

RIP retail sales

- Retail spending declines over second half of 2010 as pre-GST spend-up revised away.
- Housing market remains very quiet in January as prices continue to fall.
- Statistics NZ has decided to discontinue the monthly retail sales survey, a detrimental move.

Today marks the death of the monthly retail sales release: from now on Statistics NZ will only publish retail sales on a quarterly basis as part of an overhaul of the retail sales figures. Instead, anybody closely tracking the economy and retail sector will have to fall back on the monthly Electronic Cards Transactions (ECT) figures.

Consumer spending makes up 60% of the economy (with retail spending about half of that). So reducing the ability to understand what is happening in that sector is not a trivial issue. Statistics NZ has taken the view that there is no loss of information in dropping the survey, but as a user we said differently. We found the ECT to be a poor predictor of the old quarterly retail sales data, and that the monthly retail sales survey was superior. That is not to say the monthly retail sales figures are perfect: they too became more volatile after the last overhaul of them around 2003. Interestingly, Statistics NZ has also revised the ECT so they fit slightly better with the new quarterly retail sales figures.

Even with these revisions there are still glaring discrepancies. For example, the ECT still clearly shows that there was a pre-GST spend-up (as did the old retail sales figures). However, the new quarterly retail sales figures have no GST-related increase at all. What is more, the new quarterly retail sales data are even more volatile than the old data. All these peculiarities leave you wondering exactly how much you can rely on the integrity of the data.

All these developments are in keeping with an unfortunate trend in which the quality of economic statistics is suffering, while at their expense other far less important statistical releases are proliferating. Our concern is that by making it slightly harder to get a sense of what is happening in the economy there is a greater chance of economic policy mistakes. As an example, the quality of the Household Labour Force Survey seems to be reducing of late: one quarter employment is reported as up sharply the next it is reported as falling. The sharp lift in employment reported in May 2010 likely contributed to the RBNZ's decision to lift the OCR in June 2010 by falsely reinforcing the perception that the economy was vigorously bouncing out of recession.

So a few things to be aware of are: 1) the immediate understanding of what is happening in the retail sector is likely to be lower in the future, 2) quarterly retail sales releases will generate more financial market volatility than they have in the past, and 3) if you now do all your spending on a card of some sort that may improve the relevance of the Electronic Cards Transactions survey!

Click here for:

[Foreign Exchange](#)

[Interest Rates](#)

[Week Ahead](#)

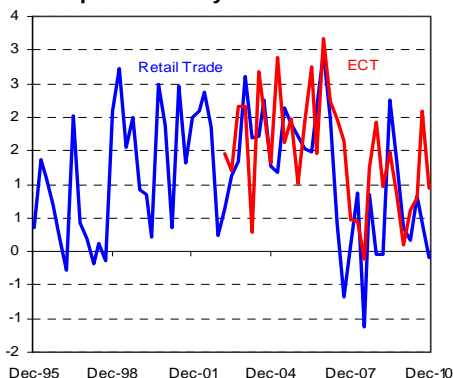
[Week in Review](#)

[Global Calendars](#)

- NZD declines on the back of weak retail data and recession comments by the Finance Minister.
- Short-term interest rates remain low on weak NZ data and dovish RBA comments.
- Business NZ manufacturing confidence, Feb consumer confidence, producer prices indices.
- Food prices increase, housing market and retail trade remains subdued.
- China CPI, BoE Inflation Report, FOMC minutes, US housing and industrial production data.

Chart of the Week

Quarterly s.a. ex-auto retail trade vs collapsed monthly s.a. ex-auto ECT



Electronic Cards Transactions cover all card transactions processed electronically and are published sooner than the retail trade figures. However, there is no geographic breakdown, cash transactions are not included, and the retail category breakdown is limited.

Both the ECT and quarterly retail trade figures have been revised with the overhaul of the quarterly retail trade survey. Although they diverge a little less than they did in the past, both are now more volatile than the old data – particularly the retail trade figures. And the retail figures matter for measurement of GDP.

Both now imply a big spend-up in 2008 during the depths of the recession, which doesn't gel. But one suggests a pre-GST spend-up while the other doesn't.

