

Business Weekly

Household recovery on a diet?

This Week

Last week's data showed signs that households are running out of a little bit of steam, having been a key factor in stabilising the economy last year.

Q4 retail sales were a case of being good – but not as good as was hoped. Sale volumes rose 1% over the quarter, which we should point out is the best volume growth seen since early 2007. But expectations were for a stronger outcome of 1.4%. Much of the weakness (relative to expectations) came from a relatively weak December month, for which overall sales values were flat and ex-auto sales dropped 1.8%. But, much of the weakness in December's spending came through in the food categories, which suggests that we were all collectively very careful with the Christmas dinner trimmings.

Retail sales excluding food rose 1.2% mom in December by our estimate, so Christmas wasn't too bad apart from the apparent skimping on the ham. And the quarterly figures showed strong volume growth in car sales and appliance sales (albeit with the latter discounting or swift pass-through of the stronger exchange rate no doubt assisted). Total retail volumes were consistent enough with our view that Q4 GDP grew 0.5%.

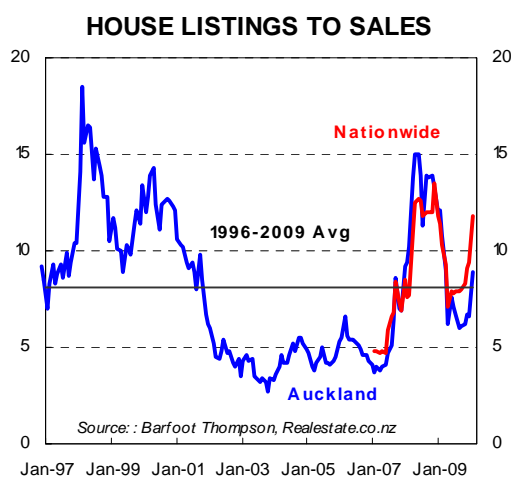
Housing figures were the more eyebrow-raising release for the week, with the REINZ figures indicating a 17% mom fall in January sales turnover. November and December figures showed tentative signs momentum in the market was waning, but January's figures lent more weight to the trend. Moreover, nationwide listing numbers are starting to increase, according to realestate.co.nz. Growing talk since late last year of potential changes to the tax treatment of property may have already started to make prospective buyers cautious.

On the subject of tax changes, the Government's proposals are intended to help lift the economy's growth rate. Reducing taxes on personal income should at the margin encourage work effort, upskilling and entrepreneurial activity by leaving people with more of a return for their efforts. The challenge is how to make up for the lost tax revenue, now that large budget surpluses are a thing of the past. Raising GST has been put forward as one possible source, and from an economic perspective causes far less distortion of work effort than income taxes. Tax on property is another way of raising money with less economic distortion. The Government has ruled out most property-related tax options, though has hinted at removing the ability to claim for depreciation on property. Depreciation claims – in the absence of any actual depreciation upon sale of the property – have effectively been an interest-free loan from taxpayers to property investors, who make very little taxable income but (over time) non-taxed capital gains.

Click here for:

- [Foreign Exchange](#) • NZD recovers over the week, but falls sharply following Friday's retail trade.
- [Interest Rates](#) • NZ interest rates fall after disappointing retail spending figures.
- [Week Ahead](#) • Only second tier data out in NZ this week, consumer confidence the highlight.
- [Week in Review](#) • Housing demand begins to wane, December retail spending very disappointing.
- [Global Calendars](#) • RBA, BOE and FOMC meeting minutes, US Capacity Utilisation and US CPI.

Chart of the week



- One housing statistic pointing to slowing demand has been the lift in the level of housing inventory relative to sales. On a nationwide level, this ratio is quickly heading back toward levels seen during the weakest period for the housing market in 2008.
- Uncertainty around the future tax treatment of housing is likely to weigh on housing demand until the Government confirms which of the Tax Working Group recommended policies it will adopt (in the May Budget).
- The shift towards more supply relative to demand should help the housing market to become more balanced over the next few months. Days to sell are likely to lift, and house prices are expected to increase at a slower pace or even decline.

