

Business Weekly

Counting the tills

This Week

Christmas seems like a distant memory, but at the end of this week retail sales will give a firm indication of how the retail year finished up. 2008 was a tough retailing environment and sales volumes (i.e. inflation-adjusted) shrank on average by over 1% a quarter through to September. High mortgage rates and petrol prices, combined with the weakening housing market, stretched household finances. Car sales were particularly affected.

Over Q4 some positives did begin to flow through. In particular, petrol prices dropped rapidly. Lower mortgage rates are a relief for those refixing shortly, though tempered by falling deposit rates and associated income drops for savers. Tax cuts took effect. However, Q4 was a time when the credit crisis blew up in full force and took on greater public awareness. Caution became increasingly prevalent.

Against this backdrop we expect the Q4 retail volumes to be flat – an improvement relative to the rest of 2008, though still muted in an absolute sense. Ex-auto volumes are expected to rise 0.4%, with weak car retailing offsetting spend elsewhere. For the December month itself we expect a similar pattern for the dollar value of sales: flat ex-auto sales but overall sales down 0.7% on softer car sales and lower petrol spend through falling petrol prices.

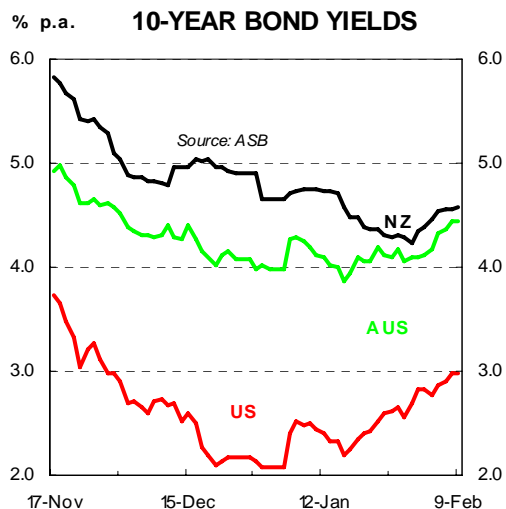
Last week's labour market figures provided a bit of a pleasant surprise, registering a 0.9% increase in total jobs – against widely-held expectations of a fall. However, there were also growing signs that demand for labour is waning. Hours worked fell 1.9% over the quarter, perhaps suggesting that, rather than shedding head count, work is being scaled back instead. Also reflecting the under-utilisation of labour, the proportion of those employed part time looking for more hours increased to 19% (from 16.3% previously). There is now clear evidence of labour hoarding over the second half of 2008. This is unsurprising, given how hard firms have worked over the past two years to recruit the right people in a very tight labour market. However, the economic backdrop has changed even more sharply than many could imagine. Firms are now under pressure to reduce costs, and cutting head count will be the next option. We expect the HLFs employment figures to show noticeable declines in employment over the first half of this year, combined with continued increases in the unemployment rate.

On a more positive note, tourism arrivals held up well through to the end of last year.

Click here for:

- [Foreign Exchange](#) • NZD squeezed higher on USD and JPY late in the week.
- [Interest Rates](#) • Rates lift higher over the week, in line with moves offshore.
- [Week Ahead](#) • Retail Trade Survey on Friday is the data highlight.
- [Week in Review](#) • Labour market data provided a mixed bag, but outlook remains weak.
- [Global Calendars](#) • Focus on Obama's stimulus plan, and further assistance for the finance sector.

Chart of the week



- As investors have sought the ultimate safety of bonds backed by governments, yields plummeted.
- US 10-year yields collapsed to 2.05% in late 2008 as the abysmal economic news outweighed any inflation fears or bond supply concerns resulting from the bail-outs and growth in budget deficits. The yield on this note had never gone below 3% in its 46-year history until November. NZ and AUS rates also reached multi-decade lows in the last few months.
- However, since mid January, some reassessment of the huge issuance that will be required to fund the various rescue packages is weighing on bond markets, and yields have risen dramatically off the record lows.
- Government Bond yields still remain well below long-term averages.

