

# Business Weekly

## Housing and retailing hold up

### This Week

Another week, another couple of green shoots sprout. Retail spending volumes eked out a slight gain of 0.4% in Q2. House sales rose 5% by our seasonally-adjusted estimate, with turnover having oscillated since the sharp recovery over February through April. Turnover is still a bit below average, though is well off its deep low. Other signs the housing market is returning to more normal conditions are the slightly below average median of days taken to sell and that prices are starting to edge up.

And as a bonus for economists the REINZ house price measure is now more reliable. The REINZ got together with the RBNZ, which developed a stratified house price measure that reduces the impact of sales composition on the overall price measure. The resultant house price measure means the timely REINZ data better mimic the Quotable Value price index, which has traditionally been viewed as a more reliable measure of price trends. Those who want to dig deeper into the methodology can go to the RBNZ [paper](#), and the data are available from the [REINZ](#) under the heading REINZ Monthly Housing Price Index.

It has been another week in which the NZ dollar has continued to defy gravity and long-term mortgage rates have risen. Despite the ongoing confirmation the household sector is stabilising, the RBNZ is likely to be increasingly worried that the recovery it forecasts will be undermined before it really gets started.

Last week it was suggested that cutting the OCR could potentially push the NZ dollar higher, through lower interest rates exacerbating the domestic-led economic recovery in a repeat of 2003. However, we don't think the RBNZ will be running too much risk of inflaming the housing market further by cutting the OCR. At best we see a lower OCR slowing the upward momentum of interest rates rather than triggering drops, as well as denting the NZD for a period. Doing so may make life a little easier for some NZ businesses.

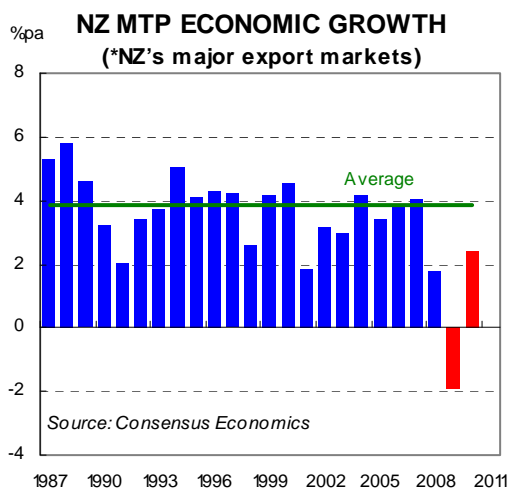
NZ is faring better through the global crisis than many of its trading partners, so it is entirely reasonable for the NZD to be high against some currencies. But NZ is also facing defacto tightening by virtue of Australia heading closer to lifting interest rates. An OCR cut would at least serve to underscore the divergence that is emerging between the fortunes of the two countries' export sectors and inflation outlooks.

If the NZD remains high, the RBNZ will have to start accepting that economic recovery strongly risks being slower than it has expected. It would then have two choices. It could cut the OCR to try and provide some relief (temporary as that might be). The other option is doing nothing other than forecasting a slower recovery, but that would be an implicit admission that the RBNZ has resigned itself to the role of bystander.

### Click here for:

- [Foreign Exchange](#) • NZD lifts further against a weak USD, setting fresh 2009 highs, but dips Friday.
- [Interest Rates](#) • NZ rates broadly unchanged over the week, strong local data supports yields.
- [Week Ahead](#) • Producer and Capital Goods Price Indices, tourism and migration figures due.
- [Week in Review](#) • Retail trade figures show signs of stabilisation. Housing market improves.
- [Global Calendars](#) • FOMC meeting was the focus. US Gov't bond yields dropped over the week.

