

# Business Weekly

## Chilly economic data

### This Week

Just as the recent weather has reminded us that the transition to summer isn't one of steady temperature increases, some overseas data have highlighted that the path of economic recovery is not linear. Last Friday's US Non-farm Payrolls release showed a loss of 263k jobs over September, a larger amount than both August's and what was expected for September. It isn't the first time that job losses have widened during the 'green shoots' phase, and probably won't be the last. The larger than expected job losses were preceded by a slight dip in the closely-watched ISM manufacturing index, with the outcome undershooting expectations for marked improvement to continue. US equity markets reflected a bit of 'is this it?' sentiment, with the S&P index down roughly 3.5% last week. Perhaps expectations of economic recovery are getting a little ahead of themselves. As highlighted by the IMF last week, although the global recession appears to have ended, recovery is likely to be slow. A lot of the near-term rebound is being driven by a variety of temporary stimuli, and ahead lies the challenge of transitioning to a self-sustaining recovery.

For NZ we are looking for a more positive story to come out of the week's key data release, the Quarterly Survey of Business Opinion. Some recovery in business confidence will be evident, given that the National Bank's more volatile monthly survey has already rebounded sharply. However, the QSBO survey's value is in the rich indicators it contains for activity and inflation. The June quarter survey showed some improvement from dire levels in a broad range of activity indicators and we expect the September quarter survey to recover further. Key areas to watch will be investment and employment intentions: further recovery from very weak levels will be a more telling sign that businesses are stepping closer to a more normal decision-making environment. To date the recovery in those indicators has noticeably lagged the recovery in general sentiment. The inflation indicators are likely to continue showing subdued price pressures though, now that the worst appears past, some businesses may attempt to rebuild squeezed margins.

Monetary policy announcements will be the key highlights elsewhere, particularly Tuesday's Reserve Bank of Australia announcement. The market has fully priced in 25bp hikes at both the November and December meetings. Our CBA colleagues are of the view the RBA will want to wait for signs that a "durable" recovery is underway before starting to lift rates. Economic growth in the first half of the year was heavily supported by policy stimulus, and there are early signs that impulse is waning. The lack of certainty of a self-sustained recovery in private sector spending suggests the RBA will wait until early 2010 before hiking. Tuesday's statement will be closely watched for which way the RBA is leaning.

### Click here for:

#### [Foreign Exchange](#)

- NZD little changed over the week.

#### [Interest Rates](#)

- Rates little changed in thin trade.

#### [Week Ahead](#)

- Quarterly Survey of Business Opinion, electronic card transactions.

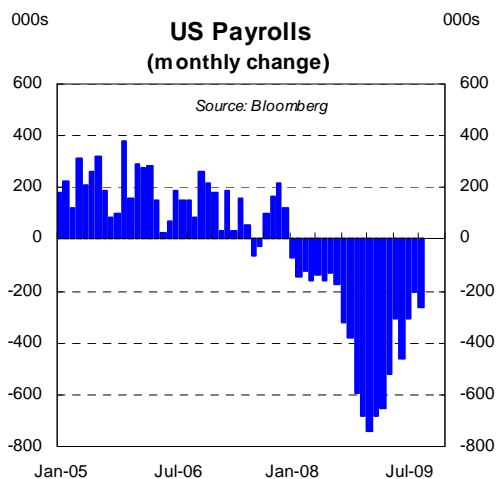
#### [Week in Review](#)

- Credit growth, building consents, NBNZ business confidence.

#### [Global Calendars](#)

- RBA, BoE, ECB rate windows; Aust employment; US ISM non-manufacturing.

### Chart of the week



- The monthly US Non-farm Payrolls, arguably the world's most watched economic statistic, have been an example of 'things not getting worse as fast as they used to'.
- As the impact of the financial crisis swept through the US economy, job losses exceeded 700k a month, and in the space of 3 months shed nearly the equivalent of NZ's entire workforce.
- Job losses in the most recent 3 months have averaged around 230k a month, though as June and September show the improvement is not steady.
- The unemployment rate is up to 9.8%, more than double its 2006-7 low point. The rate is likely to continue drifting up until the US is back to creating jobs in 6-figure monthly amounts.

