

Business Weekly

Fear is the Key

This Week

The title to one of Alistair MacLean's more riveting novels is a very accurate description of what drove people's behaviour late last year and the early months of this year. However, as green shoots continue to pop up, businesses and investors have tentatively started to put their heads above the parapets once more. Fear has gradually given away to caution, and decisions are once more being made.

Consumer confidence has started to recover, though remains on the wary side. Business confidence has also picked up from incredibly low levels in the National Bank survey.

The highlight for this week is Tuesday's Quarterly Survey of Business Opinion, produced by the NZ Institute of Economic Research. The survey contains a lot of information on business activity and inflation pressures, and is also a good guide to the short-term economic performance. Over 2008Q4 and 2009Q1 respondent firms in this survey registered their weakest trading activity expectations since the survey's history began in 1970. Intentions to invest in plant and machinery recorded their weakest level in the survey's history and employment intentions were at a similar level to that seen during the 1991 recession. In both of the quarters in question the economy shrank by 1%.

The improved sentiment in the more volatile monthly NBNZ survey indicates that sentiment in the QSOB survey should also recover, pointing to a milder contraction in the economy over Q2 as well as reinforcing that the economy will level off over the second half of the year. However, factors such as profitability and investment and employment intentions are likely to remain muted, indicating that businesses are still feeling a degree of pressure. Inflation barometers should reinforce that inflation will remain low.

May's retail spending figures, due next Monday, should show an increase in core (ex-auto) sales given the recent run of increases in electronic card transactions. However, the automotive components are likely to be fairly flat, with the exception of higher petrol prices. Car registrations have been weak this year but, encouragingly, in June were showing some signs of life.

At some stage over the next week the REINZ may release its house sales figures for June. Auckland agency Barfoot & Thompson released its June sales figures last Friday, which we estimate rose 6% from May in seasonally-adjusted terms. The national-wide figures will probably also register a lift, judging by the general anecdotes about the housing market. Although some parts of the economy will remain under pressure this year, the housing market – one of the first areas to slow back in 2007 – is on the road to recovery.

Click here for:

[Foreign Exchange](#)

- NZD dips as global shares splutter through quarter end.

[Interest Rates](#)

- Longer-end interest rates ease, driven by offshore sentiment.

[Week Ahead](#)

- NZIER's Quarterly Survey of Business Opinion is the key local release.

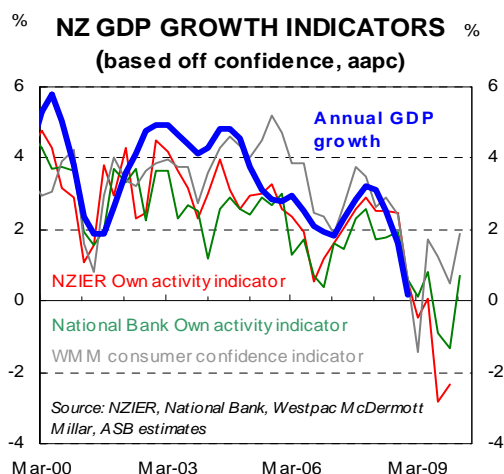
[Week in Review](#)

- NBNZ Business Outlook improvement continues. Credit growth remains weak.

[Global Calendars](#)

- The meeting of the G-8 and others is potentially the big market mover this week.

Chart of the week



- With the 'recovery' in business and consumer confidence in the spotlight, it pays to put the recent turnaround into context. With NZ in the midst of recession, it helps to keep in mind the reference point for firms who 'expect conditions to improve over the next 12 months'.
- When asked about 'general economy' and 'own activity' expectations, the more reliable guide to future economic growth tends to be what firms are seeing day-to-day on their own shop floor.
- GDP growth indicators based off business and consumer confidence do point to economic activity stabilising over the latter part of this year, although any recovery is likely to remain mild, at best.

General Advice Warning

As this report was prepared without taking into account your objectives, financial situation or particular needs, you should not take any action in reliance of this report without considering your particular circumstances and, if necessary, obtaining professional advice.

