

# Shrinking sales

## NZ real retail sales falls again in Q4

- Retail sales continue to fall.
- Falling asset prices are discouraging spending.
- Softening labour market no help.
- More interest rate cuts ahead.

### Key results

Quarter		Q3	Q4	Q4 Expected	
		2008	2008	WBC	Mkt
Total sales, real	%qtr	-0.9	-0.6	-1.1	-0.4

Month		Nov	Dec	Dec Expected	
		2008	2008	WBC	Mkt
Total sales, nominal	%mth	0.2	-1.0	-0.9	-0.7
Core sales, nominal	%mth	0.1	-0.6	-0.2	-0.2

### Comment

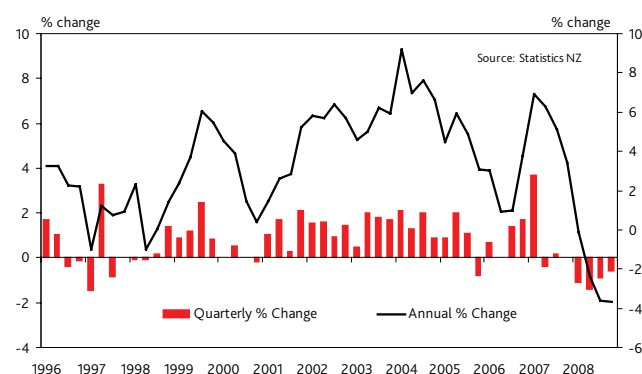
New Zealand consumers have become cautious. Carefree spending seems to be a thing of the past. The official retail sales data for the last quarter of 2008 confirms what we already suspected – consumers have put away their purses and wallets. Christmas was not a good one for retailers.

Retail sales in Q4 provide more evidence that consumers have been saving their extra cash from tax cuts, lower interest rates and lower fuel prices. The value of sales in Q4 2008 was 1.5% below year ago levels, with the volume of sales down 3.7% over the same period.

For many, the hit to household balance sheets over the past year via lower house prices and lower share prices has been a key reason behind a general reluctance to spend. Falling house prices has brought a major swing towards households injecting equity (on average) into houses in 2008, compared to the hefty withdraws over the preceding five years. As house prices continue to drift downwards in 2009, households are likely to spend less of their income flow to ensure their balance sheets do not deteriorate too much.

Rising unemployment, less job security and concerns on how the world economic recession will hit home are all adding to

Real Retail Sales



the cautious tone – an atmosphere likely to remain through 2009. Early indicators suggest this to be case with electronic transactions data indicating retail sales eased again in January.

Durable items – especially cars – continue to be most affected by the consumer retrenchment. Car sale volumes declined 4.9% in Q4 (seasonally adjusted) to be down 17.4% on a year ago. Furniture and floorcoverings and hardware sales were also down. Appliances volumes bucked the trend of falling durable sales rising 4.6% in the quarter thanks to aggressive discounting. Appliance prices fell 1.9% in Q4 to be 6.7% lower than a year ago.

### Market implications

Retail sales were mildly weaker than market expectations for both sales values in the month of December and sales volumes for the December quarter. The small downside surprise generated very little market reaction with focus still firmly on world economic developments. Still, falling retail sales and a soft outlook for 2009 indicate the need for further monetary easing. We currently anticipate the OCR to fall another 100bps to 2.5% by the end of April.

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