

Business Weekly

The aftermath of the earthquake

This Week

Saturday's Canterbury earthquake has hugely affected thousands of people. Many of us around the country have family and friends in Canterbury and are counting our blessings that the human toll has been so light.

As economists, we are also thinking about – and being asked – what the earthquake may mean for the economy and financial markets. It will take some time to get a clear picture of the economic impact: it is still very early after the earthquake, and the scale of the damage is large yet uncertain. We have written an [Economic Note](#) outlining key influences on both the short-term disruption and the longer-term boost from reconstruction.

The Canterbury economy will face a period of short-term disruption until the vast majority of businesses can resume more normal operations. Overseas experiences suggest national GDP growth could be weak in Q3, instead of robust in the led-up to GST. However, reconstruction activity will subsequently boost GDP, potentially by 1.5 percentage points.

Some of this activity will cause pockets of inflation, but we expect the RBNZ will look through these impacts and if anything keep interest rate support in place for longer. Increasingly the RBNZ is unlikely to lift interest rates until early next year.

The earthquake's destruction is a large wealth hit, with early estimates of \$2 billion. However, much of the wealth shock will be borne by the Earthquake Commission, insurance companies and the public sector. Consequently, the long-term spending plans of private individuals and firms are unlikely to be materially impacted by adverse wealth effects.

So far the NZ market reaction on Monday morning has been modest and reasonable. The NZD edged down around 20 points to USD0.7190 from its US close, but has since lifted back above 0.72. Short-term swap rates declined around 5bp in anticipation of the RBNZ being on hold for longer. In contrast, long-term government bond yields rose around 10bp, in part following US yields higher but also with an eye on the Earthquake Commission's and Government's potential to increase the supply of traded bonds. Equities have generally been flat with the exception of those stocks likely to be noticeably affected (positively or negatively).

ASB customers can find information about available Canterbury banking facilities and making insurance claims [here](#), and the ASB Customer Financial Help Team can be reached at 0800 272735. For those who would like to make a donation to the Red Cross, the Canterbury Earthquake Appeal 2010 account number is 12-3192-0015998-01.

Click here for:

[Foreign Exchange](#)

- NZD makes gains on USD & GBP, mixed, but little changed on other cross rates.

[Interest Rates](#)

- Market continues to price a pause from the RBNZ at the September MPS.

[Week Ahead](#)

- Q2 Survey of Manufacturing, Building Work Put in Place & Terms of Trade.

[Week in Review](#)

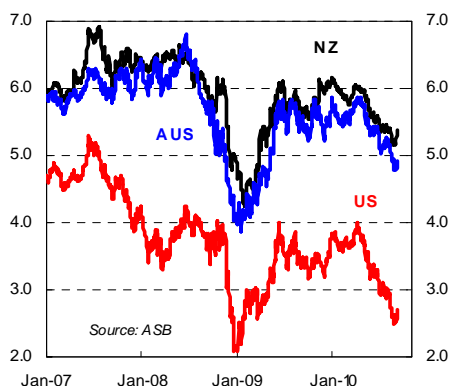
- NBNZ Business Outlook, RBNZ Credit Aggregates, Building Consents.

[Global Calendars](#)

- Fed's Beige Book, Bank of Canada & Bank of England rate announcements

Chart of the week

GOVERNMENT BOND YIELDS
(10-year generic bond yields)



- Long-term government bond yields have fallen back to very low levels in recent months, but ticked up both here and abroad last week. 10-year government bond yields rose 20 basis points in the US, 11 basis points in Australia and 25 basis points in New Zealand when compared with the opening levels last week.
- Some of the NZ movement which occurred since Friday's close reflects domestic developments. NZ Government bond yields rose this morning in expectation of the selling of bond positions by Earthquake Commission (who own significant bond holdings) to fund the payouts to affected households.
- However, most of the movement reflects the global pattern, where yields are rising off recent lows. Double-dip recession fears have driven bond yields back down to levels last seen in the midst of the global financial crisis. As these fears subside, we expect bond yields to continue to lift.