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	0.6956	0.6871	0.7384	0.6691	0.5238	FLAT	0.6850	0.7050
NZD/AUD	0.7838	0.7939	0.7960	0.8138	0.7956	FLAT	0.7800	0.8000
NZD/JPY	62.65	61.34	67.31	63.27	47.67	FLAT	60.50	63.20
NZD/EUR	0.5110	0.5038	0.5116	0.4729	0.4049	FLAT	0.5000	0.5150
NZD/GBP	0.4442	0.4404	0.4523	0.4067	0.3641	FLAT	0.4350	0.4450
TWI	64.5	64.0	66.7	62.6	52.8	FLAT	63.50	65.50

^Weekly support and resistance levels * Current is as at 11.00 am Monday; week ago as at Monday 5pm

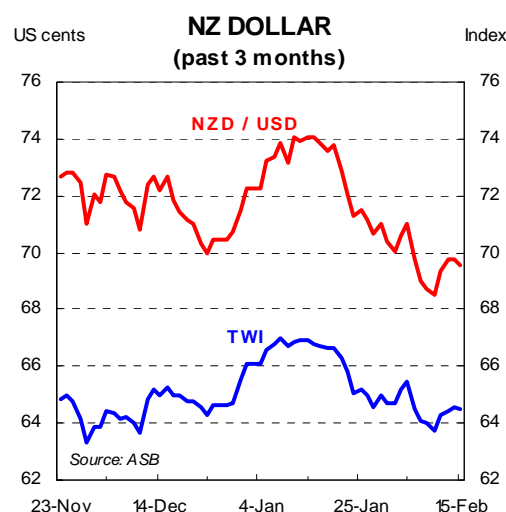
- The NZ dollar outperformed against all the crosses, with the exception of the Australian dollar. The NZD recovered ground over the week as risk appetites started to improve. A number of strong earnings results and analyst upgrades buoyed US equity markets. Meanwhile markets became hopeful for a Germany-led bailout for Greece.
- The NZD received an additional boost on Thursday through Australia's stronger employment result. However, the disappointing retail trade result saw an immediate decline on Friday.
- The USD may gain support from the FOMC minutes this week, as markets prepare for Fed rate hikes later this year. Recent interest rate tweaking in China and continued concerns for Greece should also support the USD.
- The NZD took two defined steps down against the AUD over the week. The first fall followed another stronger than expected Australian employment report. The NZD/AUD cross then took another knock down on Friday following the disappointing NZ retail spending figures for December. Last week's data highlight the current differences in outlook for the two economies. We expect this cross rate to remain subdued as rate hikes in NZ are unlikely before June.
- The NZD continued to outperform the GBP and EUR as markets remains sensitive to further news that the Euro-zone recovery is running out of steam and Greece's debt woes continue to dominate. Nonetheless, the EUR started to gain support over the week on talk of a Germany led bailout for Greece. There is potential for stronger UK inflation and UK retail figures to provide support to the GBP this week.

Short-term outlook:

Key data	Date	Time (NZST)	Market expects
RBA meeting minutes	16/2	1.30 pm	-
FOMC meeting minutes	18/2	8.00 am	-
Roy Morgan Consumer Confidence	18/2	3.00 pm	-

Potential currency movers this week: Japan Q4 GDP, Japan industrial production, Japan capacity utilisation (15th); Minutes of the RBA's February monetary policy meeting, UK CPI, EU ZEW Survey (16th); Minutes of the BoE's February meeting (17th); BoJ target decision, UK Public sector borrowing (18th); UK retail sales (19th).

Speakers: RBA Assistant Governor Debelle, Fed's Hoenig, Lockhart (16th); Plosser (17th); RBA Governor Stevens, Fed's Duke, Lockhart, Bullard (19th).



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

- We have recently pulled back our NZD outlook, with the NZD now likely to remain relatively steady over the first half of 2010. Further upside to the Kiwi over the next few months is likely to be limited, as the USD has started to strengthen reflecting stronger economic data.
- Adding to the downside pressure has been China's recent attempt to combat inflation pressures. Attempts to slow China have raised concerns on the strength of the global recovery, and the cracks appearing in China's commercial property sector are of some concern.
- In addition, the pace of economic recovery in the Eurozone has slowed. Nervousness surrounding the sustainability government debt levels have put pressure on the euro, which has flowed through to weaken the antipodean currencies.
- We have also pushed back the timing of the first OCR increase from the RBNZ from April to June, and expect the pace of increase to be more gradual, reducing the scope for interest rate driven out-performance.

