

### Retail Sales - Dec 2008 & REINZ House Sales – Jan 2009

#### Key points

- > Data released today reinforces the picture of a domestic economy that remains weak and is de-leveraging.
- > Retail spending contracts in December, while January housing market activity still subdued.
- > The performance of the labour market is now the key driver for both the retail sector and housing market over 2009, with another leg of vulnerability likely.

#### Assessment

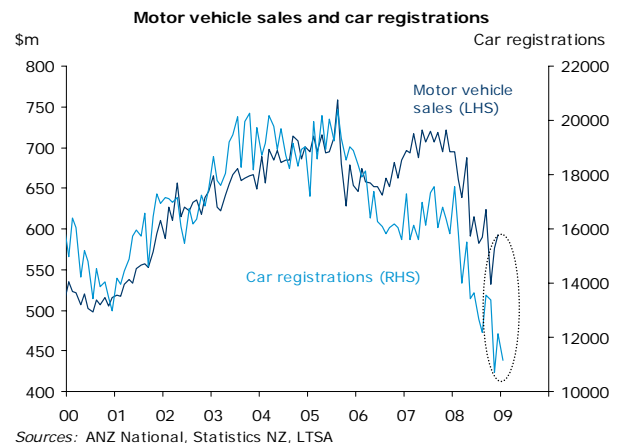
**Retail spending contracted further in December.** Headline nominal retail spending fell 1.0 percent in December, while core sales (excluding motor vehicle related industries) fell 0.6 percent. Looking at the composition of spending, the falls were largely driven by two industries, with fuel retailing down \$47m and supermarket and grocery stores down \$14m. Car sales surprisingly rose, despite falls in car registrations. Statistics NZ report that two thirds of other industries surveyed experienced no more than a plus or minus \$3m change in sales in the month. For the quarter, and once price changes are adjusted for, retail volumes fell 0.6 percent – the fourth consecutive quarterly decline. As has been the case for all of 2008, the largest contributor to the quarterly falls in volumes was driven by motor vehicle retailing (down 4.9 percent in the December quarter).

**Housing market activity remains subdued.** In seasonally adjusted terms, REINZ house sales fell 9.4 percent in January, following a 26.4 percent increase in December, median days to sell eased to 48 days from 49 in December, and the median house price fell \$3,500 to \$325,000 (to be down 4.4 percent on a year ago or 8 percent from its peak). The broad theme from the data is that while there are some further tentative signs of stabilisation in activity (with days to sell improving slightly), overall activity remains very depressed. We do wonder though about the apparent “gap” that has opened up between REINZ and QV house prices, with the latter reporting an 8.3 percent fall in January. We expect the REINZ data to “adjust” over coming months.

**Looking at some interesting aspects of both data releases.** Statistics NZ report that the value of retail stocks held at the end of December 2008 is only 0.1 percent above December 2007 levels and this is the smallest annual increase since September 1998. This is potentially a sign that retailers are beginning to adjust to the much slower demand environment. However, this masks the

true picture. When compared with sales levels, the stocks to sales ratio is still heading higher, rising from 34.1 percent in December 2007 to 34.8 percent in December 2008. While this looks largely to be driven by the motor vehicle retailing sector, there is likely to be further adjustments to go in stock levels yet and this could weigh on production (but also imports) over the coming year. In terms of the REINZ numbers, while the 4.4 percent fall in annual house prices does not appear that large, some regions of the country are faring worse. Northland prices are down 16.2 percent, Southland down 22.2 percent and Nelson/Marlborough down 10 percent.

	Core Retail Sales (% change)		Total Retail Sales (% change)		
	nominal m/m	Trend m/m	nominal m/m	Trend m/m	real q/q
Jun-08	0.0	0.1	0.8	0.0	-1.4
Jul-08	0.0	0.2	-0.7	0.0	-
Aug-08	0.8	0.2	0.4	-0.1	-
Sep-08	-0.5	0.2	0.3	-0.2	-0.9
Oct-08	1.0	0.1	-1.2	-0.2	-
Nov-08	0.1	0.1	0.2	-0.2	-
<b>Dec-08</b>	<b>-0.6</b>	<b>0.1</b>	<b>-1.0</b>	<b>-0.2</b>	<b>-0.6</b>
<b>ANZ</b>	<b>-0.7</b>	<b>-</b>	<b>-1.4</b>	<b>-</b>	<b>-0.5</b>
<b>Market</b>	<b>-0.3</b>	<b>-</b>	<b>-1.1</b>	<b>-</b>	<b>-0.5</b>