Foreign Exchange Market

FX Rates	Current*	Week ago	Month ago	6 mths ago	Year ago	ST Bias	Support^	Resistance^
NZD/USD	0.7575	0.7701	0.7698	0.7038	0.6973	DOWN	0.7500	0.7700
NZD/AUD	0.7565	0.7598	0.7725	0.7899	0.7837	DOWN	0.7500	0.7700
NZD/JPY	63.24	63.31	63.56	60.39	62.53	FLAT	62.00	64.00
NZD/EUR	0.5601	0.5655	0.5772	0.5500	0.5099	FLAT	0.5550	0.5650
NZD/GBP	0.4734	0.4772	0.4862	0.4512	0.4447	DOWN	0.4700	0.4800
TWI	67.8	68.4	69.2	65.9	64.5	DOWN	67.25	68.25

^Weekly support and resistance levels * Current is as at 11.30 am Monday; week ago as at Monday 5pm.

The NZD/USD was firm over the first half the week, buoyed by strong offshore confidence. The unexpected decline in US unemployment and strong Q4 earning season results contributed to upbeat sentiment. However, the NZ dollar came under pressure later in the week, following comments by NZ Finance Minister Bill English at the Parliamentary Finance and Expenditure Committee that Q4 GDP may have contracted. The weak Q4 retail trade report (and downward revisions to Q3) also weighed on the NZ dollar. The underlying weakness in retailing suggests rate hikes by the RBNZ are off the cards for sometime, and should keep downward pressure on the NZD/AUD.

Looking ahead we see downside risk to the NZD/USD, as the USD is likely to remain supported by stronger US retail trade and US industrial production data. However, US CPI and speeches by Fed Chair Bernanke may see the USD weaken later in the week. Potential for a strong Chinese CPI adds to downside risk to the NZD/USD and AUD/USD, as it may spark worries of further policy tightening in China, which would hurt demand for commodities and commodity currencies. We also see downside risk to the NZD/GBP with the Bank of England's quarterly inflation report likely to show an upward revision to the inflation projections. The discussion of risks to the BoE's 2% inflation target will be critical. However, the NZD is likely to remain firm against the EUR, with concern about government debt in Greece and elsewhere still bubbling in the background.

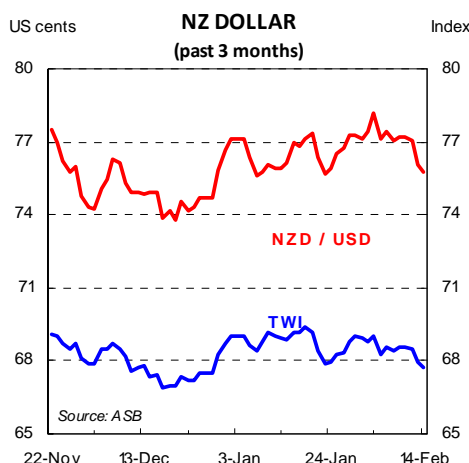
Short-term outlook:

Key data

Date

Time (NZT)

Market



RBA Minutes

15/2

1.30pm

-

BoE Inflation Report

16/2

11.30pm

-

FOMC Minutes

17/2

8.00am

-

Business NZ Manufacturing PMI

17/2

10.00 am

-

Key events in offshore markets this week: Japan economic growth, EU industrial production (14th); Minutes of the RBA's February meeting, Bank of Japan policy meeting, EU economic growth, ZEW survey, UK CPI, US retail sales, US Empire manufacturing survey (15th); UK consumer confidence, UK unemployment, BoE's inflation report, minutes from the Federal Reserve's February meeting, US housing starts and permits, US producer prices, US industrial production (16th); US CPI, US jobless claims, US house prices (17th); UK retail trade (18th).

Speakers. Dudley (14th), ECB Mersch (16th), RBA's Lowe (17th), Bernanke (17-18th), Evans (17th).

Medium-term outlook:

[Last Quarterly Economic Forecasts](#)

Our forecast strength in the NZD in early 2011 is due to a strong New Zealand Terms of Trade and USD weakness, rather than the broader New Zealand economy's performance, which has been very patchy.

