

Retail Thud

Thud is the noise and word my colleague Mark Smith used to describe the latest NZ retail sales data on Friday. NZ retail volumes slumped in Q4, marking the 8th consecutive quarter of retrenchment with volumes down 4.1% over 2023 as the household-led economic slowdown continues. **Falls in retail were widespread**, with the 2023 contraction in retail activity particularly severe given extremely strong net immigration. You can [read more here](#). Weak household spending activity is a pre-requisite to getting inflation down on a sustained basis. Retail activity is extremely weak, but the RBNZ will remain watchful and in our view will not cut the OCR until much later this year. **This week's focus is squarely on the RBNZ's first OCR decision of the year (more below in the week ahead section).**

Global sharemarkets were largely positive on Friday. European and US sharemarket benchmarks were largely in the green, with Euro Stoxx 50 up 0.4%, and the three main US benchmarks closing between -0.3% for the NASDAQ and +0.2% for the Dow Jones. Asian markets were mixed on Friday. The Australian market was up 0.4% and Japan's Nikkei was up 1.3% on Friday, enjoying time above the previous peak set some 34 years ago. The Nikkei is up over 17% this year. **The NZ sharemarket** was up 0.3% on Friday on turnover of \$129 million.

FX: The GBP, AUD, and NZD were the top three G10 currencies on Friday (in that order). Wednesday's RBNZ meeting is the key event for NZ rates and NZD direction this week.

Oil prices eased on Friday, with West Texas Intermediate trading down towards US \$77 per barrel.

Day ahead: No major local data releases today - the next local event is the RBNZ announcement on Wednesday afternoon. The data calendar offshore is light over the next few days. New home sales data are due in the US tonight.

Week ahead local: The RBNZ announces its next OCR decision on Wednesday 28th February. Importantly, we don't think the RBNZ will raise the OCR at this week's meeting, though it's a closer call than it has been for a while. However, we do now expect that OCR cuts will happen slightly later than we had been thinking. We now judge the RBNZ will wait until at least November before cutting the OCR for the first time: our previous forecast of August seems too soon based on the recent data flow and lingering upside risks to the inflation outlook.

Beyond the RBNZ, the other release of interest this week is ANZ's Business Outlook Survey on Thursday. Business confidence and businesses' expectations for their own activity in the ANZ Business Outlook survey have trended up since late 2022. However, in the January survey, businesses' own activity expectations dipped slightly, suggesting that the recovery in sentiment – boosted by the change of government – is capping out.

Week ahead offshore: The next key piece of data for the Australian economy and the RBA is the January monthly CPI indicator due on Wednesday. CBA expect inflation to print at 3.5%/yr in January as measured by the monthly CPI indicator. There is a range of other data out in the week ahead, including retail trade for January (Thursday). The last few months data has been extremely volatile as spending patterns change in the lead up to the holiday period. Two building blocks are released for the December quarter National Accounts (due 6 March). Construction work done (Wednesday) is expected to record a small rise of 0.5% after a 1.3% lift in September. Residential construction is expected to be weak while large pipelines of engineering and non-residential work should record positive growth. The other major release will be private sector capex (Thursday).

Inflation data in Europe and Japan and the PCE deflator in the US will be watched with interest this week. The already released Tokyo inflation suggests the headline national inflation will have decelerated sharply in January (Tuesday). The week ends with European inflation and the PCE deflator on Friday. On a six-month annualised basis Eurozone headline and core inflation are running at 2.2%/yr, just above the ECB's 2% inflation target. The ECB expect inflation to continue to ease further over the coming months. In the US, the already released CPI and the acceleration in healthcare prices in the PPI suggest core PCE inflation remained elevated at 2.9%/yr.

Author: chris.tennent-brown@asb.co.nz

Currencies

NZD/USD	0.6197	0.03%
NZD/AUD	0.9441	-0.07%
NZD/EUR	0.5727	0.05%
NZD/JPY	93.28	0.03%
NZD/GBP	0.4891	-0.04%
NZD/CAD	0.837	0.22%
NZD/CHF	0.5461	0.15%
NZD/HKD	4.849	0.06%
NZD/SGD	0.8325	0.06%
NZD/CNH	4.465	0.08%
NZD/SEK	6.401	0.04%
NZD/DKK	4.269	0.05%
NZD/THB	22.28	0.08%
AUD/USD	0.6562	0.08%
EUR/USD	1.082	-0.02%
USD/JPY	150.5	-0.01%

Source: Macrobond, ASB

Commodities

NZX WMP	3340	-0.30%
Gold \$/Oz	2035	0.54%
WTI Oil \$/bbl	77.54	-2.72%

Source: Macrobond, ASB

Rates

NZ OCR	5.50	0.00
NZ 90 Dy Bnk Bll	5.73	0.00
NZ One Yr Swap	5.72	0.03
NZ Two Yr Swap	5.27	0.01
NZ Five Yr Swap	4.71	0.00
NZ 10 Year GB	4.82	0.02
US 10 Year GB	4.25	-0.07
AU 10 Year GB	4.20	0.04

Source: Macrobond, ASB

Equities

Dow Jones	39132	0.16%
S&P 500	5089	0.03%
NASDAQ	15997	-0.28%
FTSE	7706	0.28%
CAC-40	7967	0.70%
DAX	17419	0.28%
Hang Seng	16726	-0.10%
Nikkei	39099	2.19%
ASX 200	7644	0.42%
NZX 50	11720	0.25%

Source: Macrobond, ASB

ASB Economics & Research		Phone	Fax
Chief Economist	Nick Tuffley	nick.tuffley@asb.co.nz	(649) 301 5659
Senior Economist	Mark Smith	mark.smith4@asb.co.nz	(649) 301 5657
Senior Economist, Wealth	Chris Tennent-Brown	chris.tennent-brown@asb.co.nz	(649) 301 5853
Senior Economist	Kim Mundy	kim.mundy@asb.co.nz	
Economist	Nat Keall	nathaniel.keall@asb.co.nz	(649) 301 5915
Future Me Graduate	Jordan Campbell	jordan.campbell@asb.co.nz	
Administration Manager	Caro Phillips	caro.phillips@asb.co.nz	

ONE STEP AHEAD

Click here to read the latest
ASB Economic Reports<https://reports.asb.co.nz/index.html>

ASB Economics

ASB North Wharf, 12 Jellicoe Street, Auckland

Important Disclaimer

This document is published solely for informational purposes. It has been prepared without taking account of your objectives, financial situation, or needs. Before acting on the information in this document, you should consider the appropriateness and suitability of the information, having regard to your objectives, financial situation and needs, and, if necessary seek appropriate professional or financial advice.

We believe that the information in this document is correct and any opinions, conclusions or recommendations are reasonably held or made, based on the information available at the time of its compilation, but no representation or warranty, either expressed or implied, is made or provided as to accuracy, reliability or completeness of any statement made in this document. Any opinions, conclusions or recommendations set forth in this document are subject to change without notice and may differ or be contrary to the opinions, conclusions or recommendations expressed elsewhere by ASB Bank Limited. We are under no obligation to, and do not, update or keep current the information contained in this document. Neither ASB nor any person involved in the preparation of this document accepts any liability for any loss or damage arising out of the use of all or any part of this document.

Any valuations, projections and forecasts contained in this document are based on a number of assumptions and estimates and are subject to contingencies and uncertainties. Different assumptions and estimates could result in materially different results. ASB does not represent or warrant that any of these valuations, projections or forecasts, or any of the underlying assumptions or estimates, will be met.