

Business Weekly

Optimism intact both here and abroad.

This Week

Q1's Quarterly Survey of Business Opinion (QSBO) indicated NZ's economic recovery is continuing on its cautious way. Respondents' expectations of activity continue to gradually firm though, less positively, businesses' experienced activity and profitability for Q1 underwhelmed the expectations firms had for that quarter when surveyed late last year. Admittedly, Q4 saw the same disconnect between expectations and reality evident in the Q1 survey results, yet still registered respectable GDP growth of 0.8%. Despite the continued gap between expectations and reality the results still suggest ongoing recovery, with investment and employment intentions now tracking above the survey's historical average. Moreover, plant and machinery investment intentions were quite robust and lifted further, suggesting Q4's GDP lift in actual investment will be sustained into early 2010. The inflation-related components continue to show recovery towards more normal price/cost pressures, signalling that inflation pressure will return in the medium term.

With the QSBO survey out of the way the attention quickly goes back offshore. Tuesday afternoon's RBA guessing game is the more interesting release. A 'hawkish' interview from the RBA Governor galvanised rate hike expectations, but data last week in Australia were on the soft side. Our CBA colleagues' view remains that the RBA will wait until May. However, the RBA has done a good job this year of wrong-footing economists, financial journalists and Centrebet, so hike won't be an extreme shock. Market pricing for the RBA moving in April implies a 2 in 3 probability of a 25bp move, which actually suggests that no increase would provoke the bigger reaction. Australia will also take the headlines on Thursday, with the release of the March employment report. The survey is volatile from month to month, but has generally showed stronger than expected growth in either jobs or hours worked. CBA expects a 20k lift in employment in March.

Wednesday morning NZT will also see the release of the Fed's minutes for the March 16 meeting. The March statement changed little from the preceding ones, including the phrasing that rates would remain on hold for an "extended period". The minutes should likewise cause few ripples. However, over the next few months there will be growing speculation that the Fed will soon alter that phrase, particularly with the US employment market starting to recover. March Non-farm Payrolls increased by 162k and previous months were also revised up. The figure was aided by temporary hiring for the US Census and probably some catch-up from "Snowmageddon" in February. Nevertheless, it looks like the US economy is back to generating jobs growth, though not enough yet to reduce unemployment. Also a positive, the ISM manufacturing index was strong over March and the service-sector equivalent hit its highest level in nearly 4 years. All these events point to the US economic recovery continuing in the short term.

Click here for:

[Foreign Exchange](#)

- NZD lifts on the JPY, but eases on other cross rates.

[Interest Rates](#)

- Local rates little changed. US long-term rates on the rise.

[Week Ahead](#)

- A clean data slate after today's Business Survey from NZIER.

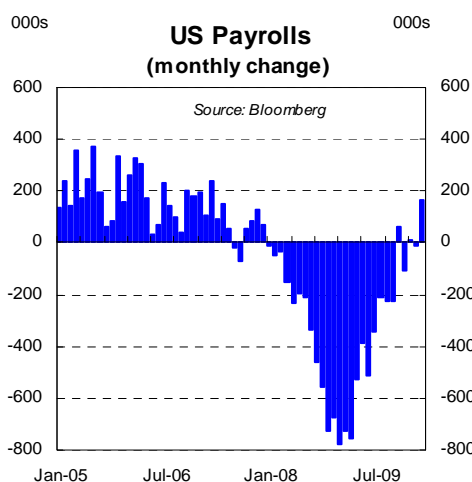
[Week in Review](#)

- Business confidence grinding higher. Credit growth remains weak.

[Global Calendars](#)

- FOMC minutes, Bank of England, Bank of Japan and ECB rate decisions all due.

Chart of the week



- The economic data from the US last week were largely positive. The biggest release came on Friday with the release of the March Non-farm Payrolls report.
- The unemployment rate was steady at 9.7%. Non-farm Payrolls increased by 162K over the month. An upward revision to the previous month's report left the overall labour market situation in-line with expectations.
- The government hired 48k Census workers during the month. Hiring at the Census Bureau will impact payrolls figures over the next 3-6 months. Private payrolls increased 123K which was the largest gain since May 2007.
- The US labour market is recovering, with a gain in jobs recorded in three of the past five months.