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	0.5300	0.5029	0.5917	0.7002	0.7894	FLAT/UP	0.5200	0.5400
NZD/AUD	0.7882	0.7958	0.8359	0.7896	0.8804	FLAT	0.7800	0.8000
NZD/JPY	48.78	45.05	54.00	77.07	84.73	FLAT/UP	47.50	49.50
NZD/EUR	0.4088	0.3955	0.4332	0.4672	0.5446	FLAT	0.4000	0.4200
NZD/GBP	0.3584	0.3502	0.3895	0.3646	0.4059	FLAT	0.3525	0.3625
TWI	53.1	51.3	57.7	64.6	73.0	FLAT	52.00	54.00

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

- **The NZD** was weak against all the major crosses early last week, but strengthened significantly on Friday, particularly on the USD and JPY crosses. The **NZD** peaked at around 0.535 against the USD on Friday night, and has only eased around half a cent since then.
- **The AUD** also pressed higher last week. Slightly better than expected economic data from the large industrial economies and signs that Obama's stimulus package may be passed gave the AUD/USD a boost last week. Articles in the Australian press last week from journalists Mitchell and Gittins saying the RBA may not cut rates any further also boosted the AUD, dragging the NZD with it.
- There are risks of further softening in the USD this week, but this will be limited by the counter-cyclical nature of the USD. The US economic data are likely to get worse but markets this week are pre-occupied with the possible passage of Obama's economic stimulus package and fresh details of the bank rescue plan. These developments will likely be the main influence on the USD crosses, including the NZD.

Short-term outlook:

Key data	Date	Time (NZST)	Market expects
Q4 Retail Trade Survey	13/2	10.45am	-

Potential currency movers from the US this week: trade balance, government budget (11th), retail sales, jobless claims (12th), consumer confidence (13th). Speakers: Geithner, Bernanke, Dudley (10th), Duke, Evans (11th).

Medium term outlook:

As a consequence of the financial market turmoil centred in the United States, USD weakness was expected in early 2009. However, weakness is being offset in part by concerns about other regions. International credit rating agencies have lowered the long-term foreign currency credit rating outlooks down from stable to negative for New Zealand and Ireland, and downgraded Spain and Greece's credit rating. They have also provided warnings on the ratings outlook for Portugal. We have revised down our forecasts for the EUR and the NZD. We have also lowered our GBP forecasts given the high risk (down) to the UK ratings outlook.

USD weakness in early 2009 was being reflected in EUR strength. The EUR is the single largest alternative to the USD as a reserve currency. The European Central Bank (ECB) has indicated that it is reluctant to reduce its official refinancing rate to a level that reflects negative real official interest rates. Eurozone nominal and real interest rates are above not just those in the US, but above all major reserve currencies. Consequently, the EUR has appreciated vis-à-vis the GBP, CHF, and to a lesser extent, vis-à-vis the JPY (because repatriation flows still dominate the JPY's movement). Credit ratings concerns have provided an offset, and the Euro has depreciated over recent weeks. We currently expect the EUR to trade largely between 1.30 and 1.35 US this year.

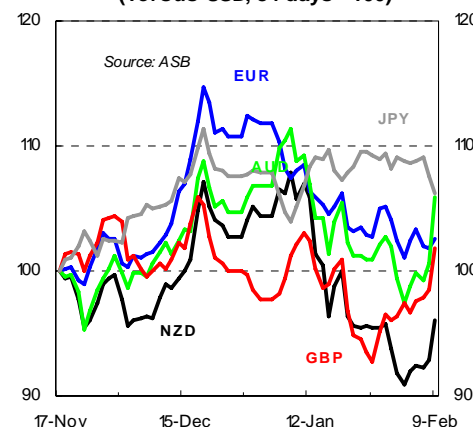
Impact on NZD & AUD

A weaker USD lifts all currencies vis-à-vis the USD. However, in the current environment, some currencies benefit more than others. The EUR is the currency that benefits the most in the current environment because it is the major alternative reserve currency to the USD. The NZD & AUD are not major reserve currencies. They therefore do not benefit to the same extent from reserve diversification adjustments as does the EUR. In fact, further weakness in NZD/EUR and AUD/EUR is consistent with the typical pattern of those cross exchange rates when global growth is being revised down.