We forecast the NZD to ease over the course of 2011 against the main cross rates, but remain strong when compared to long-run average levels.

The Australian and Canadian economies continue to benefit from strong Terms of Trade and upward pressure on local interest rate settings. The AUD in particular is likely to out-perform over the coming months, and has already traded above parity with the USD.

We anticipate that the USD will remain weak over H1 2011. The FOMC appears extremely cautious in its assessment of a clearly improving US economy. It appears the threshold for the FOMC to pre-maturely end the quantitative easing program is high. Accordingly, we are unlikely to see near-term USD strength, but expect the Greenback will lift in the latter part of 2011.

We have revised up our near-term currency forecasts for the EUR, GBP and CHF forecasts. Behind the revision is an improvement in sentiment: "crisis management" by the European authorities is being perceived as satisfactory. Accordingly, exchange rate direction is now being driven by traditional interest rate, growth and inflation, differentials.

GBP is forecast to out-perform EUR, reflecting a more rapidly improving UK economy and a healthier banking system.

Interest Rate Market

Wholesale interest rates	Current	Week ago	Month ago	6 mths ago	Year ago	ST Bias
Cash rate	3.00	3.00	3.00	3.00	2.50	FLAT
90-day bank bill	3.18	3.19	3.21	3.25	2.74	FLAT
2-year swap	3.84	3.87	3.95	3.86	4.29	FLAT/DOWN
5-year swap	4.72	4.67	4.68	4.40	5.29	FLAT/DOWN
5-year benchmark gov't stock	4.56	4.54	4.58	4.45	5.12	FLAT/DOWN
NZSX 50	3366	3387	3370	3024	3080	FLAT

* Current is as at 11.30 am Monday; week ago is as at Monday at 5pm. Please note we changed the NZ govt 5-year benchmark bond to the April 2015 maturity (from April 2013), which causes some distortion in the comparison against the previous levels (i.e. 6 months ago).

There was a steepening of the domestic yield curve over the past week, as short-term interest rates remained broadly unchanged and longer-term interest rates were pulled higher by the increase in US bond yields over the early part of last week. The continued subdued nature of domestic data is keeping downward pressure on yields.

Australian interest rates fell sharply towards the end of last week, as RBA Governor Steven's comments in a testimony to the House of Representatives indicated the RBA was comfortable with how economic activity and inflation were panning out and would leave its policy rate on hold for some time. This led markets to push back its expectations of further rate increases beyond September.

US interest rates continued to edge higher over much of the week, with ten-year government bond yields rising to 3.75% - the highest level in almost a year. However, longer-term bond yields fell on Friday night to end the week broadly unchanged.

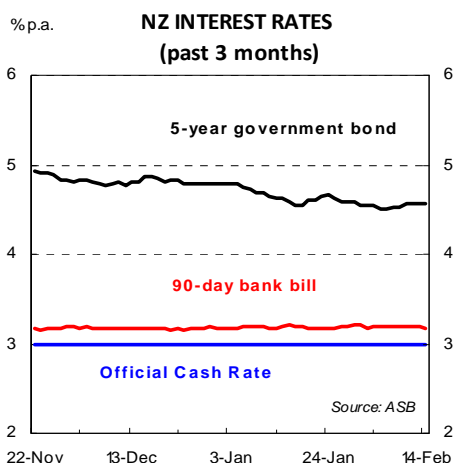
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-

Comment: Second-tier domestic data are released this week, with the PMI survey of manufacturing, producer prices, capital goods prices and Roy Morgan consumer confidence survey due on Thursday. The manufacturing and consumer confidence surveys will provide some indication into how NZ economic activity is tracking over early 2011.

The release of the RBA minutes, BoE Inflation Report and FOMC minutes will provide useful insight into how the central banks of the major economies view the economic outlook. In particular, speculation remains the Fed may bring an early close to its Quantitative Easing programme.