Foreign Exchange Market

FX Rates	Current*	Week ago	Month ago	6 mths ago	Year ago	ST Bias	Support^	Resistance^
NZD/USD	0.6285	0.6432	0.6352	0.5897	0.7556	FLAT	0.6250	0.6450
NZD/AUD	0.7897	0.8024	0.7905	0.8282	0.7850	FLAT	0.7800	0.8000
NZD/JPY	60.41	61.40	61.48	54.22	80.66	FLAT	59.50	62.50
NZD/EUR	0.4500	0.4584	0.4479	0.4247	0.4807	FLAT	0.4450	0.4550
NZD/GBP	0.3849	0.3903	0.3944	0.4071	0.3808	FLAT	0.3800	0.3900
TWI	59.6	60.7	60.0	57.4	67.3	FLAT	59.00	61.00

Weekly support and resistance levels * Current is as at 12pm Tuesday; week ago as at Monday 5pm

- NZD dipped on the cross rates we monitor last week. Against the USD, the NZD traded as high as 0.655 on 30 June, but has been on a fairly steady decline since then. The NZD has found support above 0.625 once more, but could re-test this level and target 60 cents US if equity markets and risk currencies remain under pressure in July.
- There are only a handful of important economic reports in the US this week, and Tuesday's NZIER Quarterly Survey of Business Opinion is the only significant release in New Zealand for currency markets to digest.
- The biggest market mover this week may be the meeting of Group of Eight (and others) in Italy. Some media reports suggest that Russia and China want the G-8 to agree to reduce the dominance of US dollars in international trade and finance transactions. If such a suggestion were to be endorsed by the G-8, it could spark a steep fall in the USD against all currencies, particularly the EUR.
- The NZD has dipped back below 0.80 against the AUD. The RBA is expected to remain on hold, and Australian data is expected to continue to signal the recovery across the Tasman. This should serve to keep the NZD weak against the AUD over the coming weeks.
- We think this week's Australian employment report could "out-perform" economists' expectations and support the AUD.

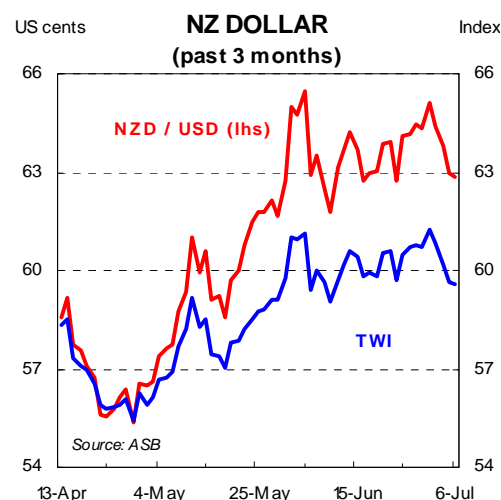
Short-term outlook:

Key data	Date	Time (NZST)	Market expects
NZIER Quarterly Survey of Business Opinion	7/7	10:00am	-
Retail Trade Survey - May	13/7	10:45am	-

Potential currency movers from the US this week: ISM services (6th), jobless claims (9th), trade balance, consumer confidence (10th).

Medium term outlook: [\[Last Quarterly Economic Forecasts\]](#)

- As a consequence of the financial market turmoil centred in the United States, USD weakness was expected in early 2009. Although this weakness was initially offset in part by concerns about other regions, improved sentiment in financial markets has seen risk appetites improve and the USD weaken.
- Right now, the USD, which had shown countercyclical strength, is under pressure. The USD is weakening for the following reasons:
 - US residents increase their offshore investment, encouraged by improvement in the global economy.
 - USD liquidity demand and safe-haven buying of the USD reverses is easing.
 - Diversification out of USD is expected to occur due to concerns about US government debt.
- The arguments for buying EUR, GBP and JPY are strong enough to engineer a reasonable depreciation in the USD, but we do not expect to revisit fresh US TWI lows.
- We are also comfortable with our current forecast that the NZD and AUD have bottomed and will appreciate over the course of 2009, rather than revisit and break through the lows seen in early 2009. Since the May Budget the threat of a credit rating downgrade has subsided.
- We expect the NZD to firm noticeably against the USD and yen as those currencies remain under sustained pressure. Against other key currencies the NZD is likely to appreciate but to a more modest extent: the NZD will leverage off the global recovery and NZ is in a relatively good position compared to a number of economies.
- The likelihood of the RBNZ intervening to try and weaken the NZD remains very low given the RBNZ's acknowledgement that global factors have much to do with the NZD's lift.