NZD/USD and AUD/USD will lift as the USD depreciates. But both the Australian dollar and the New Zealand dollar will remain weak vis-à-vis the major cross rates while global growth remains weak. Ratings concerns add to the weight on the NZD right now. Until we get a pick-up in the global economy (mid-2009 at best), we are unlikely to see NZD/cross rate or AUD/cross rate strength. We expect the NZD to trade between US 0.50 and 0.57 in H1 2009.

[\[Last Quarterly Economic Forecasts\]](#)

EXCHANGE RATE INDICES
(versus USD, 84 days =100)



Interest Rate Market

Wholesale interest rates	Current	Week ago	Month ago	6 mths ago	Year ago	ST Bias
Cash rate	3.50	3.50	5.00	8.00	8.25	FLAT
90-day bank bill	3.51	3.51	4.70	8.22	8.75	FLAT
2-year swap	3.49	3.36	4.32	7.30	8.59	UP
5-year swap	4.14	4.01	4.72	7.06	8.11	UP
11/11 gov't stock	3.90	3.71	4.37	6.23	6.88	UP
NZSX 50	2773	2771	2757	3370	3611	FLAT

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

- 90-day bank bills were steady last week, trading around 3.51%.
- The market is currently pricing in around 80bp for the March MPS decision, and a cash rate to end up at 2.25%. In contrast, we are expecting a 100bp rate cut and the cash rate to fall to 2.0%
- Last week rates rose across the curve, with profit taking causing a pause in the very long rally down for rates. The curve can still steepen further, although rates could well lift over the next week or two.
- Our expectation of further cuts from the RBNZ would lead to further steepening of the swap curve. RBNZ Rate cuts would cause 1-3 year swap rates to press lower. We think longer-term rates will struggle to get much lower than the current levels.

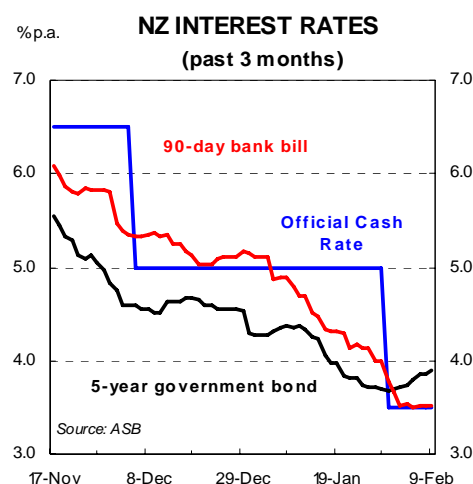
Short-term outlook:

Key data	Date	Time (NZST)	Market expects
Q4 Retail Trade Survey	13/2	10.45am	-

Comment: The retail trade survey is for the full fourth quarter, and contains volume measures, on top of the usual monthly nominal sales figures. A weak survey is the next likely catalyst for the market to price in more rate cuts from the RBNZ. (See preview section for a report).

Medium term outlook:

- The RBNZ cut the OCR by 150bp at the January OCR review, and has now cut 475 basis points off the OCR since commencing the easing cycle in July. The cuts have been in response to ongoing global credit market dysfunction as credit markets remain tight, as well as the resulting deterioration in the global economic outlook, significantly lowering the outlook for exports and the terms of trade.
- We expect another 100bp cut in March, and the cash rate now going to 2.0%. More important are any alternative monetary policy measures the RBNZ may adopt should the effectiveness of the OCR begin to wane. At the January OCR review, the RBNZ emphasised that monetary policy remains effective at current levels, and that there are plenty of tools in the box.
- The global economic outlook continues to deteriorate significantly. In particular the outlook for China and Australia has now also weakened substantially. New Zealand's trading partner GDP is now expected to contract, and we expect further downward revisions to *Consensus* forecasts of global growth. Falling commodity prices will significantly lower NZ's terms of trade and exports are expected to contract.
- The RBNZ is now has confidence that annual inflation will be comfortably inside the target band of 1 to 3 percent over the medium term.
- Considerable support will be delivered to the NZ economy over 2009, in the form of lower interest rates, a lower NZ dollar, lower petrol prices and increased fiscal spending. However, limited supply of credit internationally is likely to continue to constrain growth. We expect the NZ economy to remain in recession over 2009.