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	0.7041	0.7102	0.6869	0.7329	0.5939	FLAT	0.6950	0.7150
NZD/AUD	0.7646	0.7724	0.7626	0.8294	0.8265	FLAT	0.7600	0.7800
NZD/JPY	66.46	65.45	61.29	65.29	59.88	FLAT	65.00	67.00
NZD/EUR	0.5220	0.5264	0.5054	0.4983	0.4379	FLAT	51.80	52.80
NZD/GBP	0.4602	0.4734	0.4566	0.4588	0.3976	FLAT	0.4550	0.4750
TWI	65.5	66.0	63.7	66.4	58.8	FLAT	64.5	66.50

^Weekly support and resistance levels * Current is as at 11.00 am Monday; week ago as at Monday 5pm

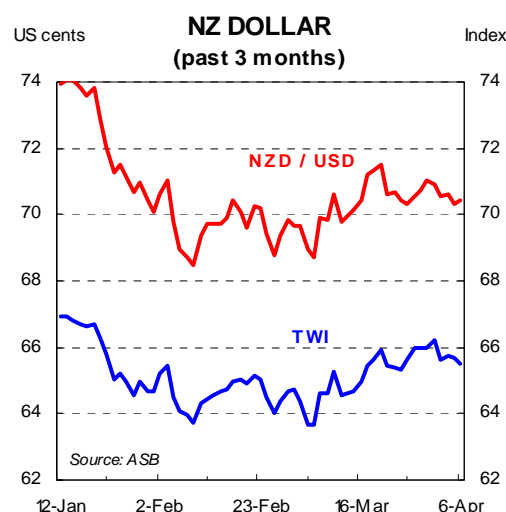
- The NZD has been range trading over the past week, and generally drifting down on all cross rates monitored apart from the JPY. The NZD ground higher against the JPY through March, and the upward move has continued into early April.
- This week, the NZD has showed little in the way of reaction to the release of the NZIER's Quarterly Survey of Business Opinion (Tuesday 6th). With the only local data release out of the way, the focus shifts offshore for the rest of the week.
- A rate hike from the RBA would maintain the downward pressure the NZDAUD cross has been under recently, although the NZD has found support over the past month each time the cross dips below 0.765. No change from the RBA will likely leave the NZD trading in its recent 0.76 to 0.78 range.
- The USD lifted over the thin holiday trading period, supported by firm economic data. The USD should find further support as markets respond to the data, after returning from the long weekend. The March FOMC minutes are likely to reinforce the Fed's view that the economy is recovering. Any further guidance on exit strategies would be welcomed by the market and result in the USD firming.

Short-term outlook:

Key data	Date	Time (NZST)	Market expects
RBA Cash Rate Announcement	6/4	4.30 pm	4.00%
AU Employment Report	8/4	1.30 pm	+20K

Potential currency movers from offshore this week: FOMC minutes, EU, UP Services PMI, EU GDP (7th) EU Retail Sales, Bank of England, ECB rate decisions (8th) US Wholesale Inventories, China Trade balance (9th).

Speeches: The Fed's Dudley, Bernanke, Hoenig (8th).



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

- We expect the NZD to remain relatively steady over the first half of 2010.
- Further upside to the NZDUSD over the next few months is likely to be limited, as the USD has started to strengthen reflecting improving economic data.
- Another influence capping the NZD has been China's recent attempt to combat inflation pressures. Attempts to slow China have raised concerns on the strength of the global recovery, and the cracks appearing in China's commercial property sector are of some concern.
- In addition, the pace of economic recovery in the Eurozone has slowed. Nervousness surrounding the sustainability of government debt levels have put pressure on the euro, which has flowed through to weaken the Antipodean currencies.
- We expect the RBNZ to first increase the OCR in June and expect the pace of increase to be gradual, reducing the scope for interest rate driven out-performance.

