

Transcript of Andrew Dowie's Economics Update – 14 March 2011

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Andrew Dowie:

Good morning. This is Andrew Dowie from Advance Asset Management with a rundown of the economic data releases for Friday, 11 March.

February's retail sales report was very strong. The headline match consensus up 1% and the two previous months were revised upwards. Of note January was revised up from an initially reported up 0.3% to up 0.7%.

Now looking at the mid longer term picture, at least back to the middle of last year and with a notable exception of December which was revised up a bit, sales growth has been quite steady.

The big question is will this growth pattern be maintained? The payroll tax cut of late last year is undoubtedly helping proceedings, but the notable head wind is the oil price factor.

Anyway, looking at February's report in detail, car sales and the rising cost of petrol were big drivers last month. Excluding these two factors the ex auto and gas metric was up 0.6%. We were up 0.5% in January.

Finally at present real consumption growth looks like being above 3% annualised in this year's first quarter.

In contrast to February's retail sales, March's University of Michigan Consumer Confidence Report dipped to a five month low.

Numbers wise, consensus had factored in a 76.3% figure after February 77.5%. March's actual release came in at 68.2%.

Now this nine point drop in sentiment over the month was the largest dip since October 2008 in the immediate wake of the Lehman bankruptcy when oil was costing the American motorist US\$3.50 a gallon.

Now just turning to the report's details, the big driver was the cost of oil, but rather ominously this generated a big jump in household's inflation expectations.

Indeed one year ahead expectations from March increased to 4.6% from 3.4% in February.

Five years out we are at 3.2% from 2.9%. This will not be enough to sway the fed from its current [unclear] but nevertheless the [unclear] et al. will be watching things like a hawk.

Thank you very much.

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