Medium-term outlook:

[Last Quarterly Economic Forecasts](#)

The RBNZ kept the OCR unchanged at 3% at the January OCR Review, and retained a very similar tone to that of the December MPS. Recent data have generally proved weaker than expected, and the RBNZ is particularly concerned about the weakness in the housing market, business investment intentions and business demand for credit. Back in December, the RBNZ assessed that low interest rates were delivering less stimulus to the economy than previously expected, and as a result had pushed back the timing and pace of future OCR increases.

The RBNZ remains remarkably comfortable on inflation pressures in the economy. We continue to view the RBNZ's medium-term inflation forecasts as optimistic, particularly around its relaxed attitude to inflation expectations over the next year. We expect the RBNZ will become less comfortable with the inflation picture over the coming year.

Nonetheless, with recent activity data generally disappointing and inflation indicators suggesting inflation pressures are subdued for now there looks to be little urgency for the RBNZ to lift the OCR. This is particularly in light of the fact the RBNZ has highlighted it would like to become more confident the recovery is underway and inflation pressures are lifting before it resumes the reduction of monetary policy stimulus. Recent domestic data underscore just how patchy the recovery is proving to be.

We expect the RBNZ will wait until September to increase the OCR. In addition, we expect the initial phases of tightening will be gradual, with the first 25 basis point OCR increases occurring at the September, December 2011 and March 2012 Monetary Policy Statement releases. Beyond that, we expect the tightening cycle to pick up pace as inflation concerns eventually lift.

Data Recap: weekly recap

New Zealand Data Reviews

Food Prices - January

As expected, strength in fruit and vegetable prices (which rose 7.4%) led the 1.8% increase in food prices in January. This reflected both the fact that it is a seasonally strong month for fruit and vegetable prices, and weather conditions which affected crop yields.

Higher international wheat and dairy prices show signs of flowing through to higher grocery prices which increased 0.9% in January. We expect the strength in international commodity prices will continue to underpin higher prices for bread and dairy products at the retail level over the coming months. The effects of higher international commodity prices were also reflected in a 1.7% increase in meat prices in January. International lamb prices have increased 35% and beef prices 31% in NZD terms over the past year.

We expect continued strength in food prices over the coming months, underpinned by higher international commodity prices and the effects of recent floods in Australia on fruit and vegetable crops.

REINZ House Sales

The REINZ housing data for January was very weak even when the seasonal impact is taken into account. Turnover weakened further in between December and January, dropping 8% in seasonally-adjusted terms.