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	0.7188	0.7099	0.7272	0.6993	0.6800	FLAT/UP	0.6950	0.7250
NZD/AUD	0.7856	0.7900	0.7948	0.7677	0.8092	FLAT/DOWN	0.7850	0.8000
NZD/JPY	60.69	60.60	62.61	63.22	62.95	UP	60.00	62.00
NZD/EUR	0.5578	0.5575	0.5515	0.5112	0.4769	FLAT	0.5500	0.5650
NZD/GBP	0.4652	0.4571	0.4579	0.4610	0.4163	FLAT	0.4500	0.4650
TWI	66.7	66.5	67.1	64.6	63.1	FLAT/UP	65.50	67.00

^Weekly support and resistance levels * Current is as at 11.10 am Monday; week ago as at Monday 5pm

- The preceding week's pattern of trade was repeated late last week as the euro and commodity currencies, including the NZD, rose against the greenback as investors moved away from safe-haven assets. The catalyst for the move was a much better than expected report on US employment. US Non-Farm Payrolls (employment) fell by 54,000 in August, far better than expectations for a 110,000 decline in jobs.
- The AUD lifted to USD 0.9175, ending US trade for last week near the day's highs, and the NZD rose to trade over USD 0.7200 in New York. Although we expect a pause at the policy announcement on Tuesday, we expect the RBA to sound upbeat about the Australian economy and have a 'tightening bias'. As a result, we see upside risks to the AUD this week.
- The earthquake has the potential to be NZD negative, but at this stage there appears to be little reaction to the news. This morning both the NZD and AUD slipped a notch initially. NZD opened down 25pts this morning but lifted back above USD0.72. We expect there will be support around USD 0.7175.
- The JPY is little changed against the NZD compared to a week ago, but the NZD dipped to 59 JPY in the middle of last week. The JPY strengthened against the USD over the week, and remains around high levels not seen since the mid-1990s. The Bank of Japan's (BoJ) policy meeting this week is likely to be a 'non-event'. There is a small risk that the BoJ intervenes in the currency market to stem the strength of the yen. However, we think intervention is unlikely at this stage. We expect AUD/JPY to remain in a 75-80 yen range this week.

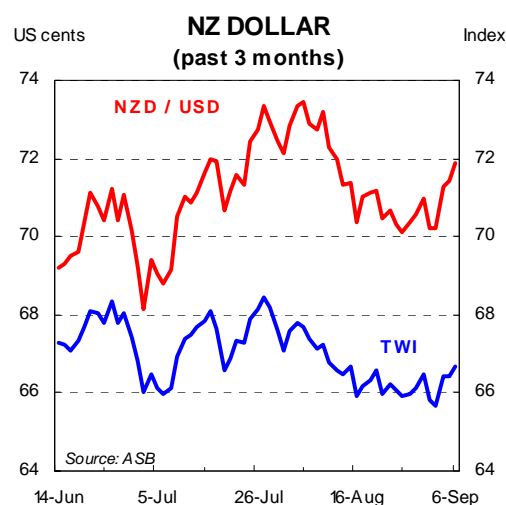
Short-term outlook:

Key data	Date	Time (NZST)	Market expects
Q2 Economic Survey of Manufacturing	8/9	10.45am	-
Q2 Building Work Put in Place	8/9	10.45am	-
Q2 Terms of Trade	10/9	10.45am	-

Potential currency movers from offshore this week: US Fed's Beige Book, consumer credit UK, GE Industrial Production, Bank of Canada Rate Decision (8th); US Trade Balance, jobless claims, Bank of England rate announcement (9th).

Speakers: Fed's Kocherlakota (8th).

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



- Our late 2010/early 2011 outlook for the NZD has been revised up recently, reflecting a number of factors. Nonetheless, we continue to expect the NZD will trend slightly lower over the next year.
- Contributing to the revision is our weaker view on the US dollar. The weakness in the US dollar now appears less transient than initially thought. The US economy has lost some of the momentum that it demonstrated in the early part of 2010. As a result, we have pushed out the timing of the first Fed Funds rate hike from the end of 2010 to mid-2011. US bond yields have declined to unattractive levels which will likely to weigh on investor appetite to hold US dollar dominated assets.
- The NZ dollar has held up relatively well despite the weaker run of domestic data, in part due to the US dollar weakness. However, adding to our view of a resilient NZ dollar is the likelihood that market has under-priced further RBNZ rate hikes. The 12 month OIS market has less than 40 basis points of rate hikes priced in. However, we believe the RBNZ will deliver more than 50 basis points of rate hikes over the next twelve months, and our NZD forecasts reflect that likelihood.
- Question marks are being raised about the momentum of New Zealand's economy. In contrast, the Australian economy is performing better. The likely pause in the RBNZ tightening cycle will leave the bulk of the New Zealand yield curve below the Australian yield curve for longer than previously forecast. This has led us to revise lower our NZD/AUD forecasts, with the NZD recovering against the AUD at a more gradual pace over the next year.

