

# Business Weekly

## Car-less days

### This Week

Retail spending in first quarter of the year was very weak. The dollar value of sales fell 1.5% from Q4, with ex-automotive sales up a marginal 0.3%. However, retail volumes (i.e. sales adjusted for prices) were much weaker than expected, down 2.9%. Essentially we spent less money than in 2008Q4, but it bought even less. The drag on the economy from weak retailing nudged our Q1 GDP forecast down to -0.9% for the quarter.

The retail story has been increasingly revealing itself in recent months. Anything discretionary, housing related or exposed to tourism saw volumes contract sharply. However, cutbacks continue to be most savage for car purchases: sales volumes fell 11% over the quarter and have fallen steadily for 2 years now. Weakness in the car industry is a global phenomenon: vehicles usually are the biggest purchase households make outside of a house and are often bought with finance. That gives cars a double-whammy amidst a credit crisis and the current environment of uncertainty. In NZ's case, the dramatic plunge in the exchange rate against the yen and greater competition for used cars in the Japanese market (including Japanese owners hanging onto their cars for longer) has started to put some upward pressure on the cost of freshly-sourced cars.

The main domestic news this week will be tourism and migration flows. Clear trends are emerging in response to the global crisis. On the migration front there is a noticeable drop in departures to Australia, the main driver of higher net migration inflows, as NZers become increasingly aware that job prospects across the ditch have deteriorated noticeably as Australia also feels the pinch. Departures to the UK have also started to slow, though not as dramatically. Tourism arrivals from hard-hit Asian countries such as Japan and South Korea are weakening considerably. In contrast, arrivals from the US and UK are softening at a much slower pace, though the slowdown in arrivals from these countries is likely to be more prolonged. The bright spot for tourism is that Australian visitor arrivals have to date held up well, though Australians don't tend to stay as long and loosen their wallets as much as Northern Hemisphere visitors who have much further to come.

In the US key highlights will be housing starts and permits – slight lifts on both fronts are expected as US housing figures bounce around their lows. Japanese Q1 GDP is expected to have shrunk 4.3%, slightly faster than it did in Q4, though that may mark the worst quarter for the economy there. The BoE and Fed will be releasing minutes of their recent meetings and the Bank of Japan's announcement is on Friday.

### Click here for:

[Foreign Exchange](#)

- NZD drifts down from US 0.60 as global risk appetite wanes.

[Interest Rates](#)

- Interest rates fall back, markets see RBNZ on hold in June.

[Week Ahead](#)

- Quiet local data week, with tourism and migration figures to only release.

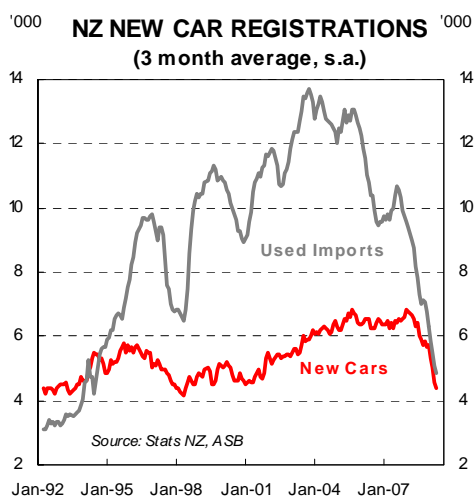
[Week in Review](#)

- Retail trade weak, RBNZ financial stability report highlights vulnerabilities.

[Global Calendars](#)

- EZ trade bal, UK CPI, GDP & retail sales, FOMC minutes, US housing starts.

### Chart of the week



- Car registrations have been very weak over the past year, reflecting the marked fall in sales. Car purchases have borne the brunt of households' responses to high petrol prices and financial pressure in general, falling household wealth, finance company difficulties, and a greater degree of uncertainty over job prospects.
- Used car sales have been hit particularly hard. On top of weakening demand the supply of used cars has been increasingly restricted. Tighter exhaust emission requirements from early 2008 narrowed the field of potential imports. There is also more competition for Japanese used cars from countries such as Russia, and with the Japanese economy being hard hit at present there will be a tendency for owners to hang onto their cars for longer in the short term.