Interest Rate Market

Wholesale interest rates	Current	Week ago	Month ago	6 mths ago	Year ago	ST Bias
Cash rate	2.50	2.50	2.50	5.00	8.25	FLAT
90-day bank bill	2.81	2.82	2.69	4.88	8.60	FLAT
2-year swap	3.76	3.83	3.64	4.35	7.90	FLAT
5-year swap	5.25	5.35	5.20	4.69	7.53	FLAT
11/11 gov't stock	4.67	4.82	4.72	4.32	6.29	FLAT
NZSX 50	2758	2775	2835	2745	3156	DOWN

* Current is as at 12pm Monday; week ago as at Monday 5pm

- With a light local data calendar the market continued to follow offshore performance. All up, offshore data disappointed with Australian building approvals delivering a surprise decline in May and US non-farm Payrolls also coming in worse than expected. The disappointing data are a timely reminder that the economic recovery has a long way to go, and is helping reduce the recent upward pressure in longer-end interest rates, NZ 5-year swaps have fallen 10 bp over the week while 90 day bank bills remain steady.
- US Treasury bond yields fell over the past week on expectations the Federal Funds rate will remain at low levels for an extended period. 10-year yields fell 7 basis points, while 2-year yields fell 14 basis points. Over the coming week the US Treasury will sell US\$35 billion of three-year notes, US\$19bn of 10-year notes, US\$11bn of 30-year bonds and US\$8bn of inflation-linked 10-year notes.

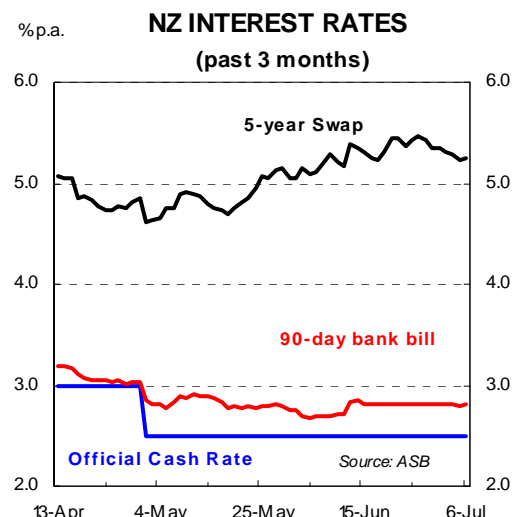
Short-term outlook:

Key data	Date	Time (NZST)	Market expects
NZIER QSBO	7/7	10:00am	-
Retail Trade Survey - May	13/7	10:45am	-

Comment: Another quiet week in the NZ markets. The NZIER QSBO provides a plethora of indicators economists love to pore over in depth. However, the headline result the market will focus on has been preempted by the monthly National Bank survey. The RBA is widely expected to remain on hold on Tuesday. With little US data, the Australian employment report on Thursday (1.30pm NZT) is likely to be the highlight of the week.

Medium term outlook: [\[Last Quarterly Economic Forecasts\]](#)

- The RBNZ left the cash rate unchanged at 2.5% at the June OCR announcement. The RBNZ has cut the cash rate 575 basis points in less than a year in response to the financial crisis offshore. The RBNZ has previously expressed reluctance to cut the OCR below 2%, which leaves just 50 bp of rate cuts up its sleeve.
- The RBNZ's June statement was dovish, playing down green shoots optimism and highlighting the downside risks to the economic outlook. The RBNZ maintained an explicit easing bias, mentioning the potential for the OCR to move lower and restated it continues to expect to hold the OCR at current levels until the latter part of 2010.
- The RBNZ revised down its growth outlook in June, and as a result inflation pressures are considerably weaker. The RBNZ forecasts CPI inflation to briefly fall through the bottom of the target band later this year, then recover to remain 'comfortably' in the middle of the target band.
- The RBNZ's export-led recovery is heavily dependent on the trade weighted exchange rate remaining below average for an extended period. In our view, the RBNZ's exchange rate assumption is reasonably heroic, and differs from our own view of US dollar weakness remaining a dominant driver of the NZ dollar. The assumption leaves the RBNZ vulnerable to the risk inflation falls uncomfortably low. There remains large downside risk to the economic outlook, and the RBNZ is likely to want to deliver further monetary policy stimulus.
- The market has underestimated the RBNZ's willingness to cut further, with market pricing implying the easing cycle is over – and that the OCR will increase as early as the start of 2010. The RBNZ is disappointed with this reaction. The longer that interest rates and the NZ dollar remain above the RBNZ's assumptions, the more pressure the RBNZ will feel for further cuts to remind the markets of its position. We have pencilled in two 25 basis point cuts for September and October, although the timing of these are partly dependent on the NZ dollar. Currently, risks are pointing to a cut in July should the market continue to doubt the RBNZ's easing bias.
- The OCR remains the RBNZ's primary tool, although it has started to lose traction at very low levels. While the RBNZ has investigated other options, it remains very reluctant to use them while there is potential to cut the OCR further.



