

New Zealand economic update

October retail sales

Retail sales in New Zealand slumped 0.7% m/m in October, after rising 1.0% in the previous month, as record high interest rates started to curb consumer spending. The RBNZ has tightened monetary policy four times this year, taking the official cash rate to 8.25%, in what has been a prolonged tightening cycle beginning in 2004. On the upside, though, JPMorgan forecasts the RBNZ will keep rates on hold throughout 2008, providing some relief to consumers.

With the previously over-heated housing market showing signs of cooling as a result of the RBNZ's actions, consumers may feel less inclined to spend, however. The QVNZ property market report released earlier this week showed that annual growth in national property prices eased to 11.4% oya in November, down from the 12.7%. Moreover, all forward looking indicators are pointing to a dramatic drop in house price appreciation, signaling that the housing market has started to buckle. Turnover in the market has plummeted, and the number of days to sell a property has steadily increased, pointing to a decline in house price appreciation.

According to Statistics New Zealand, the decline in retail sales was broad-based, with 15 of the 24 industries recording sales decreases. Sales of motor vehicles posted the largest decline (-2.8%), but significant falls were also recorded in sales at supermarket and grocery stores (-1.1%) and in appliance retailing (-4.7%). The only notable increase recorded was for automotive fuel retailing (+3.5%), reflective of the elevated level of global crude oil prices.

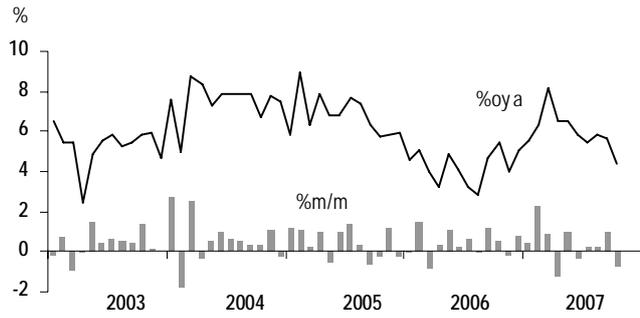
- Retail sales fell 0.7% m/m in October after spiking 1.0% previously.
- The fall in sales was broad-based, with 15 of the 24 industries recording sales decreases.
- Motor vehicles sales slumped 2.8% m/m, while automotive fuel retailing rose 3.5%.

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New Zealand: retail trade



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