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	2.50	3.00	FLAT
90-day bank bill	2.67	2.67	2.69	2.78	3.20	FLAT
2-year swap	4.32	4.35	4.13	4.33	3.96	FLAT**
5-year swap	5.30	5.31	5.11	5.49	5.09	FLAT**
5-year benchmark gov't stock	5.20	5.26	5.00	4.90	4.49	UP
NZSX 50	3296	3250	3215	3152	2634	FLAT

* Current is as at 11.30am Monday; week ago as at Monday 5pm. Please note that we have recently changed the NZ govt 5-year benchmark bond to April 2015 maturity (from April 2013). This does cause some distortion in the comparison against the previous levels (i.e. month ago).

** Our outlook for NZ rates this week is flat, but if the RBA lifts the Cash Rate at 4.30pm Tuesday, it will have an upward influence on NZ rates.

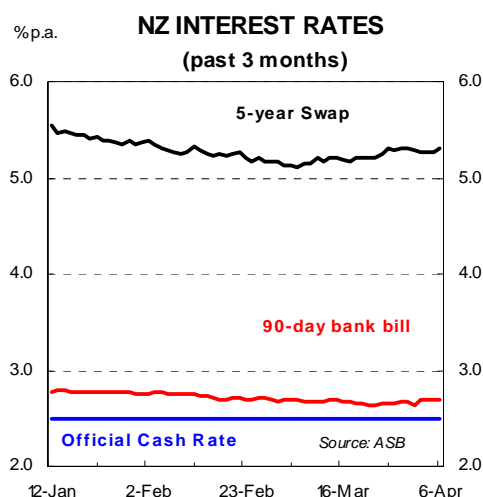
- NZ rates were relatively quiet heading into Easter, with little in the way of local data to drive sentiment. However, following Easter interest rates were dragged higher, particularly at the longer end, by the increase in US rates.
- US interest rates lifted over the long weekend on stronger data (in particular stronger than expected employment growth and manufacturing activity indicators). In addition, focus on US government debt issuance is adding to the upward momentum in rates. Recent Treasury auctions have been poorly received, indicating some indigestion in the market following large issuances.
- Australian interest rates bucked the trend, weighed down by soggy data last week (in particular the sharp decline in retail trade), dampening RBA rate hike expectations. It's expected to be a close call this afternoon, with the market pricing in a 65% chance of a rate hike today.

Short-term outlook:

Key data	Date	Time (NZST)	Market expects
RBA Cash Rate Announcement	6/4	4.30 pm	4.00%
AU Employment Report	8/4	1.30 pm	+20K

Comment: With no NZ data out this week, offshore events are likely to drive the direction of markets this week. The RBA cash rate decision this afternoon will be key, with market slightly favouring a hike today. Australian employment growth will also be closely watched.

The RBNZ are expected to remain on hold in April. However, there is growing divide in opinion whether the first hike will be in June or later. Q1 CPI (due 20th of April) will be a crucial factor in the RBNZ's decision.



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

- The RBNZ held its cash rate at 2.5% at the March MPS, and continued to point to the “middle of 2010” as to when the tightening in monetary policy will commence. However, there was no further indication of whether the OCR will be increased in the June or July meeting.
- Although the RBNZ left its near-term projection for the 90-day interest rate unchanged, there was a downward revision in its medium-term 90-day track in recognition that current bank funding costs were likely to persist (see our discussion on the first page). This supports our expectations that OCR increases will be in 25 basis point increments over the tightening cycle this year.
- While the RBNZ has revised up its inflation forecasts, largely reflecting higher ACC levies, we believe there remains upside risks to inflation particularly in the near term. The continued increase in petrol prices in recent months will underpin tradable inflation, while the continued rise in pricing intentions in the construction sector point to a rebound in construction costs and hence non-tradable inflation over 2010. With 2 year-ahead inflation expectations already elevated at 2.7%, there is little room for further upside inflation surprises. Implementation of the Emissions Trading Scheme, which the RBNZ has not explicitly included, will push inflation close to 3%.
- In contrast, activity data have been soft. In particular, momentum in housing market activity is waning with housing sales at low levels and days to sell starting to increase. We expect uncertainty over changes to tax policy regarding property investment will weigh on the housing market over 2010. Meanwhile, the recovery in household spending remains very subdued, particularly in the areas of discretionary spending.
- The weak activity data reduce the urgency for the RBNZ to unwind stimulus. Nonetheless, with signs that inflation pressures will build up later this year we expect the RBNZ will begin tightening with a 25 basis point OCR increase in June, and follow this up with further 25 basis point increases in the subsequent meetings.