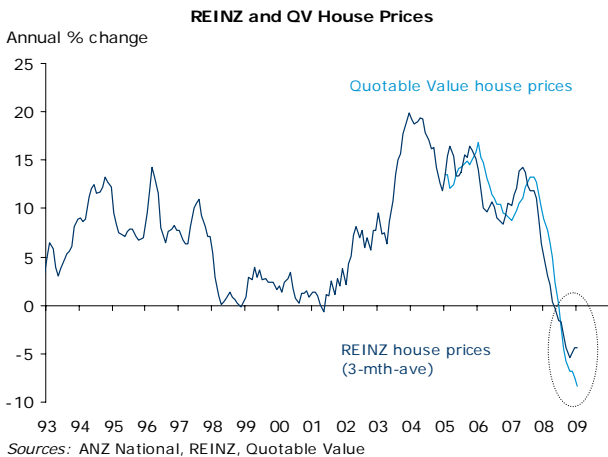
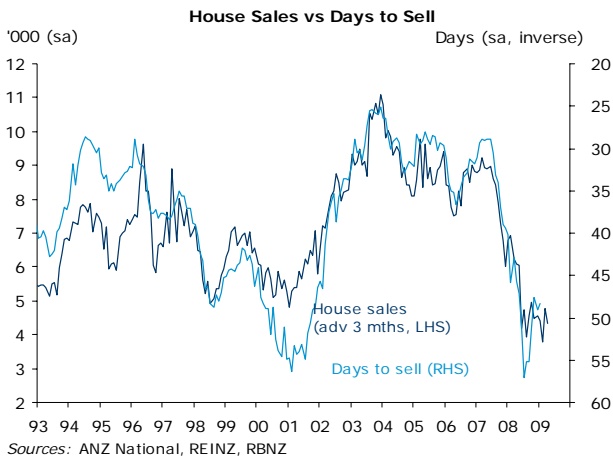
	Median House Price		House Sales		Median Days to Sell	
	\$'000	YoY	s.a.	YoY	act.	s.a.
Jan-08	340	4.0	6076	-31.5	49	40
Feb-08	338	0.7	6064	-32.1	50	46
Mar-08	349	1.6	4179	-53.3	40	43
Apr-08	345	-1.1	4753	-45.5	44	46
May-08	345	-1.4	3946	-52.9	49	47
Jun-08	340	-2.2	4556	-42.4	53	51
Jul-08	340	-1.4	4939	-32.6	58	57
Aug-08	330	-5.7	4499	-34.0	55	55
Sep-08	330	-6.1	4572	-23.7	52	55
Oct-08	335	-4.3	4417	-34.8	47	51
Nov-08	338	-4.1	3771	-45.4	44	48
Dec-08	329	-4.8	4766	-23.1	45	49
Jan-09	325	-4.4	4319	-28.5	59	48

### Implications

**Today's data paints ongoing weakness in the domestic economy.** The fall in retail volumes reinforces the likelihood of another contraction in GDP in Q4. The performance of the labour market will now be the key driver for both the retail sector and housing market over 2009. Given the survey evidence and widespread anecdotes, it's hard to go past another leg of weakness.

We consider today's data to provide little new information in so far as the economy is concerned. Most attention continues to focus on a deteriorating international environment, and the flow-on to New Zealand. With the domestic economy already on its knees prior to global events and clear non-linear dynamics impacting on prospects (job security, credit availability, the rural chequebook), we see little prospect of the economy stabilising any time soon.

In this environment, the bias will remain tilted towards monetary policy taking the Official Cash Rate to new lows, and a further downward adjustment in the currency. It is the latter channel that we expect will grow in attention over the year, and so far as retailing is concerned it will mean further pressure on margins and profitability.



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- Financial Markets Operations Association; and
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- Subject of an adverse finding by a court in any proceeding that has been taken against them in their professional capacity;

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- Placed in statutory management or receivership.

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- Share in a limited partnership;
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- Group investment funds;
- Life insurance products;
- Derivative products including interest rate and currency forward rate contracts and options; and
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- Making an automatic payment or payment through another electronic delivery mechanism operated by the Bank.

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ANZ (part of ANZ National Bank Limited), Level 7, 1 Victoria Street, Wellington 6011, New Zealand Phone 64-4-802 2000 Fax 64-4-496 8639 <http://www.anz.co.nz> e-mail [ecnmcs@anz.com](mailto:ecnmcs@anz.com)

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