	~	
	19.00	US Monthly budget statement	Jul	USD bln	-131.0	~	~	
	19.15	US FOMC rate decision	Aug	%	0.25	0.25	0.25	
	Thu 13 Aug	07.00	GE GDP (p)	QII	q%ch y%ch	-3.8 -6.9	-0.2 -6.6	~ ~
09.00		EC ECB monthly report						
10.00		EC GDP (a)	QII	q%ch y%ch	-2.5 -4.9	-0.4 -5.0	~ ~	
13.30		US Advanced retail sales ex autos	Jul	m%ch m%ch	0.6 0.3	0.3 0.1	~ ~	
13.30		US Initial jobless and continuing claims						
Fri 14 Aug		10.00	EC CPI	Jul	m%ch y%ch	0.2 -0.1	-0.6 -0.6	~ ~
	13.30	US CPI	Jul	m%ch	0.7	0.0	~	
	14.15	US Industrial Production	Jul	m%ch	-0.4	0.1	~	
	15.00	US UoM confidence (p)	Aug	Index	66	68.5	~	

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