[\[Last Quarterly Economic Forecasts\]](#)

NZ Data Preview: a look at the week ahead

Data	Date	Time (NZST)	Previous	Market expects	ASB expects
Jan Electronic Card Transactions (retail)	11/2	10.45am	-0.5	-	-
Jan Food Price Index	12/2	10.45am	-0.2%	-	-
Q4 Retail Trade Survey (total, volumes qoq)	13/2	10.45 am	-0.9%	-	0.0%
Jan REINZ House Sales (yoy)			-4.8%	-	-

Friday 13 February

Q4 Retail Trade Survey

Total Volumes ASB (f) +0.0%

Ex-Auto Volumes ASB (f) +0.4%

The retail sector shrunk over the first 3 quarters of 2008. However, during the final quarter core retail spending is likely to have done well in comparison. The combination of tax cuts, falling fuel prices and falling interest rates provided a timely and much-needed cash injection to households. However, with the uncertainty of the global credit crisis and job uncertainty starting to weigh on consumers' minds, the resulting spending spree was relatively muted. We are expecting to see a small pick up in ex-auto retail volumes of 0.4% and for total retail volumes to remain flat. In the auto sector, increased fuel consumption (as prices plummeted and people got back in their vehicles) will probably be offset by the collapse in vehicle sales.

This week or next

January REINZ House Sales

Previous Prices -4.8% yoy, T/over – 23.1% yoy.

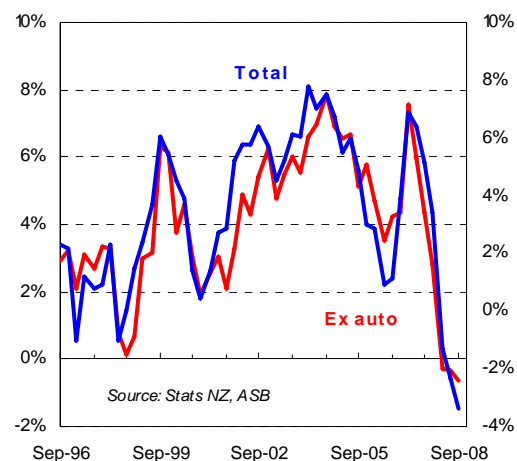
Agent data shows listings are significantly up on year ago levels, yet monthly turnover is down by between 20-50%. It is a buyer's market, and we expect price declines to reflect these conditions.

Housing turnover has been sitting at low levels for the past six months or so, and expect this weakness to continue into January. Prices are declining nationwide, and we expect the rate of annual decline to continue to pick up over the coming months.

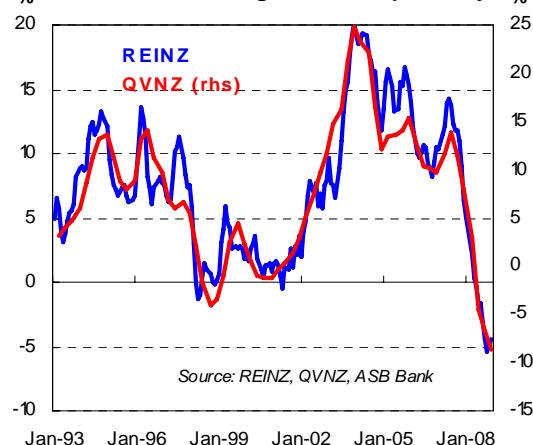
The QVNZ house price index showed national annual prices declined 8.3% in the year to January.

REINZ data will show housing turnover remaining at very low levels, and annual price declines in the 5-10% range.