### 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	0.5847	0.6100	0.5709	0.5533	0.7643	DOWN	0.5600	0.5950
NZD/AUD	0.7800	0.7944	0.7940	0.8536	0.8082	FLAT	0.7725	0.7900
NZD/JPY	55.62	60.07	56.78	53.94	80.00	DOWN	52.00	57.00
NZD/EUR	0.4338	0.4473	0.4361	0.4395	0.4937	FLAT	0.4300	0.4400
NZD/GBP	0.3854	0.4008	0.3840	0.3751	0.3926	DOWN	0.3800	0.3950
TWI	56.9	59.2	57.0	56.8	68.5	DOWN	55.00	58.00

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

- The stellar rise in the AUD and NZD against the USD ended last week after the release of the weaker than expected US retail report challenged the view of a quick global economic recovery.
- The larger than expected contraction in the Eurozone economy confirms that the US economy is less weak than the other major economies. We see a short-term risk the USD strengthens against the major currencies with the possible exception of JPY.
- The NZD declined on all the crosses last week, particularly the JPY. The NZD had appreciated strongly, peaking at USD 0.61. The extent of a correction in the NZD is difficult to determine, but a decline to 0.5550 is possible over coming weeks, below the 30-day moving average of 0.5740.
- The re-rating lower of the JPY appears to have stalled as the global economic data has been weaker than expected. The Japanese events this week are the economic growth report – a steep contraction is expected – and the Cabinet Office's monthly economic report. We expect both reports to remind currency markets of the very weak Japanese economy and also dampen views about the world economy.
- Near-term weakness in global economic data and Australia's growing interest rate advantage over New Zealand is likely to keep the pressure on the NZD against the AUD.

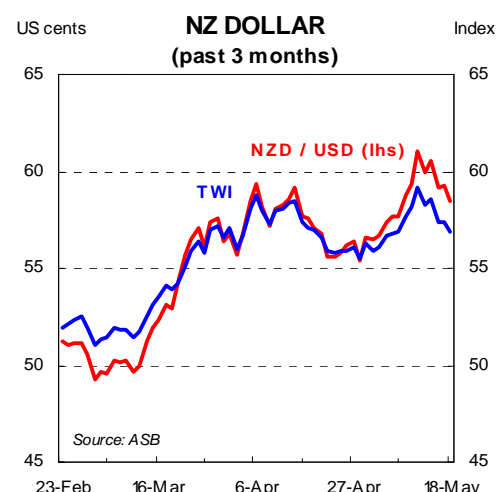
### Short-term outlook:

Key data	Date	Time (NZST)	Market expects
April Net Migration	21/5	10.45 am	-

**Potential currency movers from the US this week:** housing starts & permits (19th), minutes from the April interest rate meeting (20th), jobless claims (21st). Speakers: Stern (19th), Geithner (19th, 20th), Plosser (21st), Bernanke (22nd).

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

- As a consequence of the financial market turmoil centred in the United States, USD weakness was expected in early 2009. Although this weakness was initially offset in part by concerns about other regions, improved sentiment in financial markets has seen risk appetites improve and the USD weaken.
- Recent influences suggest a risk the EUR, GBP, and JPY retrace some of their recent large gains. We are also likely to see further pullback in the NZD/USD.
- However, we are also comfortable with our current forecast that the NZD and AUD have bottomed and will begin a slow appreciation over the course of 2009, rather than revisit and break through the lows seen in early 2009.
- NZD/USD and AUD/USD will lift as the USD eventually 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 will weigh on the NZD over the next 2-3 months, and a rating downgrade is a key downside risk to our forecast.
- RBNZ Governor, Alan Bollard, revealed to the New Zealand Parliamentary Finance and Expenditure Select Committee on 4 March, the RBNZ were in the process of reducing the RBNZ's foreign exchange reserves from \$5 billion down to a benchmark rate of \$1 billion. Bollard also went on to say that the RBNZ aimed to intervene both at the top and bottom of the cycle to try and stabilise the exchange rate.