#### 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	0.7172	0.7131	0.6800	0.5939	0.6622	FLAT/DOWN	0.6950	0.7250
NZD/AUD	0.8281	0.8289	0.8092	0.8265	0.8492	FLAT/DOWN	0.8100	0.8350
NZD/JPY	64.13	63.72	62.95	59.88	69.51	FLAT/DOWN	63.50	65.00
NZD/EUR	0.4915	0.4890	0.4769	0.4379	0.4778	FLAT/DOWN	0.4800	0.4950
NZD/GBP	0.4501	0.4513	0.4163	0.3976	0.3742	FLAT/DOWN	0.4450	0.4600
TWI	65.4	65.2	63.1	58.8	63.8	FLAT/DOWN	64.00	66.00

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

- The NZD remained above 0.71 last week, apart from a brief dip just prior to US Non-farm Payrolls on Friday night. The NZD traded as high as 0.725 on the 1<sup>st</sup> October, supported by another strong Business Outlook survey. The NZD recovered in late New York trade on Friday, to end the week little changed against the greenback.
- The NZD ended the week close to last Monday's levels against the other cross rates, lifting only 0.2% on a trade weighted basis.
- This week the local focus is the NZIER Quarterly Survey of Business Opinion. This survey is likely to show a similar improvement in confidence that the Monthly Business Outlook Survey has captured. However, with the RBA, BoE, and ECB all delivering interest rate decisions this week, FX and interest rate sentiment is likely to be driven from offshore. If last week's weakness in US equity markets continues into this week, it will be hard for the NZD to re-reach its recent highs. The upside risk would come from AUD strength in the wake of a surprise from the RBA.
- Last week we published a note on the NZD. We concluded the relative fundamentals largely explain the recent level of the NZD. Click [here](#) for more.

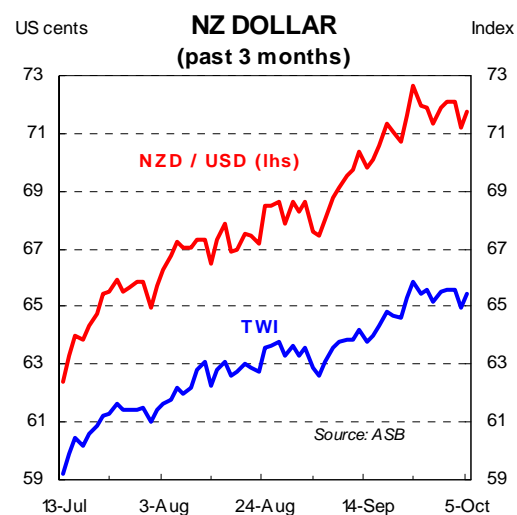
### Short-term outlook:

Key data	Date	Time (NZST)	Market expects
NZIER Business Opinion Survey	6/10	10.00	-

**Potential currency movers from the US this week:** ISM Non-manufacturing (6<sup>th</sup>) Consumer Credit, weekly jobless claims (8<sup>th</sup>) Wholesale Inventories (9<sup>th</sup>) August Trade Balance (10<sup>th</sup>).

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

- We expect the NZD to appreciate a little further against the USD over the next 6-9 months, topping out around USD 0.74. Much of that story is about the USD, not the NZD.
- We continue to expect the USD to remain weak into 2010. The reasons for the expected USD weakness remain similar to the drivers in place since mid-March, namely:
  - US residents increase their offshore investment, encouraged by improvement in the global economy.
  - USD liquidity demand and safe-haven buying of the USD is reversing.
  - Diversification out of USD is expected to occur due to concerns about US government debt.
- Against the expected backdrop of USD weakness we also expect some moderate and broad-based NZD outperformance. Despite being mired in recession since the start of 2008, NZ's economy is holding up well compared to those of many key trading partners. Over time the NZD is likely to be buoyed by the rising tide of improving confidence in the global economic recovery and firmer commodity prices. Moreover, a buoyant AUD, on improved prospects for its resource exports and speculation of early 2010 rate hikes, will drag the NZD along on its coat-tails.
- 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. However, the likelihood of the RBNZ intervening to try and weaken the NZD remains low given the NZD itself is not particularly elevated relative to both underlying economic fundamentals and past movements.
- The September MPS made it pretty clear the RBNZ is unlikely to cut the OCR to try dampening the NZD. Direct FX intervention also appears unlikely with the dominant driver of the high NZD being the weak USD.