NZ Data Preview: a look at the week ahead

Data	Date	Time (NZST)	Previous	Market expects	ASB expects
NZIER Quarterly Survey of Business Opinion	7/7	10:00am	-65	~	-20
Retail Trade Survey - May	13/7	10:45am	0.5%	~	+0.5%

Tuesday 7 July

NZ NZIER Quarterly Survey of Business Opinion, Q2

Business confidence, Index (f) -20.

Business optimists outnumbered pessimists for the first time since September 2008 in the last two National Bank Business Outlook Surveys. Both the overall outlook and own activity indicators within the survey have moved into positive territory. We expect the longer-running NZIER quarterly survey to show a significant lift in general confidence, reflecting the improved sentiment displayed in the monthly National Bank Survey. We expect pricing intentions to remain weak, and point to lower inflation in the year ahead. We are also looking for signs of ongoing weakness in the employment and investment intentions. This, combined with tighter than desired monetary conditions, forms the backdrop to our forecasts for ongoing quarterly contractions in growth over the remainder of 2009. However, some pick-up in confidence recorded will add to the evidence that the worst of the recession is behind us.

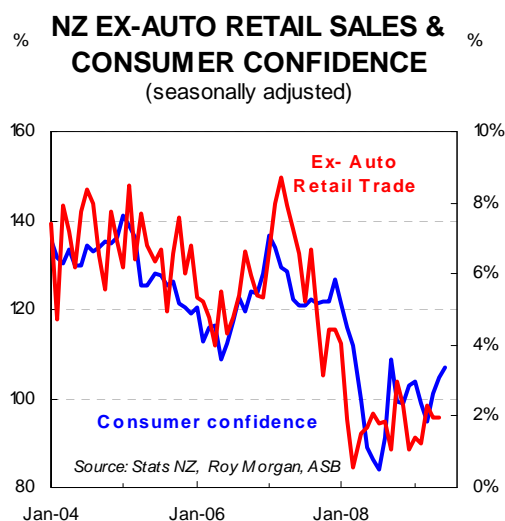
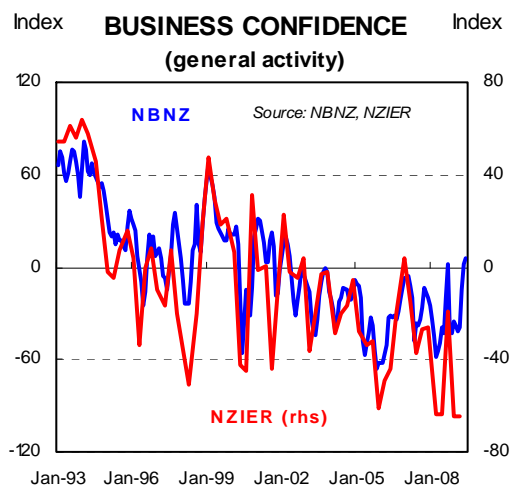
Monday 13 July

Retail Trade Survey, May

Previous: +0.5%, ASB (f): +0.5%

We expect retail sales to pick up 0.5% over May, on the back of a modest pick up in ex-auto spending. April's tax cuts should now be weighing heavy enough in consumer wallets to stimulate a small lift in discretionary spending over the month. The previous month's core retail sales were disappointing, managing to fall despite the cash injection. Nonetheless, consumer confidence has perked up slightly over recent months and points to a mild recovery in spending.

Car sales bucked recent trends in April, adding positively to retail sales. Vehicle registrations are showing tentative signs of stabilising (although remain at very weak levels) and the bottoming out would be consistent with the mild lift in consumer confidence and house sales. While the level of car sales are likely to remain weak as unemployment rises, the lack of further large declines means the auto sector is less likely to be a large drag on the retail sector going forward.