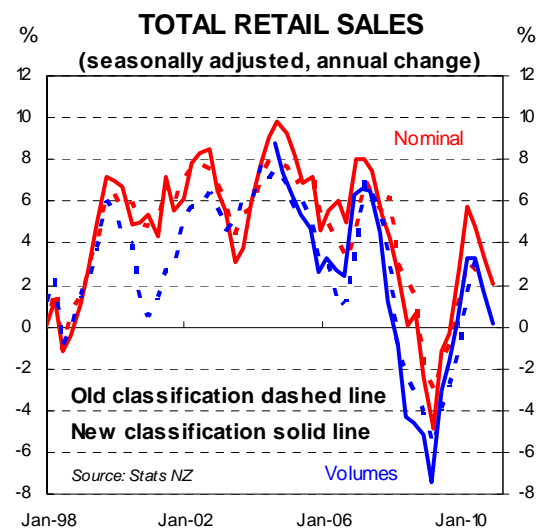
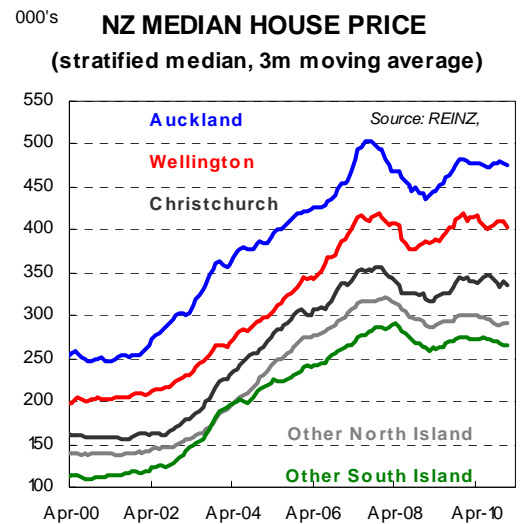
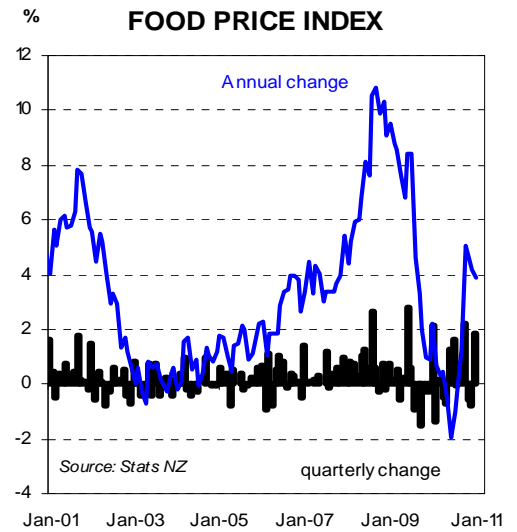
Over 2010 the housing market stagnated. Prices dipped 1.6% over 2010, and January data show prices are down around 6% on the peak recorded in late 2007. The low number of new listings shown in the realestate.co.nz report released earlier in the month provides some comfort. Low listings will help to contain the overhang of houses on the market during this period of low sales turnover. However, based on the turnover in today's REINZ report, the amount of inventory relative to turnover extended from 11.7 to 12 months. This measure, combined with the long number of days to sell, continues to indicate the market remains tipped in favour of buyers and suggests prices will be soft over the coming months. We expect the caution shown by households in late 2010 will continue this year. We expect turnover to remain low over the coming months, and prices to remain soft, down around 5-6% on the 2007 peak.

Retail Trade Survey – Q4

The 0.4% decline in retail sales volumes over the December quarter was broadly in line with market expectations. Under the new classification for retail sales categories, retail sales in the previous quarter show little sign of the pre-GST spend-up that was seen under the old classification, with sales volumes declining 0.4% under the new classification being much lower than the 0.7% increase under the old classification. Under the new retail sales classification used by StatsNZ, retail spending was very weak over the second half of 2010.

Leaving aside the issues over the change in classification used by StatsNZ, the weakness in retail spending over the second half of 2010 is likely to be the result of weak housing market activity over this period. In particular, the low level of house sales is likely to have driven the substantial -9.4% decline in sales volumes of furniture, floor coverings, houseware and textiles, as well as hardware, building and garden supplies.

The result points to weakness in retail spending over the second half 2010, reflecting headwinds facing the household sector, including weak housing market activity and a slowing recovery in the labour market. These factors are driving the cautiousness of households in regards to discretionary spending.



Offshore Data Reviews
Australian Employment

Australian employment growth remains strong. The January labour force report delivered jobs growth of 24.0k, despite the impacts of significant natural disasters in Queensland through the month. Employment growth outside of Queensland was very strong, with a 29.1k increase in jobs.

The unemployment rate was stable at 5.0% in January. However this was only achieved courtesy of a lift in the participation rate - without the increase in participation in the month, the unemployment rate would have had a '4' in front. Recent strong rises in participation have masked a potentially disturbing underlying development in the Australian labour market.

Growth in the working age (15+) population has slowed markedly. The monthly increase in the working age population slowed to 19.0k in January, the slowest pace since June 2006. By contrast, in January 2010 the working age population grew by 42.6k. Forward indicators suggest demand for labour is likely to remain strong over the course of 2011. The current weak pace of growth in the supply of workers means that job gains above 12k per month will send the unemployment rate even lower. Participation is already at record high rates, limiting the prospects for an encouraged worker effect to bridge the gap. If a meaningful increase in the supply of workers does not materialise the RBA will need to lift rates in order to restrain demand for labour.