## 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	3.00	7.50	FLAT
90-day bank bill	2.75	2.80	2.74	3.20	8.11	FLAT/UP
2-year swap	4.28	4.27	4.11	3.96	6.88	FLAT/UP
5-year swap	5.44	5.49	5.39	5.09	6.83	FLAT/UP
11/11 gov't stock	4.83	4.86	4.84	4.46	5.57	FLAT
NZSX 50	3138	3131	3098	2634	3148	DOWN

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

- Thin trade dominated the scene in NZ interest rate markets last week with rates initially rising mid week before falling back to start of the week levels. Data in NZ was reasonable, with the NBNZ Business Outlook survey on Wednesday showing the best headline result in 10 years.
- Rate markets around the globe recovered their mid-week losses and by the close of business on Friday interest rates were back to levels unchanged from the start of the week.
- Strong demand in the US bond markets late in the week saw US Treasury yields fall up to 12 points as the market questioned the economic recovery. The US employment report was weak with the unemployment rate now at 9.8%. US 10-year Govt Bond yields touched levels not seen since May, trading as low as 3.18%, before closing the week out yielding 3.22%. This week the Treasury is scheduled to sell US \$78 billion in notes and bonds.
- The local interest rate market is caught between the opposing forces of low US interest rates, as investors question the US economic recovery, and the expectation of rising rates in Australia. All eyes will be on the RBA on Tuesday, a surprise rate hike is not completely out of the question, although our expectation is the RBA will be on hold for the rest of this year.

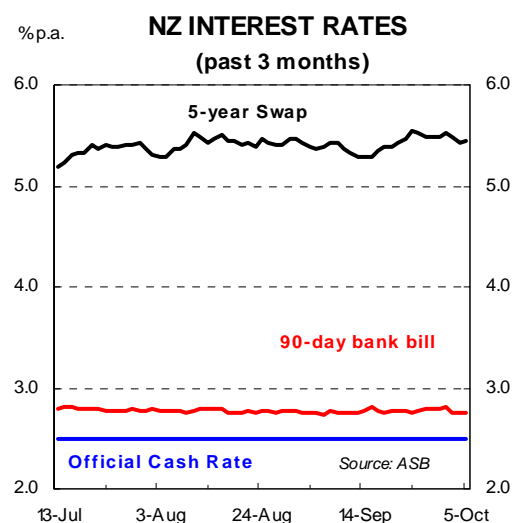
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**Comment:** This week the local focus is the NZIER Quarterly Survey of Business Opinion. This survey is likely to show a similar improvement in confidence that the Monthly Business Outlook Survey has captured. However, with the RBA, BoE, and ECB all delivering interest rate decisions this week, interest rate sentiment is likely to be driven from offshore. The upside risk would come from AUD strength in the wake of a surprise from the RBA.

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

- The RBNZ continues to hold the cash rate at 2.5%, although has now backed off its easing bias. The market did not see a strong easing bias as credible given the number of stronger than expected indicators of late. The RBNZ continues to expect it will hold the cash rate at or below current levels until the latter part of 2010.
- The RBNZ declined to cut the cash rate at the September meeting, despite financial conditions tightening since its July statement. The Bank steered away from its earlier threat to cut should financial conditions not ease. This action has signaled the RBNZ is extremely unlikely to ever cut the OCR further in this downturn.
- The RBNZ has resigned itself to the role of spectator, accepting the current levels of the NZ dollar and interest rates. The RBNZ finally incorporated more realistic NZ dollar outlook (although still depreciating from current levels, in contrast to our view of further increase).
- The RBNZ's overall growth and inflation forecasts were unchanged, despite incorporating significantly stronger monetary conditions. The RBNZ sees more inflation pressure in the economy stemming from a less weak global outlook, a pick up in net migration supporting the housing market, and improved business confidence.
- The next move in the OCR is up, it's just a matter of when. We expect the RBNZ will hike by June next year (previously July). However, the risks are skewed to an earlier start. The RBNZ has a substantial amount of policy stimulus to unwind, the first steps are likely to be bigger (i.e. 50 basis point moves).