NZ Data Review: weekly recap

RBNZ Credit aggregates - May

Household Lending Growth +0.4% mom SA,+2.6% yoy

Housing lending growth 2.9% yoy

Consumer lending growth -1.3% yoy

Business lending growth 5.1% yoy

Agriculture lending growth 17% yoy

Household lending growth picked up over May, with the recovery in the housing market over April and May filtering through to new net housing lending. Monthly household lending increased 0.4% over May (seasonally adjusted), a clear increase on the trend pace of 0.2% growth per month over the first few months of 2009.

While housing-related lending growth is recovering in sync with the housing market, consumer credit continues to weaken – down 1.3% on year-ago levels.

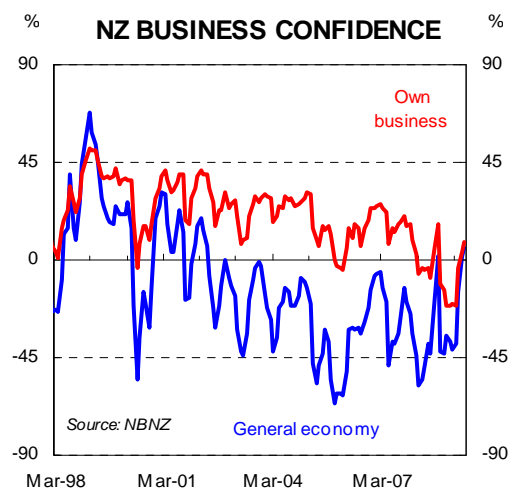
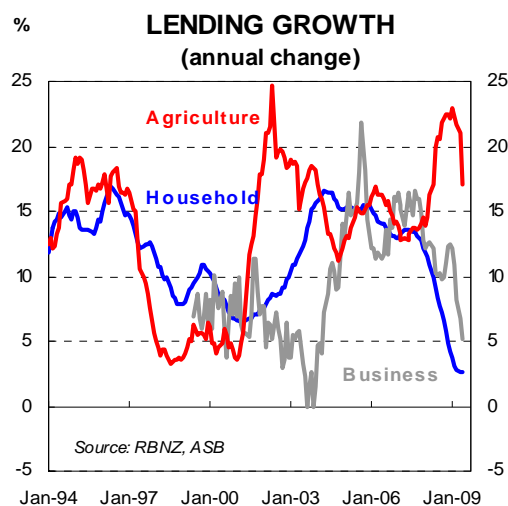
Business lending has tapered off quite noticeably over the past few months, with annual growth falling to just 5.1% yoy. Agricultural lending has also started to slow, although still remains up 17% on year-ago levels.

NBNZ Business Outlook Survey - June

The survey continues the pattern of the last few months: NZ business confidence is lifting. A net 5.5% expect general business conditions to improve over the next 12 months (+1.9% in May). Perhaps signalling the worst is behind them, the construction industry had a net 46.2% expecting better times ahead for the overall economy, the highest reading since 1999. The sector's own activity expectations also lifted, with 18.5% expecting a pick-up in activity, lifting further away from the lows of 2008. The more reliable economic indicator is firms' own activity expectations, which also lifted, to a net 8.3% expecting better times ahead (+3.8% in May). All the major sub-groups showed a lift in own activity expectations with the exception of services. In isolation, the own activity expectation signals growth. However, the National Bank's composite growth indicator (own activity, profit, employment and investment expectations) remains negative.

Profit, employment and investment intentions remain at low levels, changing little from last month. The strong NZD helped keep exporter's expectations low - a net 10.7% expect exports to increase over the year ahead. Weak demand within the economy is clearly impacting pricing power. A net 8.5% expect to raise prices over the year ahead, down from 12.4% in May, and well off the 2008 highs.

Weakness in the employment and investment intentions, combined with tighter than desired monetary conditions make us comfortable with our forecasts for ongoing quarterly contractions in growth over the remainder of 2009. However the pick-up in confidence in this survey adds to the evidence the worst may be behind us.



Global Data Calendars

Note: Calendar 2 is in UK times. Add 11 hours for NZ times.