Interest Rate Market

Wholesale interest rates	Current	Week ago	Month ago	6 mths ago	Year ago	ST Bias
Cash rate	3.00	3.00	3.00	2.50	2.50	FLAT
90-day bank bill	3.20	3.26	3.29	2.67	2.74	FLAT
2-year swap	3.82	3.82	4.01	4.17	4.11	UP
5-year swap	4.49	4.32	4.63	5.15	5.39	UP
5-year benchmark gov't stock	4.61	4.46	4.63	5.04	4.87	UP
NZSX 50	3126	3037	3045	3223	3098	FLAT

* Current is as at 11.10 am 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.6 months ago).

- The domestic yield curve steepened over the week. Short-term interest rates edged steadily lower last week, and the Canterbury earthquake early Saturday morning added to the downward pressure today. Market pricing of an OCR increase for the September meeting is back to around 15%. In contrast, Government bond yields spiked following the earthquake, with the 10-year yield increasing around 10bp today, boosted by offshore movements and the expected liquidation of bond positions by Earthquake Commission Fund to fund the payouts to affected households.
- Australian interest rates rebounded from the lows reached last Monday. In addition to taking its cues from the higher US interest rates, stronger than expected Australian GDP also provided a boost, with markets no longer pricing any chance of a rate decrease from the RBA.
- US interest rates rebounded late last week with the stronger than expected Non-Farm Payrolls on Friday night adding support. This saw 10-year government bond yields rising from 2.47% at the beginning of last week to 2.70%. The declines in US government bond yields in the previous week had seen the 10 year bond yields reach lows not seen since the midst of the Global Financial Crisis over late 2008 and early 2009.

Short-term outlook:

Key data	Date	Time (NZST)	Market expects
Q2 Economic Survey of Manufacturing	8/9	10.45am	-
Q2 Building Work Put in Place	8/9	10.45am	-
Q2 Terms of Trade	10/9	10.45am	-

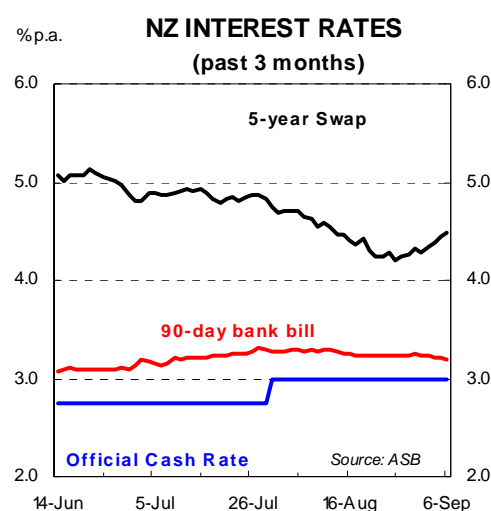
Comment: Data on the manufacturing and wholesale trade sectors will provide further insight into Q2 GDP. Q2 terms of trade data on Friday will be important in ascertaining the degree of export-led growth that is occurring in the NZ economy. House price and card transactions data for August are also released.

In Australia, market focus turns to the RBA rate announcement and employment data this week. Markets will be keen to see what the RBA makes of the recent stronger activity data. Meanwhile, the August employment data will reveal whether the weaker July result was just an anomaly.

Offshore, Bank of Canada announces their policy rate decision, with markets largely expecting a 25bp rate increase. The Fed release their Beige Book early Thursday morning.

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

- The RBNZ continued to remove monetary policy stimulus, with a second 25 basis point OCR increase in July. In addition, the RBNZ indicated it will look to continue to increase the OCR over the coming year as economic and financial market conditions allow.
- The RBNZ noted the outlook for economic growth had softened since its June forecasts. RBNZ noted the outlook for trading partner growth had deteriorated, commodity prices had moderated, and net migration was slowing.
- Reflecting the weaker growth outlook, the RBNZ stated that “the pace and extent of further OCR increases is likely to be more moderate than was projected in the June Statement.” The tone of the July statement brought into focus when and if the RBNZ will pause during the hiking cycle.
- More recently, the RBNZ has indicated it has revised down its inflation projection and now forecasts headline CPI to peak at or just under 5% by mid-2011. We expect Government charges will boost headline inflation to well over 5%, and pose upside risks to the RBNZ’s key assumption that medium-term inflation expectations will remain anchored.
- The earthquake has reinforced that the RBNZ will be on hold in September, we now expect the RBNZ will refrain from hiking until early 2011.