### Chart of the week



- Things are looking up. That's the message conveyed by the latest Consensus Forecasts report from *Consensus Economics*. Downward revisions to global growth forecasts seem to be behind us.
- A key highlight of the August report is upward revisions to industrial production forecasts for the US, Japan, Germany, France, UK and Eurozone. Rising manufacturing purchasing managers' indices and a probable lift in production as the inventory rundown draws to a close help the optimistic outlook.
- The extent to which demand becomes self-fulfilling once restocking takes place and fiscal stimulus fades will be crucial in determining the strength of the global recovery. We continue to believe the recovery will be shaky, given the unprecedented degree of household deleveraging taking place and the outlook that tighter credit will persist for some time.

### 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	0.6746	0.6732	0.6436	0.5191	0.6974	DOWN	0.6600	0.6800
NZD/AUD	0.8132	0.8014	0.8046	0.7949	0.8069	DOWN	0.8000	0.8200
NZD/JPY	63.96	65.41	60.30	47.53	76.87	DOWN	62.00	65.00
NZD/EUR	0.4756	0.4737	0.4559	0.4060	0.4722	DOWN	0.4700	0.4800
NZD/GBP	0.4086	0.4026	0.3928	0.3645	0.3740	DOWN	0.4050	0.4150
TWI	63.0	62.8	60.6	52.7	65.1	DOWN	62.00	63.50

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

- The NZD was mixed last week, but lifted slightly on a trade weighted basis. Against the USD, the NZD is little changed today compared with week-ago levels, but did set a fresh 2009 high of 0.688 last Friday. NZD was buoyed by better-than-expected retail trade figures on Friday. Having risen in early London trade, the NZD got belted sharply lower as a weak consumer confidence report in the US caused risk appetites to diminish. The drop of over 1 cent in New York trade reflects how hard it can be to exit NZD trading positions. As our Kiwi traders say, it can be a very small door when everyone tries to get out at once.
- NZD traded over 0.80 against the AUD all last week, and pressed to a high of 0.816 on Friday. Having drifted off that peak, we think the NZD will trade back towards 0.80 this week. NZD was down against the Japanese yen last week, but posted modest gains on the Euro and GBP.
- With little local data to guide the market this week, the focus remains offshore. US housing indicators (NAHB index, housing starts, building permits and existing home sales) are the major releases this week. In addition, tonight the net long-term TICS flow data are expected to show a return to net inflows into USD assets over July.
- The USD has been able to sustain its post-payrolls gains against the major currencies so far, but there has been a lack of conviction in a stronger USD. We suspect the USD will return to trading in an inverse correlation with global sentiment this week and will trend lower as signs of stabilisation and improvement in other major economies shine through. The offset will be if Chinese or other global equity markets lose ground and cause some flight to safety of US AAA bonds.

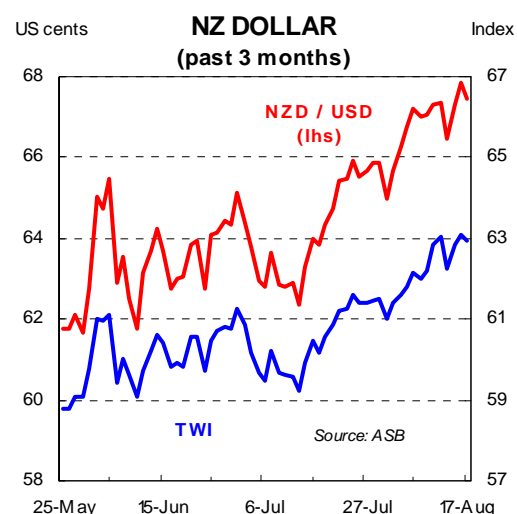
### Short-term outlook:

Key data	Date	Time (NZST)	Market expects
International Travel and Migration - July	21/8	10.45am	-