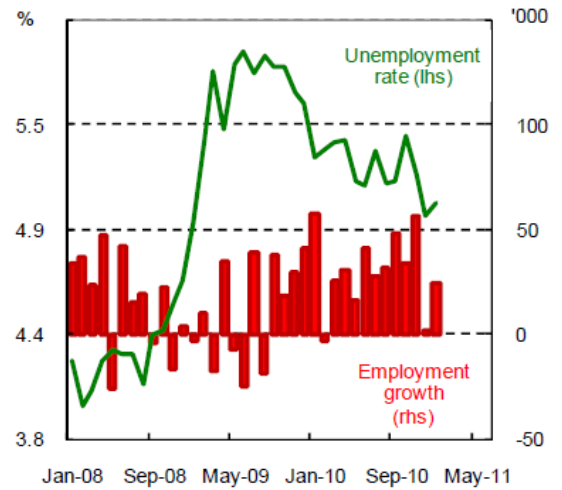
RBA Governor's Testimony to Economics Committee

The RBA Governor, Glenn Stevens, emphasised the favourable medium term outlook for the Australian economy in his testimony to the House of Representatives Standing Committee on Economics. The major departure from the forecasts given in last Friday's RBA Statement on Monetary Policy (SMP) was the upward revision to their CPI outlook.

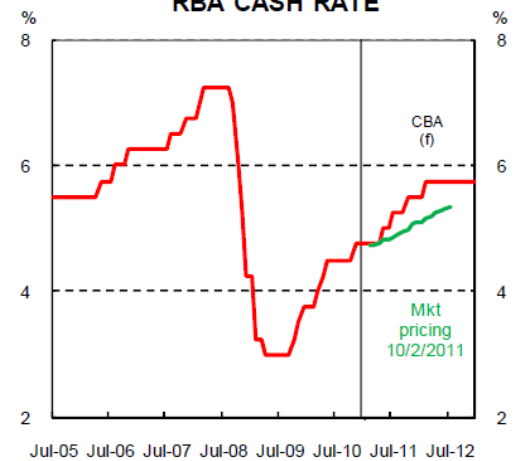
The RBA now expects a temporary rise in the headline CPI to 3%pa in the June quarter, mainly because of higher expected fruit and vegetable prices following the crop damage from the Queensland floods and Cyclone Yasi. The possible effect on the underlying measures was not mentioned, presumably because the statistical exclusion methods used for the calculation of the RBA's underlying inflation measures are likely to exclude large price rises. They may also exclude subsequent large price falls, if they occur.

Mr Stevens, in his prepared remarks, emphasised that the expected lower December and March quarter GDP figures are because of an inability to produce goods and services, not because of a slump in demand. As a result, the RBA expects GDP to be about 0.5% lower for 2010/11 than would have otherwise occurred. But mining and crop production are forecast to recover in subsequent quarters. We adjusted the timing of our forecast RBA rate rises after last week's SMP. Today's testimony has not caused any more changes to those forecasts. In our view, the RBA will lift the cash rate to a cyclical peak of 5.75%, in early 2012 - with the next RBA 0.25% move likely at the May RBA Board meeting.

LABOUR MARKET



RBA CASH RATE



Global Data Calendars

Calendar - Australasia, Japan and China

Date	Time (NZT)	Eco	Event	Period	Unit	Last	Forecast	
							Market	ASB
10-15 Feb		CH	China Property Prices	Jan	y%ch	5.5	6.4	~
10-15 Feb		CH	New Yuan Loans	Jan	CNY	480.7	1200.0	~
10-15 Feb		CH	Money Supply – M2	Jan	y%ch	19.0	19.7	~
15 Feb	13:30	AU	Reserve Bank's Board Minutes	Feb				
	15:00	CH	Producer Price Index	Jan	y%ch	5.90	6.20	~
	15:00	CH	Consumer Price Index	Jan	y%ch	4.60	5.40	~
	17:30	JN	Industrial Production	Dec F	m%ch	3.10	~	~
	17:30	JN	Capacity Utilization	Dec F	m%ch	1.60	~	~
	19:00	JN	Machine Tool Orders	Jan F	y%ch	89.40	~	~
		JN	BOJ Target Rate	15 Feb	%	0.10	0.10	0.10
16 Feb	12.30	AU	Westpac Leading Index	Dec	m%ch	0.00	~	~
	13.30	AU	New Motor Vehicle Sales	Jan	m%ch	0.80	~	~
	13.30	AU	Consumer Inflation Expectations	Feb	%	4.6	~	~
17 Feb	10.30	NZ	Business NZ PMI	Jan	Index	53.1	~	~
	10.45	NZ	Producer Prices – Inputs	QIV	q%ch	~	~	~
	10.45	NZ	Producer Prices – Outputs	QIV	q%ch	~	~	~
	15.00	NZ	ANZ Consumer Confidence Index	Feb	Index	117.1	~	~
	18.00	JN	Coincident Index CI	Dec F	Index	103.1	~	~
	18.00	JN	Leading Index CI	Dec F	Index	101.4	~	~
18 Feb	13.30	AU	RBA Foreign Exchange Transactions	Jan	AUD	855	~	~