NZ RETAIL SALES VOLUMES
(from same quarter previous year)



NZ ANNUAL HOUSE PRICE GROWTH
REINZ 3mth average & QVNZ quarterly



NZ Data Review: weekly recap

Q4 Household Labour Force

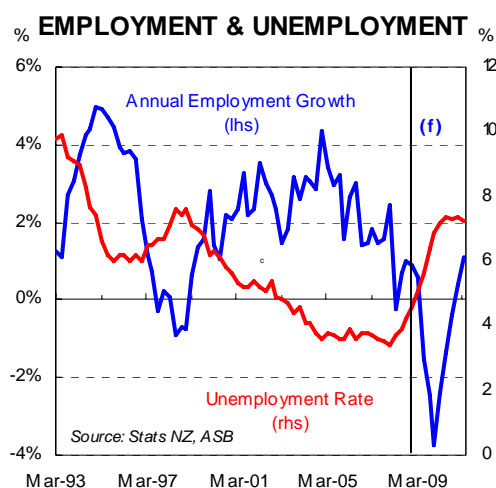
Employment increased a very surprising 0.9% over Q4, in contrast to widely-held expectations of a decline, due to an increase in part-time employment. The rise was not consistent with anecdotes, surveyed hiring intentions or Tuesday's Quarterly Employment Survey. The unemployment rate increased to 4.6% (as expected) though not because employment fell, but because more people become active in the labour force over Q4. Indeed, participation rose to record levels, up to 69.3%. Hours worked moved more in line with our priors, falling 1.9%. Also reflecting the under-utilisation of labour, the proportion of those employed part time looking for more hours increased to 19% (from 16.3% previously).

Whilst more people in work is good news, given the extent to which labour market indicators in business surveys has turned we are inclined to look through the result. The outlook for employment over 2009 remains weak, with the credit crunch pushing NZ further into recession. Businesses remain under extreme pressure and are unlikely to sustain labour hoarding for much longer.

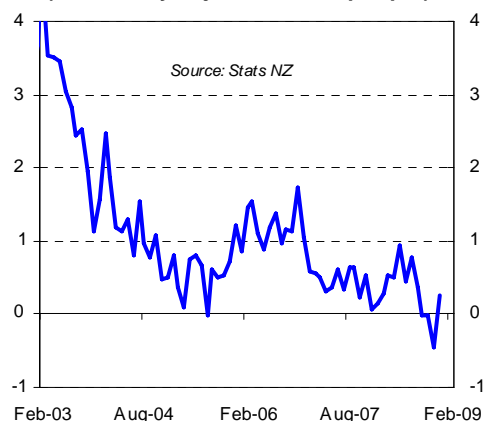
December International Travel and Migration

NZ added a net 270 people to the population over December, bringing annual net migration to 3,814. The monthly increase was due to a sharp drop in permanent departures, down 10% compared to the previous month. While it is still early days, the drop may reflect the global credit crunch affecting NZ resident's ability to relocate overseas. Notably, departures to the UK (one of the countries worst hit by the credit crunch) were very low for December, down 16% on year-ago levels.

Overseas visitor arrivals picked up 3.9% in December, and have remained surprisingly robust over the past three months. Nonetheless, the credit crunch will eventually catch up with the tourism sector. Current visitors to New Zealand probably made holiday plans before the worst of the crisis hit. With major developed economies now heading into a synchronised recession, global demand for discretionary spending, such as international travel, is likely to be cut back. New Zealanders have already displayed this more conservative behavior, with NZ resident short-term departures falling steady over the second half of the year.



NZ MONTHLY NET MIGRATION (seasonally adjusted, 000's people)