**Potential currency movers from the US this week:** net long-term Treasury International Capital System flows (17th), housing starts and building permits (18th), existing home sales (21st). 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	2.50	FLAT
90-day bank bill	2.75	2.78	2.80	3.39	2.75	FLAT
2-year swap	4.19	4.20	3.84	3.38	4.16	FLAT
5-year swap	5.49	5.52	5.32	4.09	5.47	FLAT
11/11 gov't stock	4.96	4.97	4.69	3.96	4.96	FLAT
NZSX 50	3151	3083	2804	2680	3151	DOWN

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

- NZ interest rates remained unchanged over the week. Swap rates dipped in the earlier part of the week but then recovered later on, following the same pattern in Australian markets.
- Australian interest rates remain well supported as RBA Governor Glen Stevens continued with an upbeat tone at Friday's Parliamentary testimony. Prior to the speech, there was speculation the Governor may try reduce the market's pricing for rate hikes later this year, although this did not eventuate.
- NZ retail and housing data remained firm, also providing support to local interest rates. Quarterly retail trade volumes came in slightly stronger than expected, meanwhile house sales remained robust in August with REINZ new house price index confirming house price increases over the past 3 months.

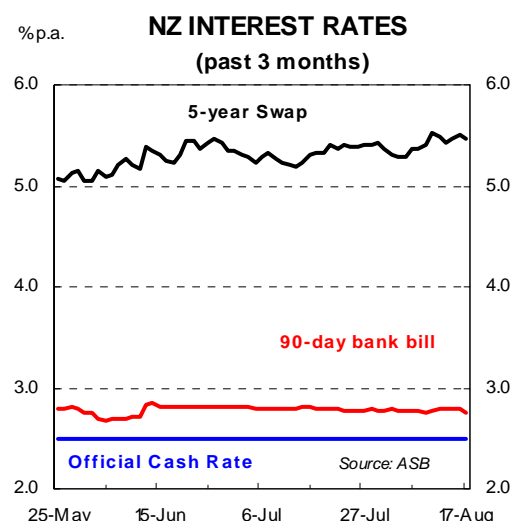
### Short-term outlook:

Key data	Date	Time (NZST)	Market expects
July Net Migration	21/8	10.45 am	

**Comment:** The recent pick up in net migration will be closely watched, given its role underpinning demand in the housing market. With no major data before the next RBNZ announcement the market remains mostly unconvinced the RBNZ will cut in September despite its strong easing bias.

### 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 falling 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 medium-term 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
Producer and Capital Price Indices - QII	19/8	10.45am	-	-	-
International Travel and Migration - July	21/8	10.45am	12.5K net	-	-
Credit Card Billings	21/8	3pm	-	-	-

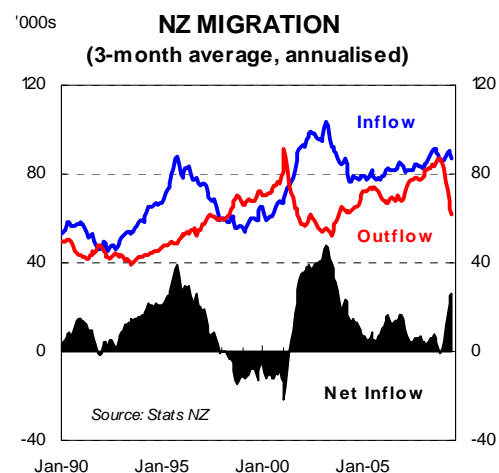
### Friday 21<sup>st</sup> August

#### International Travel and Migration - July

**Previous: 12,515 net migrants (in year to June)**

Net migration inflows have picked strongly over the past few months, mostly owing to a dramatic fall in the number of departures, particularly to Australia. The deterioration in the world economy is likely to be behind the decline in departures as a weakening labour market in Australia has deterred New Zealanders from heading across the Tasman. We expect these trends to continue, supporting a modest pick up in net migration over the year, to around 20,000 net new migrants per annum. A boost to net migration will provide some underlying support to NZ's flagging housing construction sector.

Overseas short-term visitor arrivals are also expected to slow over the next year as weakening world growth reduces demand for international travel.