Calendar – Australasia, Japan and China

Date	Time		Econ Event	Period	Unit	Last	Forecast	
	NZT						Market	ASB/CBA
Mon 6 Jul	12.30	AU	TD securities inflation	Jun	m%ch	-0.3	~	~
					y%ch	1.5	~	~
	13.30	AU	ANZ job ads	Jun	m%ch	-0.2	~	~
	17.00	JP	Leading index CI	May	Index	76.2	~	~
Tue 7 Jul	17.00	JP	Coincident index CI	May	Index	86.0	~	~
	~	CH	Business climate index	QII	Index	105.6	~	~
	10.00	NZ	NZIER business opinion	QII	Index	-65.0	~	-20.0
	11.30	AU	AiGroup PCI	Jun	Index	46.9	~	~
Wed 8 Jul	16.30	AU	RBA cash target	Jul	%	3.0	3.0	3.0
	~	JP	Eco watchers survey: current	Jun	Index	36.7	~	~
	~	JP	Eco watchers survey: outlook	Jun	Index	43.3	~	~
	11.50	JP	Machine orders	May	m%ch	2.7	1.5	~
					y%ch	-5.4	-35.3	~
	11.50	JP	Current account total	May	¥bn	630.5	1506.5	~
	11.50	JP	Adjusted current account total	May	¥bn	966.3	1190.1	~
	11.50	JP	Trade balance – BOP basis	May	¥bn	184.3	410.0	~
	13.00	AU	MI/WBC cons confidence	Jul	%	12.7	~	~
	13.30	AU	Housing finance					
		No. of owner-occupiers	May	m%ch	0.9	~	2.5	
		Value of loans			3.6	~	1.0	
Thu 9 Jul	10.45	NZ	Electronic card transactions	Jun	m%ch	0.9	~	~
	13.00	AU	MI/WBC inflation expectation	Jul	%	2.8	~	~
	13.30	AU	Employment change	Jun	'000	-1.7	~	-20.0
	13.30	AU	Unemployment rate	Jun	%	5.5	~	5.9
	13.30	AU	Participation rate	Jun	%	65.5	~	65.4
	18.00	JP	Machine tool orders	Jun	y%ch	-79.2	~	~
Fri 10 Jul	11.50	JP	Domestic CGPI	Jun	m%ch	-0.4	-0.1	~
					y%ch	-5.4	6.4	~
Sat 11 Jul	~	CH	Trade balance	Jun	USD bn	13.4	~	~
	~	CH	Exports	Jun	y%ch	-26.4	~	~
	~	CH	Imports	Jun	y%ch	-25.2	~	~

Calendar – North America & Europe

Please note all days and times are UK time, not local release day/times

Date	UK		Period	Unit	Last	Forecast	
	time	Econ Event				Market	CBA
Mon 6 Jul	09.30	EZ Sentix investor confidence	Jul	Index	-27.0	~	~
	15.00	US ISM non-manufacturing	Jun	Index	44.0	46.0	~
Tue 7 Jul	09.30	UK Industrial production	May	y%ch	-12.3	-11.3	~
	11.00	GE Factory orders	May	y%ch	-37.1	~	~
	13.30	CA Building permits	May	m%ch	-5.4	0.8	~
	15.00	CA Ivey PMI	Jun	Index	48.4	50.3	~
Wed 8 Jul	00.01	UK Consumer confidence	Jun	Index	53.0	~	~
	00.01	UK NIESR GDP estimate	Jun	%	-0.9	~	~
	10.00	EZ GDP	Q1	q%ch	-2.5	~	~
	11.00	GE Industrial production	May	y%ch	-21.6	~	~
	20.00	US Consumer credit	May	\$bn	15.7	10.0	~
Thu 9 Jul	07.00	GE Trade balance	May	€bn	9.4	~	~
	07.00	GE Current account	May	€bn	5.8	~	~
	07.00	GE CPI – EU harmonised	Jun	m%ch	0.4	~	~
	07.00	GE Imports	May	m%ch	-6.0	~	~
	07.00	GE Exports	May	m%ch	-5.0	~	~
	09.30	UK Trade balance non EU	May	£bn	-4,139	-3,900	~
	09.30	UK Total trade balance	May	£bn	-3,014	~	~
	12.00	UK BOE announces rates	Jul	%	0.5	0.5	0.5
	13.00	US Initial jobless and continuing claims					
Fri 10 Jul	09.30	UK PPI input	Jun	~	~	~	~
	12.00	CA Unemployment rate	Jun	%	8.4	8.7	~
	13.30	CA Int'l merchandise trade	May	\$bn	-0.2	-0.6	~
	13.30	CA New housing price index	May	m%ch	-0.6	-0.4	~
	13.30	US Trade balance	May	\$bn	-29.2	-30.0	~
	13.30	US Uni of Michigan confidence	Jul	Index	70.8	71.0	~

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