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 9 Feb	12.50	JP	Current account total	Dec	¥bn	581.2	~	~
	12.50	JP	Machine orders	Dec	m%ch	-16.2	~	~
						y%ch	-27.7	~
	12.50	JP	Trade balance – BOP basis	Dec	¥bn	-93.4	~	~
	13.30	AU	ANZ job ads	Jan	m%ch	-9.7	~	~
	18.00	JP	Eco watchers survey: current	Jan	~	15.9	~	~
18.00	JP	Eco watchers survey: outlook	Jan	~	17.6	~	~	
Tue 10 Feb	~	NZ	Business NZ PMI	Jan	Index	42.5	~	~
	12.50	JP	Housing loans	QIV	y%ch	4.2	~	~
	12.50	JP	Consumer confidence	Jan	~	26.7	~	~
	13.30	AU	NAB business confidence	Jan	~	-20.0	~	~
	15.00	CH	Producer Price Index	Jan	y%ch	-1.1	-2.7	~
	15.00	CH	CPI	Jan	y%ch	1.2	0.7	~
21.45 AU Reserve Bank Governor Glenn Stevens Speaks in Kuala Lumpur								
Web 11 Feb	10.45	NZ	Electronic Card transactions	Jan	m%ch	-0.5		
	~	CH	Trade balance	Jan	USD bn	39.0	29.2	~
	~	CH	Exports	Jan	y%ch	-2.8	-17.5	~
	~	CH	Imports	Jan	y%ch	-31.5	-21.3	~
	12.30	AU	MI/WBC consumer sentiment	Feb	Index	89.9	~	~
	13.30	AU	Home loans	Dec	%	1.3	3.5	7.0
13.30	AU	Value of loans	Dec	m%ch	1.4	2.3	6.0	
Thu 12 Feb	10.45	NZ	Food prices	Jan	m%ch	-0.2	~	~
	12.50	JP	Domestic CGPI	Jan	m%ch	-1.2	~	~
	13.00	AU	Cons. unemployment exp.	Feb	Index	80.7	~	~
	13.00	AU	Consumer inflation exp.	Feb	%	2.7	~	~
	13.30	AU	Employment change	Jan	'000	-1.2	-18.0	-10.0
	13.30	AU	Unemployment Rate	Jan	%	4.5	4.7	4.6
	13.30	AU	Participation rate	Jan	%	65.0	64.9	64.9
13.30	AU	NAB Qtrly Business survey	QIV	~	-7.0	~	~	
Fri 13 Feb	10.45	NZ	Retail sales	Dec	m%ch	0.0	~	-0.7
	10.45	NZ	Retail sales ex-auto	Dec	m%ch	0.3	~	0.0
	10.45	NZ	Retail sales ex inflation	QIV	m%ch	-0.9	~	0.0

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
Sat 7 Feb	00.01	UK NIESR GDP estimate	Jan	%	-1.5	~	~
Mon 9 Feb	07.00	GE Trade balance	Dec	€bn	9.7	~	~
	07.00	GE Current account	Dec	€bn	8.6	~	~
	13.15	CA Housing starts	Jan	'000	172.2	169.3	~
Tue 10 Feb	00.01	UK BRC January retail sales monitor					
	00.01	UK RICS house price balance	Jan	%	-73.0	~	~
	09.30	UK Total trade balance	Dec	£mn	4,478	~	~
	15.00	US Wholesale inventories	Dec	%	-0.6	-0.7	~
Web 11 Feb	07.00	GE CPI	Jan	m%ch	0.3	~	~
	09.30	UK Claimant count rate	Jan	%	3.6	~	~
	09.30	UK Jobless claims change	Jan	'000	77.9	~	~
	09.30	UK ILO unemp. rate (3mths)	Dec	%	6.1	~	~
	10.30	UK Bank of England quarterly inflation report					
	13.30	CA New housing price index	Dec	m%ch	-0.3	~	~
	13.30	CA International merch. trade	Dec	\$bn	1.3	~	~
	13.30	US Trade balance	Dec	\$bn	-40.4	-36.7	~
Thu 12 Feb	10.00	EZ Industrial production	Dec	m%ch y%ch	-1.6 -7.7	~ ~	~ ~
	13.30	US Advance retail sales	Jan	%	-2.7	-0.3	~
	13.30	US Retail sales less autos	Jan	%	-3.1	-0.4	~
	13.30	US Initial jobless and continuing claims					
	13.30	US Business inventories	Dec	%	-0.7	-0.6	~
Fri 13 Feb	07.00	GE GDP	QIV	q%ch y%ch	-0.5 0.8	~ ~	~ ~
	10.00	EZ GDP	QIV	q%ch y%ch	-0.2 0.6	~ ~	~ ~
	13.30	CA New motor vehicle sales	Dec	m%ch	-7.0	~	~
	15.00	US Uni of Michigan confidence	Feb	~	61.2	61.5	~

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