## Interest Rate Market

Wholesale interest rates	Current	Week ago	Month ago	6 mths ago	Year ago	ST Bias
Cash rate	2.50	2.50	3.00	6.50	8.25	FLAT
90-day bank bill	2.76	2.92	3.06	6.08	8.64	FLAT
2-year swap	3.45	3.58	3.72	5.52	7.84	UP
5-year swap	4.73	4.89	4.87	5.89	7.54	UP
11/11 gov't stock	4.36	4.53	4.35	5.55	6.37	UP
NZSX 50	2790	2829	2711	2742	3652	DOWN

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

- Swap rates and government yields fell over the week, mostly reversing the previous week's rise.
- The market continues to see a fair chance the RBNZ will keep the cash rate on hold in June, pricing in only a 1 in 3 chance of a 25 basis point cut. Evidence of the global downturn bottoming out underpins the view of rates remaining on hold. Globally, housing market data have started to stabilise as low interest rates help curb the decline in demand. In addition, other leading indicators such as industrial production have also started to recover. However, we continue to expect another 25bp cut in June. Friday's shocking retail sales data are a timely reminder of the economic weakness yet to be observed over 2009. In addition, we expect the RBNZ will continue to face downward revisions to its overly optimistic March MPS forecasts.
- The RBNZ's ability to deliver further monetary stimulus is facing multiple headwinds, with financial conditions remaining tighter than the RBNZ has assumed and as the OCR loses some traction on retail interest rates (as deposit rates become sticky). Nonetheless, a 25 basis point cut will be more effective at keeping monetary settings at low levels, rather than no cut at all.

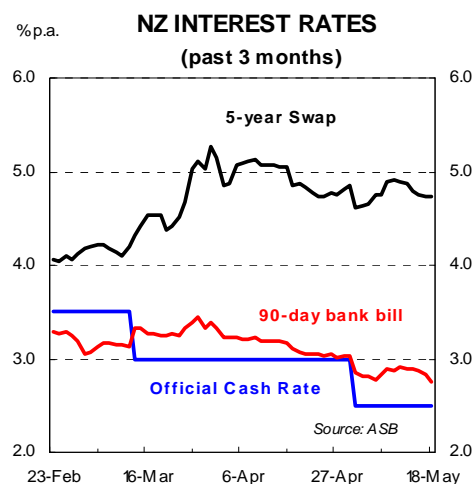
### Short-term outlook:

Key data	Date	Time (NZST)	Market expects
April Net Migration	21/5	10.45 am	-

**Comment:** Very quiet week ahead, with international travel and migration the only local economic data. International highlights are RBA Gov speech tomorrow, FOMC minutes are due out Thursday morning and some US housing market data expected over the week. Focus is on next weeks Budget (28<sup>th</sup> of May).

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

- The RBNZ cut the OCR by 50 basis points to 2.5% at the April OCR review, and delivered a commitment to hold the cash rate at or below current levels until the latter part of 2010.
- April's statement was designed to combat the recent rise in monetary conditions, i.e. the rise in longer-term interest rates and the exchange rate. In particular, the RBNZ's expectation it will hold the OCR low until mid-2010 should help to anchor longer-term interest rate expectations. The message to borrowers is that there is no real hurry to fix rates, as there is still potential for further OCR cuts and longer-term interest rates will also remain low a little longer yet.
- April's more dovish statement countered the surprisingly hawkish statement delivered in March. In March the RBNZ sent a strong signal it was slowing down the pace of rate cuts and was reluctant to cut the OCR below 2.5%. By indicating that the end of the easing cycle was near, the RBNZ triggered a rush of demand by borrowers to lock in long-term rates at low levels. The strong increase in fixing demand saw longer-term interest rates rise in wholesale markets.
- The RBNZ's March MPS forecasts were optimistic, and the tone of April's statement suggests that the RBNZ has revised down its outlook somewhat. We expect economic output to continue to contract throughout much or all of 2009, although the recent RBNZ business outlook suggests we can expect the pace of decline to ease over the second half of 2009.
- We expect the RBNZ will cut the OCR by 25bp in both June and July. With the exchange rate remaining relatively buoyant and fiscal policy constrained, the onus lies with monetary policy to deliver to the stimulus the NZ economy needs. The OCR itself will lose its direct potency over retail deposit funding costs, meaning that continuing to influence long-term rates will take on greater importance.
- The RBNZ made it pretty clear it is not currently entertaining the use of alternative policy measure (such as Quantitative Easing undertaken by other central banks) and has also discounted the likelihood of NZ rates dropping near zero. However, it has signalled it has been investigating different options and making contingency plans would be a prudent step. Such measures may well be needed to put additional downward pressure on long-term rates and the NZ dollar.