Calendar - North America & Europe

Please note all days and times are UK time. Add 13 hours for NZ times.

Date	Time (UK)	Eco	Event	Period	Unit	Last	Forecast	
							Market	ASB
14 Feb	10:00	EC	Euro-Zone Industrial Production (s.a.)	Dec	m%ch	1.20	~	~
15 Feb	07:00	GE	GDP (s.a.)	QIV P	q%ch	0.70	~	~
	09:30	UK	CPI	Jan	y%ch	3.70	~	~
	09:30	UK	Core CPI	Jan	y%ch	2.90	~	~
	10:00	EC	Euro-Zone GDP (s.a.)	QIV A	q%ch	0.30	~	~
	10:00	EC	ZEW Survey (Econ. Sentiment)	Feb	Index	25.4	~	~
	10:00	EC	Euro-Zone Trade Balance (s.a.)	Dec	EUR	-1.9	~	~
	13:30	US	Empire State Manufacturing Survey	Feb	Index	11.92	14.5	~
	13:30	US	Import Price Index	Jan	m%ch	1.10	0.80	~
	13:30	US	Retail Sales Ex Auto & Gas	Jan	m%ch	0.40	0.50	~
	14:00	US	Total Net TIC Flows	Dec	USD	39	~	~
	15:00	US	Business Inventories	Dec	m%ch	0.20	0.70	~
16 Feb	00:01	UK	Nationwide Consumer Confidence	Jan	Index	53	~	~
	09:30	UK	Jobless Claims Change	Jan	'000	-4.1	~	~
	09:30	UK	ILO Unemployment Rate (3mths)	Dec	%	7.90	~	~
	10:30	UK	Bank of England Inflation Report					
	13:30	CA	Leading Indicators	Jan	m%ch	0.50	~	~
	13:30	CA	Manufacturing Sales	Dec	m%ch	-0.80	~	~
	13:30	US	Building Permits	Jan	m%ch	16.70	-9.10	~
	13:30	US	Housing Starts	Jan	m%ch	-4.30	1.40	~
	13:30	US	PPI Ex Food & Energy	Jan	y%ch	1.30	1.30	~
	14:15	US	Capacity Utilization	Jan	%	76.00	76.40	~
	14:15	US	Industrial Production	Jan	m%ch	0.80	0.60	~
	19:00	US	Minutes of the January FOMC Meeting					
17 Feb	13:30	CA	Wholesale Sales	Dec	m%ch	1.20	~	~
	13:30	US	CPI Ex Food & Energy	Jan	y%ch	0.80	1.00	~
	13:30	US	Initial Jobless Claims	12 Feb	'000	415	~	~
	13:30	US	Continuing Claims	5 Feb	'000	3,925	~	~
	15:00	EC	Euro-Zone Consumer Confidence	Feb A	Index	-11.2	~	~
	15:00	US	Leading Indicators	Jan	m%ch	1.00	0.20	~
	15:00	US	Philadelphia Fed Business Outlook Survey	Feb	Index	19.3	20.2	~
18 Feb	09:30	UK	Retail Sales Ex Auto Fuel	Jan	m%ch	-0.30	~	~
	12:00	CA	Bank Canada CPI Core	Jan	m%ch	-0.30	~	~

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