## NZ Data Preview: a look at the week ahead

Data	Date	Time (NZST)	Previous	Market expects	ASB expects
QIII NZIER Business Opinion Survey	6/10	10.00	-25	-	-

**Tuesday 6 October**

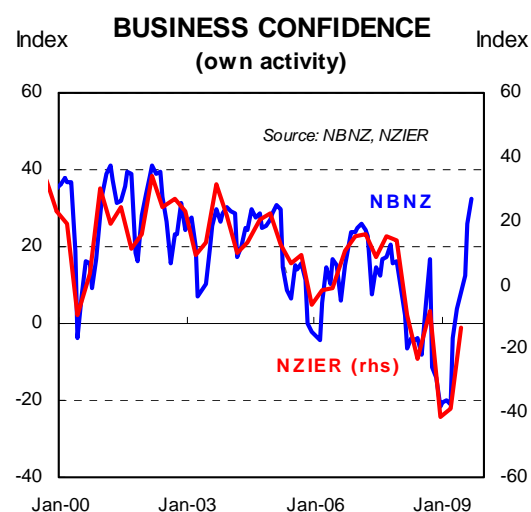
**QIII NZIER Business Opinion Survey**

**Previous: General Business Confidence: -15.5 (s.a.)**

**Own Activity Outlook: -10.1 (s.a.)**

The Quarterly Survey of Business Opinion provides an excellent guide on the near-term outlook for GDP, employment, investment and inflation pressures. The monthly National Bank survey is pointing to a strong increase in both general economic confidence and expectations for firms own activity. On its own the rebound in confidence points to stronger near-term growth than we are expecting. However, the increase in employment and investment intentions has been slightly more muted, more consistent with a fragile recovery.

We expect own activity to increase sharply to net 20% expecting an increase in activity over the next three months, and for employment and investment intentions to improve to more neutral levels. Inflation pressures are likely to remain weak, with pricing intentions remaining at low levels.



## NZ Data Review: weekly recap

### August RBNZ Credit Aggregates:

Household Lending: +0.3% (SA mom) +2.3% yoy

Lending secured against housing +2.9% yoy

Consumer lending -4.6% yoy

Agricultural lending 13.1% yoy

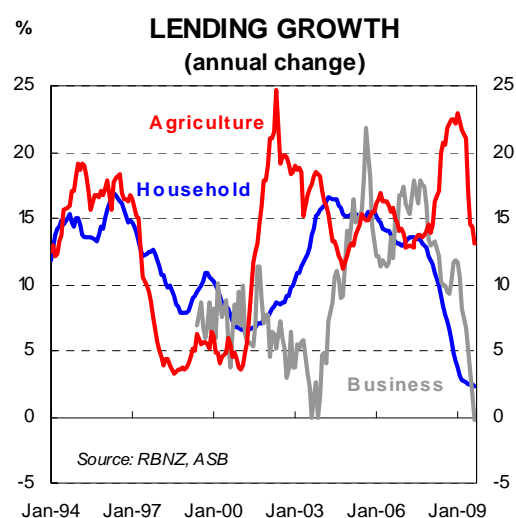
Business Lending -0.3% yoy

Overall household lending grew 0.3% for the month s.a., continuing the trend of muted growth.

Outstanding business lending has continued to shrink. Annual growth in business lending has turned negative for the first time since a short-lived dip in 2003. Lending by banks is up 1% on year-ago levels, with non-bank lending down 11.1%.

Lending to the agricultural sector continues to growth at roughly \$500mn per month, though the annual growth rate continues to moderate from very high levels. We expect growth to slow further as expansion plans get curtailed.

Households are yet to show signs of indulging in a debt-fuelled spending splurge, which will keep the RBNZ comfortable for now. We see little in the August credit figures to hasten the RBNZ into lifting the OCR.