## NZ Data Preview: a look at the week ahead

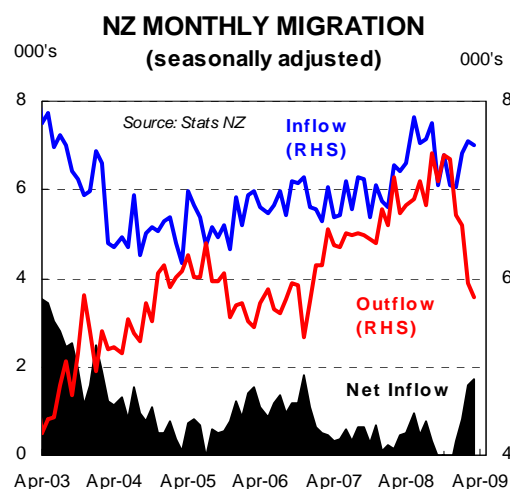
Data	Date	Time (NZST)	Previous	Market expects	ASB expects
International Travel and Net Migration	21/5	10.45 am	7,482 pa	-	-

### March International Travel and Migration

**Previous: +7,482 per annum**

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 15,000 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.



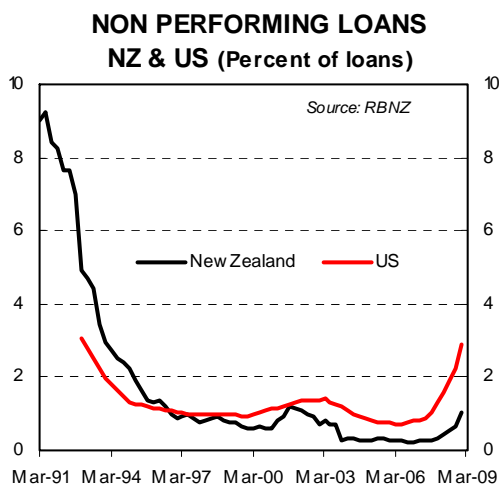
## NZ Data Review: weekly recap

### RBNZ Financial Stability Report

The RBNZ expects that the current international financial difficulties are likely to continue for sometime. In light of these strains and the deteriorating economic outlook the Bank highlighted the need for adequate provisions and capital levels. The Bank noted that over time, it would like the banking sector to lengthen the maturity profile of its funding, although noted it did not expect this to happen in the immediate future given the financial backdrop.

The RBNZ noted that banks are being impacted by the recession, with impaired assets rising and likely to rise further. Current impairment levels are still lower than they were around 2001, and the RBNZ noted that asset quality is still substantially stronger than the early 1990s period. Impairments are seen as consistent with Australian experiences and also remain substantially lower than seen in the US.

The emphasis remains with maintaining a functioning financial system although some businesses have noted credit was more difficult to obtain, in the Bank's view the supply of credit has not been unwarrantedly tight. Although credit growth has slowed, in the Bank's view this reflects weakening demand rather than restricted supply, and the Bank noted they would continue to monitor this situation very closely.



### May Consensus Forecasts

Each month *Consensus Economics Inc* publishes a survey of key economic forecasters for most economies. The 'average forecast' is a direct input into the RBNZ's forecasting process.

With leading indicators starting to stabilise, the pace of downward revisions to growth have slowed (and in some cases, forecasts for growth have been revised up). NZ's trading partner growth is expected to contract by 2.3% over 2009 and grow by 2.0% over 2010.

The consensus view for the US and Australia is starting to stabilise. In contrast, 2009 forecasts for the Eurozone and the UK have been pulled down substantially. These downward revisions were offset by an upgraded the outlook for Asia, mainly for China and Korea. The consensus now expects China will grow by 7.5%pa in 2009, up from 7.0% in the April survey.