## NZ Data Review: weekly recap

### Q2 Retail trade Survey

The retail trade figures proved slightly stronger than expected, and volumes registered their first increase in nearly 2 years. Total retail volumes increased 0.4%, as motor vehicle sales stabilised (following sharp drops over previous quarters) and fuel volumes rebounded. Core retail volumes (excluding autos) increased 0.2%, as demand stabilised following the previous quarter's 1% decline. Rising retail prices, mostly underpinned by the lagged effect of sharp drop in the NZD earlier this year, saw total spending values increase 1.1% over the quarter.

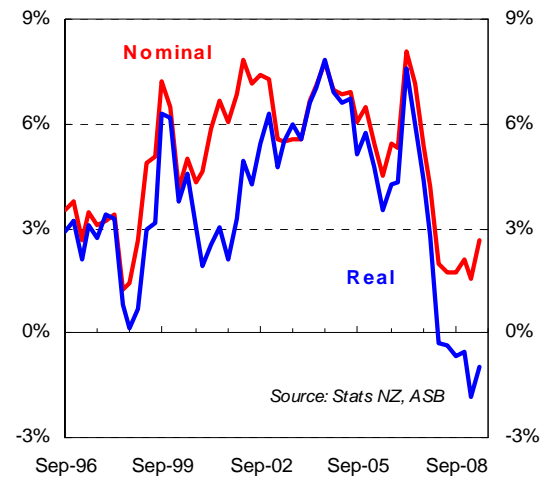
The stabilisation in retail sales mirrors the stabilisation in economic data globally. After 18 months in recession, the NZ economy is likely to be close to a trough. There is increasing confidence that the economy is past the worst and close to a turning point. As a result, households are likely to start to feel more confident about their own financial position. Nonetheless, the recovery is likely to remain muted. Unemployment is yet to reach its peak, and households are likely to continue to focus on savings to restore the decline in wealth over the past year.

### July House Sales

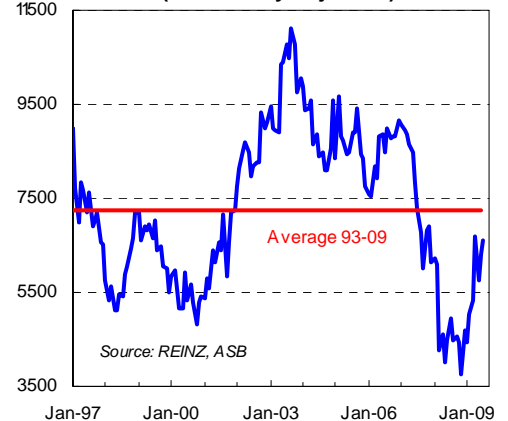
Housing demand remained buoyant in July, with sales lifting 5% - a touch stronger than we had expected. Auckland house sales and mortgage approvals pointed to house sales remaining steady. Low interest rates and rising net migration has seen housing demand lift off its lows. Nonetheless, the overall level of demand remains subdued with house sales below average levels and per-capita house sales still at very low levels.

The median days to sell fell to 36 days (seasonally adjusted) from 40 days in June. The decline implies an improved balance between supply and demand. Consistent with this, the REINZ house price index increased 1% and is up 2.2% over the three months to July, confirming our suspicions that the recent pick up in demand has seen house prices bottom out. The REINZ house price index is a new measure which adjusts the house sales figures for composition to provide a more accurate and timely measure of house price trends. The QV quarterly house price index remains the most accurate guide on house prices, although the REINZ figures will provide an excellent early lead.