NZ Data Preview: a look at the week ahead

Data	Date	Time (NZST)	Previous	Market expects	ASB expects
Q2 Economic Survey of Manufacturing – qoq, real	8/9	10.45am	-2.7%	-	-
Q2 Building Work Put in Place – qoq, real s.a.	8/9	10.45am	-6.9%	-	-
Q2 Terms of Trade - qoq	10/9	10.45am	+5.8%	-	+7.8%
August Food Price Index - mom	13/9	10.45am	+1.6%	-	-

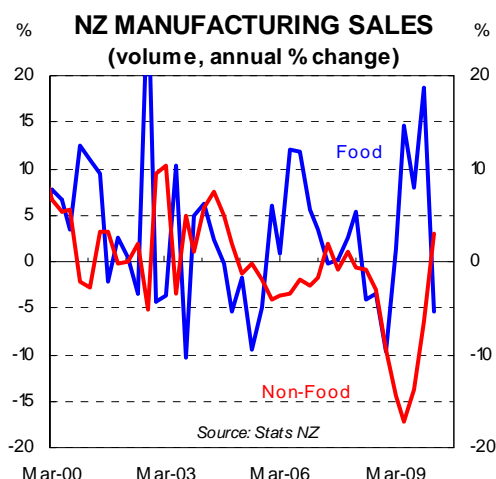
Wednesday 8 September

NZ Economic Survey of Manufacturing – QII 2010

Previous Volumes -2.7% qoq, Values +0.9%qoq

The previous quarter's manufacturing survey was very weak, with sales volumes down 2.7% qoq. However, most of this weakness was in agricultural production which can be volatile due to the weather. In contrast, non-food manufacturing sales increased 1.3%, suggesting core manufacturing demand remained strong. Indeed, non-primary manufacturing activity as measured in GDP increased very strongly over the quarter.

Over recent months, confidence in the manufacturing industry has started to ease, which suggests growth in core manufacturing may slower over Q2. In addition, we are not expecting a large bounce back in agricultural activity, as sheep slaughter has been very low.



Wednesday 8 September

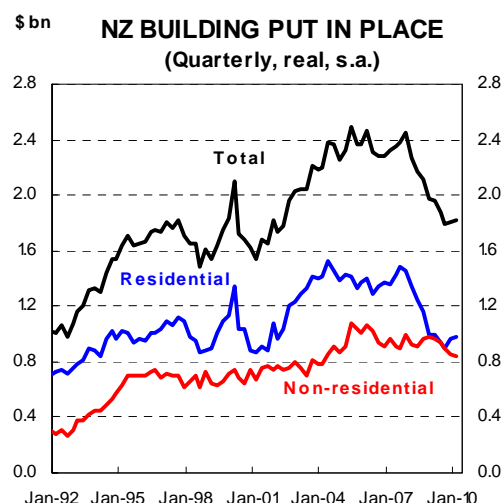
NZ Building Work Put In Place – QII 2010

Previous: Real value -6.9% qoq, S.A.

Construction activity was weak in the March quarter. Residential building work has recovered over the past three quarters including Q2's 2% increase, albeit not to quite the extent we had expected. There have been a number of issues that have been impacting residential property, including a subdued property market over 2010 and ongoing finance difficulties for builders due to the collapse of finance companies who provide development finance.

In non-residential activity, there tends to be a longer lag between consent issuance and construction activity. Non-residential consent issuance was patchy over 2009 and early 2010. Activity declined by 0.8% over Q1, which is the fifth consecutive quarterly decline.

We expect weak growth in the construction sector over Q2.



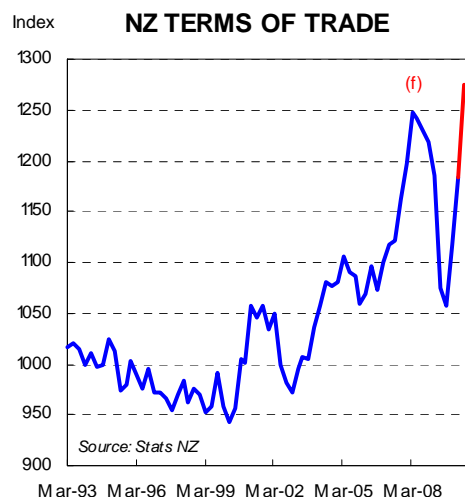
Friday 10 September

NZ Terms of Trade – Q2

Previous: +5.8% qoq, ASB (f): +7.8% qoq

We expect the Terms of Trade to increase by almost 8% over Q2, buoyed by a 6.8% increase in NZ export prices. Commodity export prices surged over 10% during the second quarter, underpinned by broad-based gains across many of NZ's export commodity prices, including dairy, meat and forestry. Meanwhile, we expect that import prices will fall 1%, mostly dragged lower by the stronger trade weighted NZ dollar index over the quarter.