### March Retail Trade Survey

The quarterly retail trade survey revealed total retail volumes fell 2.9% over Q1, much weaker than expectations (ASB expectations -1.9%, market expectations -1.5%). Nominal sales showed a much more modest decline, as rising prices have masked the underlying weakness in volumes.

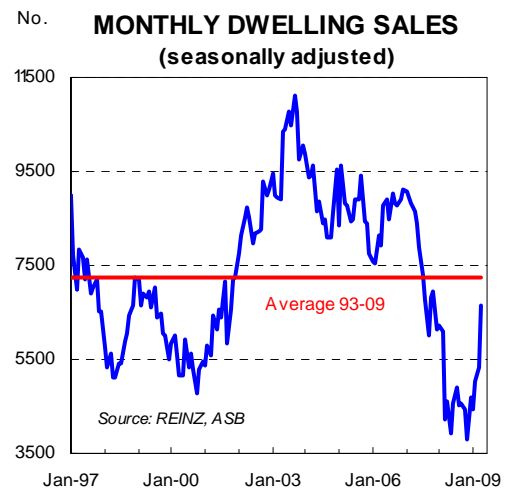
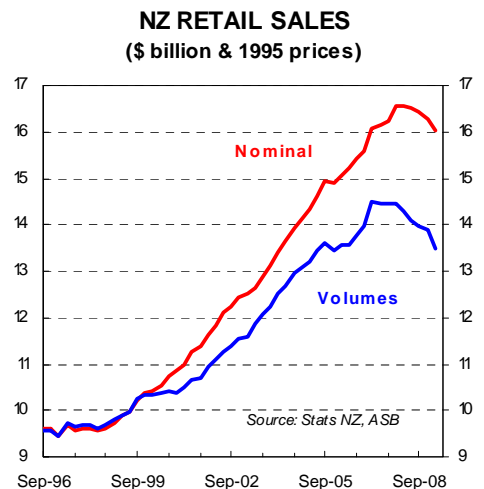
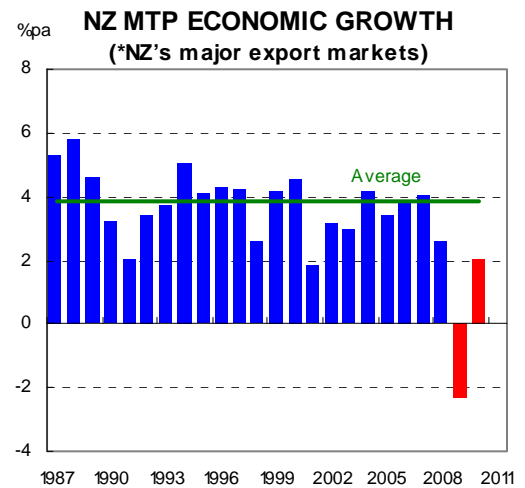
While the decline in volumes was led by an 11% decline in vehicle spending, the weakness was fairly wide spread as anything discretionary, housing related or exposed to tourism saw volumes contract sharply.

Looking ahead, April and May figures are likely to be buoyed by tax cuts delivered in April. Nonetheless the retail trade survey has revealed a distinct shift in consumer spending behaviour and we wouldn't be surprised if a significant proportion of the tax cut is saved.

### April House Sales

The housing market rebounded strongly over April with house sales picking up 25% from March (seasonally adjusted). Low mortgage rates have finally tempted more buyers back into the market. The level of housing turnover has recovered to levels last seen in late 2007, just under the 15-year average house sales rate.

A note of caution is that the jump in activity over March and April may exaggerate slightly the underlying strength of the market. The RBNZ's March statement sent households the message that interest rates might not be heading much lower, prompting a dramatic pick-up in mortgage approvals (and subsequently house sales) as borrowers rushed to lock in fixed mortgage rates. The more recent April statement by the RBNZ moved to calm households somewhat, reassuring that low interest rates will be around for some time yet. NZ is no longer gripped by a panic to buy a house/fix a mortgage before it is too late. The flow of mortgage approvals has since slowed back down. House sales turnover may consequently stabilise in coming months rather than increase at the strong rates seen in recent months.