### NZ Building Consents – August.

Consent issuance squeezed out another small gain over August, up 1.7% on the previous month and now down only 10% on year-ago levels. The lift in consent issuance was less than we expected, mostly due to a second consecutive soft month for apartment consents. Only 30 new apartment consents were issued over August, following July's 55, compared to 133 per month on average over the past 6 months. Meanwhile, ex-apartment consent issuance lifted a mere 2.8% over August. On its own, a relatively small lift is not surprising given the strong 11% increase in the previous month. However, the gap between house sales (a proxy for housing demand) and consent issuance remains, with building slow to catch up as economic uncertainty continues to weigh on construction demand. Non-residential consent issuance had another strong month in August, lifting 3.4% to be up 5.9% on year-ago levels.

### NBNZ Business Outlook

Business confidence up +49.1% (previous +34.2%)

Own activity up +32.2% (previous +26%)

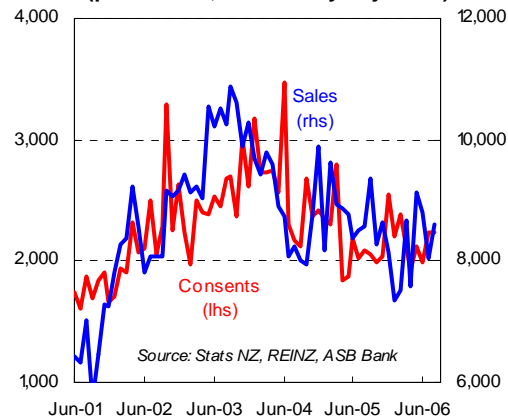
Business confidence made another strong increase in September. Net 49.1% expect the economy to improve over the next 12 months, up from a net 34.2% last month, according to National Bank's monthly survey. The improved confidence was also evident in own activity expectations, with net 32.2% expecting own activity to improve over the next 12 months (up from net 26% in August).

Investment intentions remained steady at +2%, remaining subdued, although having recovered from lows of 6 months ago. Likewise, employment intentions only just lifted back into positive territory, with net 1.8% expecting to increase levels of employment.

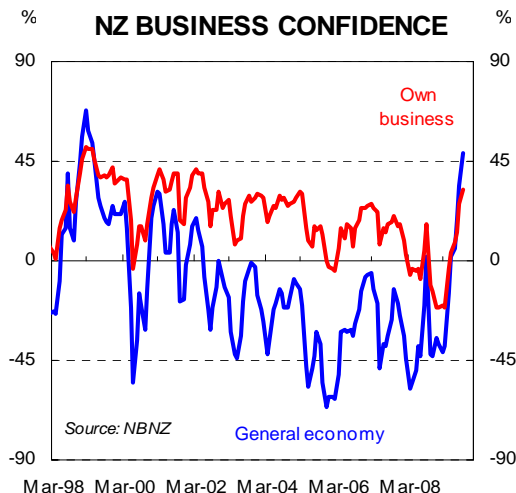
The headline confidence figures point to a strong rebound in economic growth next year, with the possibility of 4% plus annual growth. However, other components within the survey, particularly investment and employment intentions, have not mirrored the strength in the headline figure. The National Bank's composite growth indicator reflects this more muted recovery, consistent with growth in the vicinity of 2.5% instead.

Pricing intentions remain soft, falling over September with just net 8.9% expecting to increase prices over the next 12 months. Inflation pressure continues to weaken, dragged down by weak demand compounded by an appreciating exchange rate reducing imported prices. Soft inflation pressures will continue to weigh on the RBNZ as it begins to contemplate unwinding monetary stimulus through 2010.

**DWELLING CONSENTS & SALES**  
(per month, seasonally adjusted)



**NZ BUSINESS CONFIDENCE**



## Global Data Calendars

Note: Calendar 2 is in UK times. Add 12 hours for NZ times.