The Q2 increase in the Terms of Trade may see it surpass June 2008 levels (the previous commodities boom) and bring the Terms of Trade to its highest level since 1974.



NZ Data Review: weekly recap

August NBNZ Business Outlook

The decline in business confidence continued in the August month, with headline business confidence falling to 16.4 (from 27.9 in the previous month) and businesses' assessment of own activity also declining to 25.7 (from 32.4 in the previous month). The declines are even starker given businesses typically become more confident in the months leading up to Christmas. It appears weak profitability is continuing to weigh on business confidence, with a smaller proportion of respondents indicating improving profitability.

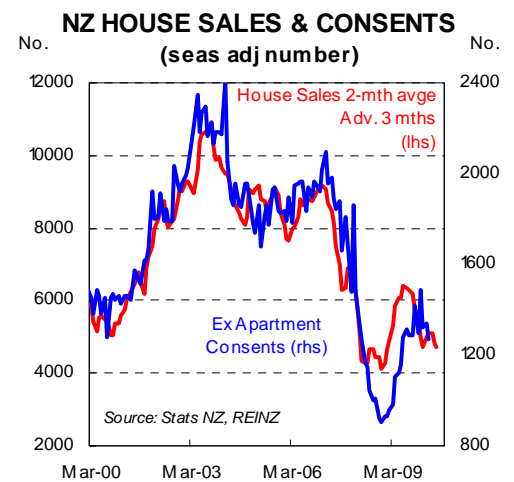
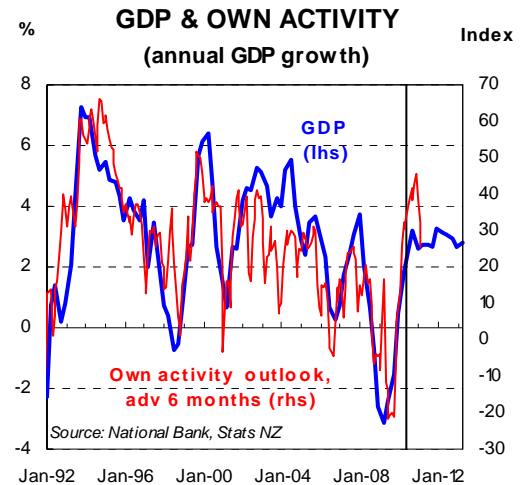
The subdued nature of business sentiment is reflected in continued caution amongst businesses in regards to their expansion plans, with investment and hiring intentions once again falling. While the level of intentions still point to businesses looking to invest and hire over the coming year, the fact that it is trending down is of some concern. Overall, the results still point to a recovery in the NZ economy taking place, just that it is occurring at a more gradual pace than initially expected.

July Building Consents

Building consent data for July were soft, with weakness continuing in both residential and non residential consents.

Residential consents were up a seasonally-adjusted 3.2% on the previous month, but were held up by a high number of apartment consents. Ex-apartment consents were down 5.3% in July compared with June. The number of residential consents issued each month appears to have started to trend down over recent months.

Non-residential consent issuance remains weak. July's \$293 million value was up on the previous two months' levels, but is down 21% on year-ago levels. The three month total value of non-residential consents is down 30% on the corresponding period in 2009. Social, cultural and religious buildings, and education buildings made the largest contribution to the value of consents issued, continuing the pattern of public spending offsetting some – but not all – of the weakness in private projects.