**NZ NON-AUTO RETAIL SALES**  
(annual growth)



**MONTHLY DWELLING SALES**  
(seasonally adjusted)



## 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 17 Aug	11.50	JP	GDP	QII	q%ch	-3.8	1.0	~
	11.50	JP	GDP annualized	QII	%	-14.2	3.9	~
	11.50	JP	Nominal GDP	QII	q%ch	-2.7	0.1	
	11.50	JP	GDP deflator	QII	y%ch	0.9	1.8	~
Tue 18 Aug	13.30	AU	Minutes of RBA's August Monetary Policy Meeting					
	17.00	JP	Leading index CI	Jun	%	79.8	~	~
	17.00	JP	Coincident index CI	Jun	%	87.8	~	~
	17.30	JP	Nationwide department sales	Jul	y%ch	-8.8	~	~
Wed 19 Aug	10.45	NZ	Producer prices - inputs	QII	q%ch	-2.5	~	~
	10.45	NZ	Producer prices - outputs	QII	q%ch	-1.4	~	~
	16.30	JP	All industry activity index	Jun	m%ch	0.7	~	~
	18.00	JP	Machine tool orders	Jul	y%ch	-72.2	~	~
	19.00	JP	Convenience store sales	Jul	y%ch	-2.3	~	~
	11.20	AU	Reserve Bank Assistant Governor Malcolm Edey speaks in Sydney					
	13.30	AU	Westpac leading index	Jun	m%ch	-0.2	~	~
	15.30	AU	Treasury Secretary Ken Henry gives speech in Sydney					
	15.30	AU	Reserve Bank Assistant Governor Phil Lowe speaks in Sydney					
	Thu 20 Aug	13.30	AU	RBA Bulletin	Aug	~	~	~
13.30		AU	International merchandise import					
16.00		AU	Reserve Bank Head of Economic Analysis Richards speaks					
Fri 21 Aug	10.45	NZ	Visitor arrivals	Jul	%	-3.8	~	~
	15.00	NZ	Credit card spending	Jul	y%ch	-2.1	~	~

## 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 17 Aug	10.00	EZ Trade balance sa	Jun	€bn	0.8	~	~
	13.30	US Empire manufacturing	Aug	Index	-0.6	2.0	~
	14.00	US Net long-term TIC flows	Jun	\$bn	19.8	~	~
	18.00	US NAHB housing market index	Aug	Index	17.0	18.0	~
Tue 18 Aug	09.30	UK CPI	Jul	m%ch y%ch	0.3 1.8	~ ~	~ ~
	09.30	UK Retail price index	Jul	Index	213.4	~	~
	10.00	EZ ZEW survey (econ sentiment)	Aug	Index	39.5	~	~
	10.00	GE ZEW survey (econ sentiment)	Aug	Index	39.5	~	~
	10.00	GE ZEW (current situation)	Aug	Index	-89.3	~	~
	13.30	US Producer price index	Jul	m%ch	1.8	-0.3	~
	13.30	US Housing starts	Jul	'000	582	596	~
	13.30	US Building permits	Jul	'000	563	573	~
Wed 19 Aug	09.00	EZ ECB current account	Jun	€bn	-1.2	~	~
	09.30	UK Bank of England minutes					
	10.00	EZ Construction output	Jun	m%ch y%ch	-2.0 -8.0	~ ~	~ ~
	12.00	CA CPI	Jul	y%ch	-0.3	-0.7	~
Thu 20 Aug	09.30	UK Retail sales	Jul	m%ch	1.2	~	~
	09.30	UK Public finance (PSNCR)	Jul	£bn	19.0	~	~
	09.30	UK Public sector net borrowing	Jul	£bn	13.0	~	~
	13.30	US Initial jobless and continuing claims					
	15.00	US Leading indicators	Jul	%	0.7	0.3	~
	15.00	US Philadelphia Fed.	Aug	Index	-7.5	-3.0	~
Fri 21 Aug	09.00	EZ PMI manufacturing	Aug	Index	46.3	~	~
	09.00	EZ PMI services	Aug	Index	45.4	~	~
	09.00	EZ PMI composite	Aug	Index	47.0	~	~
	15.00	US Existing home sales	Aug	mn	4.9	5.0	~

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