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	2.50	3.50	FLAT
90-day bank bill	2.75	2.76	2.78	2.76	3.49	FLAT
2-year swap	4.23	4.26	4.61	4.14	3.35	FLAT
5-year swap	5.22	5.25	5.47	5.44	4.04	FLAT
5-year benchmark gov't stock	5.12	5.08	5.41	4.94	3.90	FLAT
NZSX 50	3071	3093	3260	3086	2751	FLAT

* Current is as at 11.00 am Monday; week ago as at Monday 5pm. Please note that we have recently changed the NZ govt 5-year benchmark bond to April 2015 maturity (from April 2013). This does cause some distortion in the comparison against the previous levels (i.e. month ago).

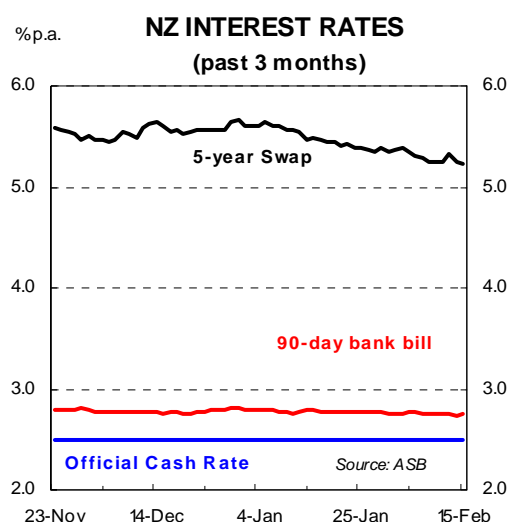
- The start of last week was generally quiet, but towards the end of the week NZ markets were whipped around. First by developments in US and Australian market movements dragging NZ swap rates higher on Thursday, followed by a steep decline on Friday with the disappointing NZ retail trade report.
- US bond yields lifted Wednesday night, as US Federal Reserve Chairman Ben Bernanke indicated the Fed planned to increase the discount rate as part of the normalisation of lending conditions. Then later on Thursday, yet another surprisingly strong Australian employment report saw the Australian interest rates spike up (1 year up 10 basis points, 5 years up 20 basis points).
- On Friday the market focused on the disappointing headline retail trade result, in particular the very weak 1.8% fall in December month activity. However, we note that the detail suggests a more upbeat picture than the headline implies. Nonetheless, the local data over the past few weeks have on balance disappointed and reduces any urgency for rate hikes. We expect a 25bp hike in June, with market pricing also consistent with a June start.

Short-term outlook:

Key data	Date	Time (NZST)	Market expects
RBA meeting minutes	16/2	1.30 pm	-
Roy Morgan Consumer Confidence	18/2	3.00 pm	-

Comment: The RBA minutes on Tuesday will receive additional focus given the surprise decision by the RBA to remain on hold at the previous meeting. The FOMC also has minutes out on Thursday morning NZT. In NZ a range of second tier data is set to be released over the week, the most interesting will be February consumer confidence. Given the surprising weakness in December spending, confidence closely watched for further signs of a recovery losing steam. Also out, but less relevant are Q4 producer price and capital goods prices indices on Tuesday.

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



- The RBNZ continued to hold the cash rate at 2.5% at the January *OCR Review*, and noted economic developments have generally turned out as it expected at the time of the December Monetary Policy Statement. As such, the Bank continue to expect to raise the OCR by around the middle of 2010.
- While acknowledging recent data have shown an improvement in household spending, the subdued nature of household credit growth is allaying fears that household debt levels will rise to unsustainably high levels.
- Furthermore, the reinstatement of the word “comfortable” in its assessment of inflation suggests the RBNZ is more relaxed about the inflation outlook following the subdued non-tradable inflation outturn in Q4. Nonetheless, we see inflation pressures building up in the non-tradable sector over the coming year, with our medium-term inflation outlook pushing closer to the top of the band. In particular, recent business surveys have shown a rebound in capacity utilisation and the re-emergence of skills shortages.
- Recent softer data (unemployment and waning momentum in the housing market) have reduced some of the urgency to unwind stimulus. We now expect the RBNZ is likely to lift rates in June and we expect this tightening to occur at a slower pace, with OCR increases of 25bp instead of 50bp at the initial meetings.
- The relationship between the OCR and lending rates is likely to be a lot firmer than we previously assessed. We expect the large wedge that currently exists between the OCR and bank funding costs to largely remain, and as such now see an OCR of 5% (lower than our previous estimate of 5.5%) will be sufficient to remove the stimulus short-term rates provide. The likelihood of a relatively low OCR peak, coupled with uncertainty over the impact of OCR hikes, point to 25bp moves being most appropriate.