NZ Data Review: weekly recap

February Building Consents

Total dwelling consent issuance increased 5.9% in February, but still remains at relatively low levels indicating the recovery in construction activity is slow. Positive migration flows, and the spring pick-up in the housing market failed to spark a significant pick-up in building consent issuance. Instead, the slowdown observed in the property market over recent months may be holding back building intentions.

Non residential consent issuance has been muted so far for 2010. Public projects continue to be the area of strength for non-residential consents, while projects driven by businesses remain patchy. For example, the value of factory and industrial building consent issuance is down \$29 million compared to year-ago levels, while education building consents are up \$31 million.

Public project activity should remain robust this year, offsetting private business projects which will likely remain subdued as businesses continue to show some caution in early 2010.

We expect overall building activity will pick up over 2010, having been in retreat for much of the preceding 2 years as housing construction shrank. We expect housing construction will recover to a degree over 2010 and provide a boost to GDP growth.

February Credit Aggregates

Credit growth remains very subdued, with household credit growth rising just 0.1% on a seasonally adjusted basis in February. Lending secured against housing, while up 3.2% on year-ago levels, appears to be losing momentum, consistent with the slowdown in the housing market seen in February.

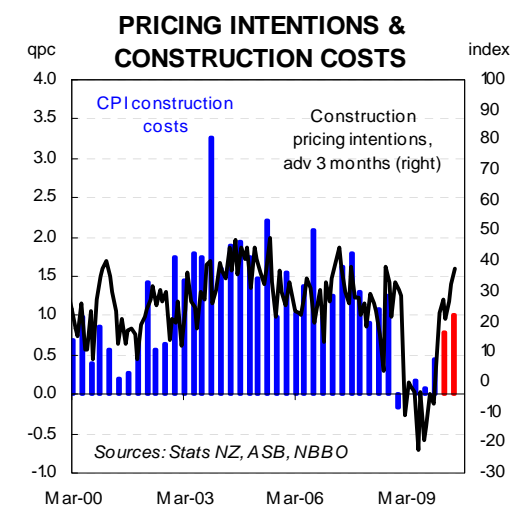
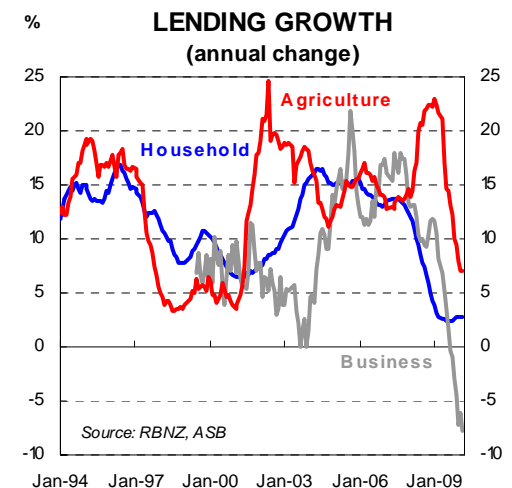
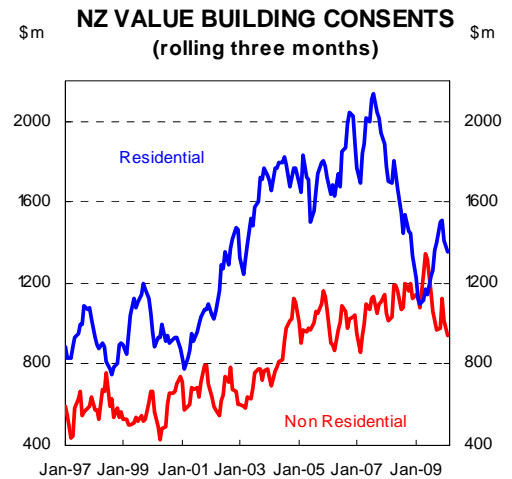
Consumer credit also remains very weak, down 4% on year-ago levels. Although consumer confidence has improved off low levels, underlying demand remains muted by rising unemployment and weak wage growth.

