

## New Zealand economic update

Retail trade and REINZ house prices

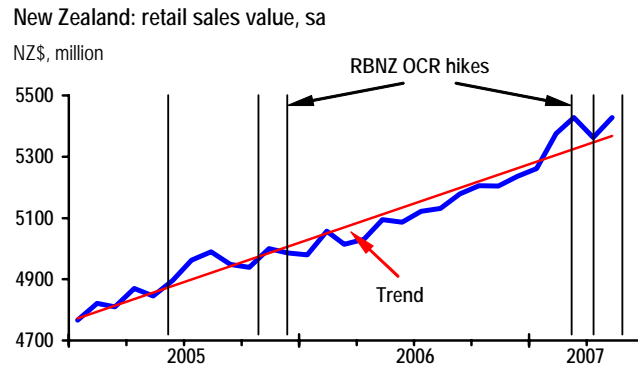
### ***Retail spending is seemingly relentless in its rapid reacceleration, but report is mixed and doesn't signal a further rate hike***

Retail spending in New Zealand bounced by a much stronger than expected 1.2%/m/m in May (JPMorgan and consensus 0.5%/m/m), after falling 1.2%/m/m in April. The report showed retail sales have returned to the same level to that recorded in March - at the height of RBNZ's concerns over consumption growth (chart). Core retailing, which excludes vehicle-related industries, posted a chunky 0.8%/m/m gain (JPMorgan 0.4%/m/m, consensus 0.3%/m/m). The report was mixed, however, with the major gains in retailing coming from food, furniture and cars. Department store sales and clothing and soft goods retailing were both down sharply (4.1%/m/m and 2.0%, respectively), signaling that the Kiwi population's insatiable appetite for consumables has been soured by higher interest rates and still-elevated petrol prices. Furthermore, it is important to note the report is in nominal terms, and the spike in the food retailing industry likely reflects a run up in prices.

Indeed, at face value, the 1.2%/m/m bounce increases the chance of a further rate hike in July, as the value of retailing returns to uncomfortable levels. That said, the mixed results across industries are less convincing. The monthly bounce was clearly skewed by the two largest components, supermarkets and grocery stores and vehicle retailing (up 1.9%/m/m and 4.4%, respectively). According to Statistics New Zealand, the majority of the 24 retail industries had relatively small sales movements, with 17 industries recording movements of \$3 million or less in May, compared with April. Eight of the 24 industries recorded declines over the month. To date, growth in retailing over the second quarter remained flat, in nominal terms, and consumption growth is likely to come in below RBNZ's expectations. The RBNZ is expecting GDP growth of 0.8%q/q, above JPMorgan's preliminary forecast of 0.5%.

JPMorgan maintains the view that the RBNZ will keep rates unchanged in July, as it waits to see the full impact of its last three OCR rate increase.

**Financial market reaction:** NZD spiked 30pts straight after the data release.



### House prices fall in June

In other data, the median house price for June fell to NZ\$347,500 (from NZ\$350,000), as the number of sales dropped from 9285 in May to 7474. The latest REINZ report confirmed our expectation that the soaring NZ housing market has hit an air pocket, and that house price appreciation will gradually moderate. REINZ president Murray Cleland said "there was no doubt the market was easing back from the frantic pace of the first five months of 2007."

Today's REINZ numbers are contrary to the June report by Quotable Value NZ, which showed national house prices rose 12.2%oya (calculated over the three months ending June 2007 in comparison to the same period last year), taking the average sale price to NZ\$378,672. According to QVNZ, the growth rate increased from 11.1%oya in May. The report did show, however, that trading activity had continued to fall amid growing pessimism from buyers. QVNZ stated: "The feedback from the market is that there is a slowdown in activity with less buyers and less listings in many areas. However, the prices buyers are paying still appear to be holding up... The market appears to be returning to the traditional pattern of slowdown over the winter months in contrast to last winter where the market boxed on regardless... Reports around the country are that sellers' price expectations remain high, while buyers are exercising a degree of caution."

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