## 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 18 May	17.00	JP	Consumer confidence	Apr	~	29.6	~	~
	17.00	JP	Consumer confidence h/holds	Apr	~	28.9	~	~
Tue 19 May	10.10	AU	RBA Governor Stevens speaks in Sydney					
	13.30	AU	RBA board May Minutes					
	14.30	AU	Treasury Secretary Henry Speaks on Economy					
	16.30	JP	Industrial production	Mar	m%ch y%ch	1.6 -34.2	~ ~	~ ~
Wed 20 May	16.30	JP	Capacity utilisation	Mar	m%ch	-11.9	~	~
	18.00	JP	Machine tool orders	Apr	y%ch	-80.4	~	~
	11.50	JP	Housing loans	Q1	y%ch	3.3	~	~
	11.50	JP	GDP	Q1	q%ch	-3.2	-4.3	~
	11.50	JP	GDP annualised	Q1	%	-12.1	-16.2	~
	12.30	AU	WBC/MI cons confidence	May	%	8.3	~	~
	13.30	AU	Wage price index	Q1	q%ch y%ch	1.2 4.3	0.8 4.2	1.0 4.3
Thu 21 May	13.30	AU	Int merchandise import	Apr	\$mn	17,318	~	~
	10.45	NZ	Visitor arrivals	Apr	%	-0.5	~	~
	11.50	NZ	Tertiary industry index	Mar	m%ch	-0.8	~	~
	12.30	AU	CBA/HIA house affordability	Q1	~	~	~	~
	13.00	AU	WBC/MI inflation expectation	May	%	2.4	~	~
	13.30	AU	RBA Bulletin	May	~	~	~	~
	13.30	AU	New motor vehicles sales	Apr	m%ch y%ch	-3.2 -22.6	~ ~	~ ~
	13.30	AU	AWE	Feb	q%ch y%ch	1.6 5.5	~ ~	1.1 5.4
Fri 22 May	15.00	NZ	Credit card spending	Apr	y%ch	-5.0	~	~
	16.00	JP	BoJ monetary policy meeting					
	~	JP	BoJ target rate	May	%	0.1	0.1	0.1
	17.00	JP	Leading index CI	Mar	Index	76.6	~	~
	17.00	JP	Coincident index CI	Mar	Index	84.9	~	~

## 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 18 May	00.01	UK Rightmove house prices	May	m%ch	1.8	~	~
	10.00	EZ Trade balance	Mar	€bn	-4.0	~	~
	18.00	US NAHB housing market index	May	Index	14.0	16.0	~
Tue 19 May	09.30	UK CPI	Apr	m%ch	0.2	0.4	~
	10.00	EZ ZEW survey (eco sentiment)	May	~	11.8	~	~
	10.00	GE ZEW survey (eco sentiment)	May	Index	13.0	~	~
	10.00	GE ZEW (current situation)	May	Index	13.0	~	~
	13.30	US Housing starts	Apr	'000	510	527	~
Wed 20 May	13.30	US Building permits	Apr	'000	516	530	~
	09.30	UK Bank of England minutes					
	12.00	CA CPI	Apr	m%ch	0.2	0.2	~
	13.30	CA Leading indicators	Apr	m%ch	-1.3	~	~
Thu 21 May	19.00	US Minutes of April 29 FOMC meeting					
	09.00	EZ PMI manufacturing	May	Index	36.7	~	~
	09.00	EZ PMI services	May	Index	43.8	~	~
	09.00	EZ PMI composite	May	Index	41.1	~	~
	09.30	UK Total business investment	Q1	q%ch	-1.5	~	~
	09.30	UK Retail sales	Apr	m%ch	0.3	~	~
	09.30	UK Public finances (PSNCR)	Apr	£bn	28.4	~	~
	13.30	CA Wholesales sales	Mar	m%ch	-0.6	~	~
	13.30	US Initial jobless and continuing claims					
	15.00	US Leading indicators	Apr	%	-0.3	0.6	~
15.00	US Philadelphia Fed	May	Index	-24.4	-18.0	~	
Fri 22 May	09.30	UK GDP	Q1	q%ch	-1.9	-1.9	~
	13.30	CA Retail sales	Mar	m%ch	0.2	~	~
	13.30	CA Retail sales less autos	Mar	m%ch	0.6	~	~

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