Meanwhile, business credit growth remains very weak, with lending slipping to be down 7.8% on year-ago levels. The ongoing weakness in business credit contrasts with the recent improvement in business confidence and pick-up in investment spending evident in the Q4 national accounts.

National Bank Business Confidence – March 2010.

The NBBO showed an easing in both headline business confidence and own activity expectations in March, but sentiment remains at higher levels than in December last year. Some caution remains amongst businesses regarding expansion plans, with employment intentions dipping accordingly. However, there was again some improvement in investment intentions and, as can be seen from the recent Q4 GDP data, this lift has begun to flow through to business investment in plant and machinery.

Despite the easing in activity, inflation pressures remain in the economy with pricing intentions and inflation expectations remaining at February's high levels. Worryingly, pricing intentions in the construction sector continue to climb, suggesting a sharp rebound in construction cost inflation over the coming year. We expect this will be a key driver of non-tradable inflation and, combined with the administrative inflation expected to come through in the second half of 2010, will leave the RBNZ with little inflation breathing space.



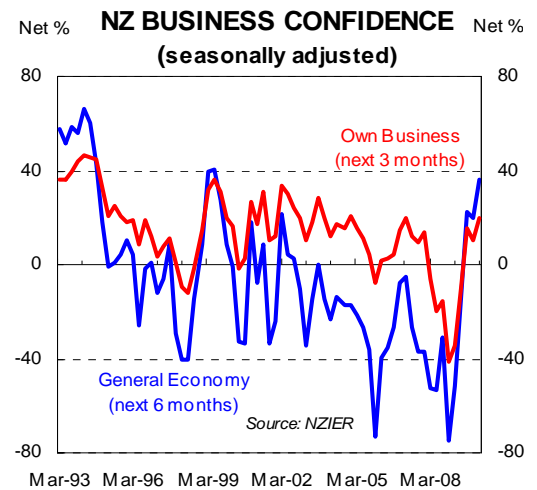
NZIER Quarterly Survey of Business Opinion – Q1 2010.

The improvement in business confidence in the Q1 QSBO was encouraging, and indicated the economic recovery remains on track. Despite the small decline in businesses' experienced own trading activity and profitability, businesses generally still feel confident enough about trading conditions ahead to continue to plan for an expansion of operations.

In particular, firms' intentions to invest in plant and machinery continue to improve. This is all the more encouraging in light of the rebound in actual plant and machinery investment we observed in the recent Q4 GDP data. Furthermore, hiring intentions continue to improve, pointing to a recovery in employment over 2010. Against this backdrop, there are tentative signs of an emerging shortage of both skilled and unskilled workers. The recent migration data showing departures to Australia increasing over the past few months - in light of the rebound in its minerals sector - may underpin this upward trend in skills shortages in NZ over the coming year.

Robust growth in the Australian economy and the low NZD/AUD have boosted manufacturers' export sales, thus offsetting the decline in domestic sales in the manufacturing sector.

The small dip in capacity utilisation would be of some relief for the RBNZ, to the extent it does not suggest an acceleration of inflation pressures. While the QSBO capacity utilisation measure has been volatile over the past few quarters, overall the upward trend looks to have slowed. Nonetheless, with pricing intentions continuing to tick up the RBNZ will need to remain vigilant about inflation pressures building up in the economy over the year ahead.