NZ Data Preview: a look at the week ahead

Data	Date	Time (NZST)	Previous	Market expects	ASB expects
Q4 Producer Price Index – Inputs	16/2	10.45am	-1.1%	+0.5%	-
Q4 Producer Price Index – Outputs	16/2	10.45am	-1.4%	+0.4%	-
Q4 Capital Goods Price Index	16.2	10.45am	-0.4%	-	-
January Non-Resident Bond Holdings	16/2	3.00pm	63.2%	-	-
February ANZ Roy Morgan Consumer Confidence	18/2	3.00pm	131.4	-	-
January Credit Card Spending	19/2	3.00pm	-1.3%	-	-

NZ Data Review: weekly recap

January REINZ House Sales

January REINZ figures suggest the housing market is starting to lose momentum. House sales dropped 17% (seasonally adjusted), back towards 2008 sales levels.

The REINZ stratified house price index saw house prices fall 1.6% over January, following the 0.9% decline in December. Seasonally adjusting the data suggests house prices remained flat over December and increased 0.3% over January.

With the housing inventory to sales ratio rising back to levels seen during the weakest period for the housing market in 2008 (seasonally adjusted), it looks as though the continued shift to more supply relative to demand will continue to take the pressure off the housing market.

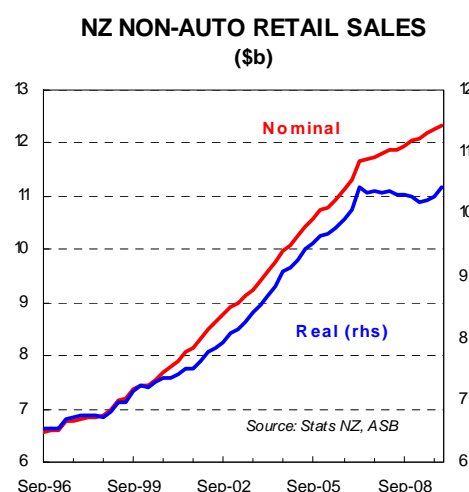
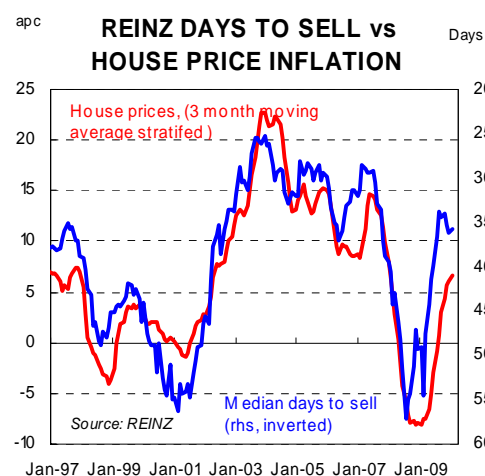
Due to some uncertainty around tax policy until May the market is likely to remain subdued for some time, thus adding further breathing room for the RBNZ.

Q4 Retail Trade Survey

While December month retail values were weaker than our and market expectations, over the December quarter retail sale volumes actually point to a recovery in consumer spending.

In particular, there was a large increase in appliance sales volumes, in line with recent consumer confidence surveys indicating consumers were more confident about purchasing big-ticket items. Furthermore, vehicle sales continue to recover from the very weak levels of earlier last year. Surprisingly weak food sales were what held sales back relative to expectations.

Nonetheless, this recovery in consumer spending still looks to be a gradual one and, with data showing household credit remaining subdued in recent months, the RBNZ can afford to wait until the middle of this year to hike.



Global Data Calendars

Note: Calendar 2 is in UK times. Add 13 hours for NZ times.