### Calendar – Australasia, Japan and China

Date	Time		Econ Event	Period	Unit	Last	Forecast	
	NZT						Market	ASB/CBA
Mon 5 Oct	~	AU	Labour Day (NSW, ACT, SA)					
	11.30	AU	CBA-AiGroup PSI	Sep	Index	48.0	~	~
	13.30	AU	ANZ Job ads	Sep	m%ch	4.1	~	~
Tue 6 Oct	10.00	NZ	NZIER bus. opinion survey	QIII	Index	-25.0	~	~
	13.30	AU	Trade balance	Aug	'000	-1,556	-900	-600
	16.30	AU	RBA cash target	Sep	%	3.0	3.0	3.0
Wed 7 Oct	11.30	AU	Ai Group PCI	Sep	Index	42.4	~	~
	13.30	AU	Value of all loans	Aug	m%ch	-1.7	0.0	-1.0
	13.30	AU	No. of own-occupiers	Aug	m%ch	-2.0	~	-1.5
	18.00	JP	Leading index CI	Aug	Index	82.5	~	~
	18.00	JP	Coincident index CI	Aug	Index	89.8	~	~
Thu 8 Oct	12.50	JP	Current account total	Aug	¥bn	1,266	~	~
	12.50	JP	Adjusted current account total	Aug	¥bn	1,159	~	~
	12.50	JP	Trade balance – BOP basis	Aug	¥bn	437	~	~
	13.30	AU	Employment change	Aug	'000	-27.1	-10.0	-10.0
	13.30	AU	Unemployment rate	Aug	%	5.8	6.0	5.9
	13.30	AU	Participation rate	Aug	%	65.1	65.1	65.2
	18.00	JP	Eco watchers survey: current	Sep	Index	41.7	~	~
	18.00	JP	Eco watchers survey: outlook	Sep	Index	44.0	~	~
	19.00	JP	Machine tool orders	Sep	y%ch	-71.5	~	~
Fri 9 Oct	10.45	NZ	Card spending	Sep	m%ch	0.2	~	~
	12.50	JP	Machine orders	Aug	m%ch	-9.3	~	~
					y%ch	-34.8	~	~
	16.35	AU	Treasury Secretary Henry speaks to Senate Committee in Sydney					



## 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 5 Oct	08.55	GE PMI services	Sep	Index	52.2	~	~
	09.00	EZ PMI services	Sep	Index	50.6	~	~
	09.30	EZ Sentix investor confidence	Oct	Index	-14.6	~	~
	09.30	UK PMI services	Sep	Index	54.1	~	~
	10.00	EZ Retail sales	Aug	m%ch y%ch	-0.2 -1.8	~ ~	~ ~
	15.00	US ISM non-manufact. composite	Sep	Index	48.4	50.0	~
Tue 6 Oct	~	UK New car registrations	Sep	y%ch	6.0	~	~
	~	UK NIESR GDP estimate	Sep	%	0.2	~	~
	09.30	UK Industrial production	Aug	y%ch	-9.3	~	~
	13.30	CA Building permits	Aug	m%ch	-11.4	~	~
	15.00	CA Ivey PMI	Sep	Index	55.7	~	~
Wed 7 Oct	00.01	UK Nationwide cons. confidence	Sep	Index	63.0	~	~
	10.00	EZ GDP	QII	q%ch	-0.1	~	~
	11.00	GE Factory orders	Aug	y%ch	-19.8	~	~
	20.00	US Consumer credit	Aug	\$bn	-21.6	-9.0	~
Thu 8 Oct	11.00	GE Industrial production	Aug	y%ch	-17.0	~	~
	12.00	UK BOE announces rates	Oct	%	0.5	0.5	0.5
	12.00	UK BOE asset purchase target	Oct	£bn	175	175	~
	12.45	EZ ECB announces interest rates	Oct	%	1.0	1.0	1.0
	13.15	CA Housing starts	Sep	'000	150.5	~	~
	15.00	US Wholesale inventories	Aug	%	-1.4	-1.0	~
Fri 9 Oct	07.00	GE Current account (EURO)	Aug	€bn	11.0	~	~
	07.00	GE Trade balance	Aug	€bn	13.9	~	~
	07.00	GE CPI	Sep	m%ch	-0.4	~	~
	09.30	UK Total trade balance	Aug	£mn	2,447	~	~
	12.00	CA Unemployment rate	Sep	%	8.7	~	~
	12.00	CA Net change in employment	Sep	'000	27.1	~	~
	13.30	US Trade balance	Aug	\$bn	-32.0	-32.9	~
	15.30	CA Business outlook future sales	QIII	Index	38.0	~	~

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