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
Tue 6 Apr	13.30	AU	ANZ job advertisements	Mar	m%ch	19.1	~	~
	16.00	JP	BoJ monetary policy meeting	Apr	~	~	~	~
	16.30	AU	RBA cash target	Apr	%	4.0	4.0	4.0
	17.00	JP	Leading index CI	Feb	Index	96.7	~	~
	17.00	JP	Coincident index CI	Feb	Index	100.1	~	~
Wed 7 Apr	~	JP	BoJ target rate	Apr	%	0.1	~	0.1
	10.30	AU	CBA-Ai Group performance of service index	Mar	Index	48.3	~	~
Thu 8 Apr	~	JP	Eco watchers survey: current	Mar	Index	42.1	~	~
	~	JP	Eco watchers survey: outlook	Mar	Index	44.8	~	~
	11.50	JP	Current account total	Feb	¥bn	900	~	~
	11.50	JP	Adjusted current account total	Feb	¥bn	1,713	~	~
	11.50	JP	Trade balance (BoP basis)	Feb	¥bn	197	~	~
	11.50	JP	Machine orders	Mar	m%ch y%ch	-3.7 -1.1	~ ~	~ ~
	13.30	AU	Employment change	Feb	'000	0.4	~	20.0
	13.30	AU	Unemployment rate	Feb	%	5.3	~	5.4
	13.30	AU	Participation rate	Feb	%	65.2	~	65.2
	18.00	JP	Machine Tool Orders	Mar	y%ch	217	~	~
Fri 9 Apr	11.30	AU	Ai Group performance of construction index	Mar	Index	52.8	~	~
	14.00	CH	Entrepreneur confidence index	QI	Index	127	~	~
	14.00	CH	Business climate index	QI	Index	131	~	~

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
Tue 6 Apr	09.30	UK	PMI construction	Mar	Index	48.5	~	~
	09.30	UK	BoE housing equity withdrawal	QIV	£bn	-4.9	~	~
	19.00	US	Minutes of FOMC meeting					
Wed 7 Apr	00.01	UK	Nationwide consumer confidence	Mar	Index	80.0	~	~
	08.55	GE	PMI services	Mar	Index	54.7	~	~
	09.00	EZ	PMI services	Mar	Index	51.8	~	53.7
	09.30	UK	PMI services	Mar	Index	58.4	~	56.5
	10.00	EZ	GDP	QIV	m%ch	0.1	~	~
					y%ch	-2.1	~	~
	10.00	EZ	PPI	Feb	m%ch	0.7	~	~
	11.00	GE	Factory orders	Feb	m%ch	4.3	~	~
	13.30	CA	Building permits	Feb	m%ch	-4.9	1.7	~
	15.00	CA	Ivey purchasing managers index	Mar	Index	51.9	53.0	~
Thu 8 Apr	20.00	US	Consumer credit	Feb	\$bn	5.0	1.3	~
	~	UK	NIESR GDP estimate	Mar	m%ch	0.3	~	~
	09.30	UK	Industrial production	Feb	m%ch	-0.4	~	~
					y%ch	-1.5	~	~
	10.00	EZ	Retail sales	Feb	m%ch	-0.5	~	-1.0
					y%ch	-1.4	~	~
	11.00	GE	Industrial production	Feb	m%ch	0.6	~	~
	12.00	UK	BOE announces rates	Apr	%	0.5	0.5	0.5
12.45	EZ	ECB announces interest rates	Apr	%	1.0	1.0	1.0	
Fri 9 Apr	13.00	US	Initial jobless and continuing claims					
	07.00	GE	Trade balance	Feb	€bn	8.0	~	~
	09.30	UK	PPI output	Mar	m%ch	0.3	~	~
	12.00	CA	Net change in employment	Mar	'000	20.9	25.0	~
	12.00	CA	Unemployment rate	Mar	%	8.2	8.1	~
	15.00	US	Wholesale Inventories	Feb	m%ch	-0.2	0.4	1.5

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