Calendar - Australasia, Japan and China

Date	Time		Econ Event	Period	Unit	Last	Forecast	
	NZT						Market	ASB/CBA
Mon 15 Feb	12.50	JP	Gross domestic product	QIV	q%ch	0.3	0.9	~
	17.30	JP	Industrial production	Dec	m%ch	2.2	~	~
	17.30	JP	Capacity utilisation	Dec	m%ch	3.2	~	~
Tue 16 Feb	10.45	NZ	Producer Prices – Outputs	QIV	q%ch	-1.4	~	~
	13.30	AU	RBA Minutes	Feb	~	~	~	~
	13.30	AU	NAB Business confidence	Jan	Index	~	~	8
	14.45	AU	RBA Assistant Governor Debelle speaks in Sydney	~	~	~	~	~
Wed 17 Feb	11.20	AU	RBA Assistant Governor Lowe speaks in Sydney	~	~	~	~	~
	13.00	AU	DEWR Skilled vacancies	Feb	m%ch	1.1	~	~
	17.00	JP	BoJ Monetary policy meeting	~	~	~	~	~
	19.00	JP	Machine tool orders	Jan	y%ch	192.0	~	~
Thu 18 Feb	~	JP	BoJ Target Rate	~	%	0.1	0.1	0.1
	13.30	AU	NAB Business confidence	QIV	index	~	~	16
	15.00	NZ	ANZ Consumer confidence	Feb	m%ch	10.8	~	~
Fri 19 Feb	11.30	AU	RBA Governor Glenn Stevens Parliamentary test.	~	~	~	~	~
	15.00	NZ	Credit card spending	Jan	m%ch	-1.3	~	~
	18.00	JP	BoJ Monthly Report	~	~	~	~	~

Calendar – North America & Europe

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

Date	UK		Econ Event	Period	Unit	Last	Forecast	
	Time						Market	CBA
Tue 16 Feb	09.30	UK	CPI	Jan	y%ch	2.9	3.7	~
	10.00	EC	ZEW Survey (Econ. Sentiment)	Feb	Index	46.4	~	~
	10.00	GE	ZEW Survey (Econ. Sentiment)	Feb	Index	41.0	~	~
	13.00	CA	Manufacturing sales	Dec	m%ch	0.1	~	~
	13.30	US	Empire Manufacturing	Feb	Index	15.92	17.70	~
	18.00	US	NAHB Housing market index	Feb	Index	15	16	~
Wed 17 Feb	09.30	UK	Bank of England minutes	~	~	~	~	~
	10.00	EC	Construction output	Dec	y%ch	-8.0	~	~
	10.00	EC	Trade balance	Dec	€bn	3.9	~	~
	13.30	US	Housing starts	Jan	'000	557	580	~
	13.30	US	Building permits	Jan	'000	653	611	~
	13.30	US	Import price index	Jan	m%ch	0.0	0.9	~
	13.30	CA	Wholesale sales	Dec	m%ch	2.5	~	~
	14.15	US	Industrial production	Jan	m%ch	0.6	0.8	~
	14.15	US	Capacity utilisation	Jan	%	72.0	72.6	~
	19.00	US	Minutes of FOMC meeting	~	~	~	~	~
Thu 18 Feb	10.00	EZ	Euro-Zone Consumer confidence	Feb	Index	-16	~	~
	12.00	CA	Consumer price index	Jan	m%ch	-0.3	0.3	~
	13.30	CA	Bank of Canada CPI Core	Jan	m%ch	-0.3	0.0	~
	13.30	US	Producer price index	Jan	m%ch	0.8	0.2	~
	15.00	US	Philadelphia Fed	Feb	Index	15.2	17.0	~
	13.30	US	Leading Indicators	Jan	m%ch	1.1	0.5	~
Fri 19 Feb	07.00	GE	Producer prices	Jan	y%ch	-5.2	-3.9	~
	08.30	GE	PMI Manufacturing	Feb	Index	53.7	53.9	~
	08.30	GE	PMI Services	Feb	Index	52.2	52.5	~
	09.00	EZ	Euro-Zone current account (sa)	Dec	€bn	0.1	~	~
	09.00	EZ	PMI Services	Feb	Index	52.5	52.5	~
	09.00	EZ	PMI Manufacturing	Feb	Index	52.4	52.8	~
	09.00	EZ	PMI Composite	Feb	Index	53.7	53.5	~
	09.30	UK	Retail sales ex Auto Fuel	Jan	y%ch	2.1	1.0	~
	13.30	US	Consumer price index	Jan	y%ch	2.7	2.8	~
	13.30	CA	Retail sales	Dec	m%ch	-0.3	~	~

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