Global Data Calendars

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

Calendar - Australasia, Japan and China

Date	Time		Event	Period	Unit	Last	Forecast	
	NZT	Econ					Market	ASB/CBA
Mon 6 Sep	11.30	AU	Ai Group PCI	Aug	Index	43.3	~	~
	12.30	AU	TD securities inflation	Aug	m%ch	0.1	~	~
					y%ch	2.8	~	~
	13.30	AU	ANZ job advertisements	Aug	m%ch	1.3	~	~
16.00	JP	BoJ monetary policy meeting	Sep	~	~	~	~	
Tue 7 Sep	~	JP	BOJ target rate	Sep	%	0.1	0.1	~
	16.30	AU	RBA Cash Target	Sep	%	4.50	4.50	4.50
	17.00	JP	Leading index CI	Jul	Index	99.0	~	~
Wed 8 Sep	17.00	JP	Coincident index CI	Jul	Index	101.3	~	~
	10.45	NZ	Manufacturing activity	QII	%	0.9	~	~
	11.50	JP	Machine orders	Jul	m%ch	1.6	~	~
					y%ch	-2.2	~	~
	11.50	JP	Adjusted current account total	Jul	¥bn	1,362.0	~	~
	11.50	JP	Trade balance (BoP Basis)	Jul	¥bn	769.0	~	~
Thu 9 Sep	13.30	AU	No. of owner-occupiers	Jul	m%ch	-3.9	~	1.0
	13.30	AU	Value of all loans	Jul	m%ch	-0.3	~	1.0
	10.45	NZ	Card spending	Aug	m%ch	-0.1	~	~
	11.50	JP	BSI large all industry	QIII	q%ch	4.0	~	~
	11.50	JP	BSI large manufacturing	QIII	q%ch	10.0	~	~
	13.30	AU	Employment change	Aug	'000	23.5	~	20.0
	13.30	AU	Unemployment rate	Aug	%	5.3	~	5.3
	13.30	AU	Participation rate	Aug	%	65.5	~	65.5
Fri 10 Sep	17.00	JP	Consumer confidence	Aug	Index	43.4	~	~
	17.00	JP	Consumer confidence households	Aug	Index	43.3	~	~
	~	CH	Trade balance)	Aug	USDbn	28.7	25.0	~
	~	CH	Exports	Aug	y%ch	38.1	31.9	~
	~	CH	Imports	Aug	y%ch	22.7	26.2	~
	10.45	NZ	Terms of trade index	QII	q%ch	5.9	~	~
	11.50	JP	GDP	QII	q%ch	0.1	~	~
	11.50	JP	Nominal GDP	QII	q%ch	-0.9	~	~
	11.50	JP	GDP deflator	QII	y%ch	-1.8	~	~
	11.50	JP	Domestic CGPI	Aug	m%ch	-0.1	~	~
y%ch					-0.1	~	~	

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 Sep	~	UK	New car registrations	Aug	y%ch	-13.2	~	~
	09.30	EZ	Sentix investor confidence	Sep	Index	8.2	~	~
Tue 7 Sep	11.00	GE	Factory orders	Jul	m%ch	3.2	~	~
					y%ch	24.6	~	~
Wed 8 Sep	~	UK	NIESR GDP estimate	Aug	m%ch	0.9	~	~
	07.00	GE	Trade balance	Jul	€bn	14.1	12.0	~
	07.00	GE	Current account	Jul	€bn	12.	13.6	~
	09.30	UK	Industrial production	Jul	m%ch	-0.5	~	~
					y%ch	1.3	~	~
	11.00	GE	Industrial production	Jul	m%ch	-0.6	~	~
					y%h	10.9	~	~
	14.0	CA	Bank of Canada Rate	Sep	%	0.75	1.00	~
	15.00	CA	Ivey purchasing managers index	Aug	Index	54.0	56.0	~
	19.00	US	Fed's Beige book	~	~	~	~	~
20.00	US	Consumer credit	Jul	\$bn	-1.3	-5.5	~	
Thu 9 Sep	07.00	GE	CPI - EU harmonised	Aug	m%ch	0.0	~	~
					y%ch	0.9	~	~
	12.00	UK	BOE Announces Rates	Sep	%	0.5	0.5	~
	13.15	CA	Housing starts	Aug	'000	189.1	~	~
	13.30	CA	New housing price index	Aug	m%ch	0.1	~	~
	13.30	CA	International merchandise trade	Aug	C\$bn	-1.1	~	~
	13.30	US	Trade balance	Jul	\$bn	-49.9	~	~
Fri 10 Sep	09.30	UK	PPI input NSA	Aug	m%ch	-1.0	~	~
					y%ch	10.8	~	~
	09.30	UK	PPI output NSA	Aug	m%ch	0.1	~	~
					y%ch	5.0	~	~
	09.30	UK	PPI output core NSA	Aug	m%ch	0.2	~	~
					y%ch	4.7	~	~
12.00	CA	Unemployment rate	Aug	%	8.0	~	~	
15.00	US	Wholesale inventories	Jul	%	0.1	0.4	~	

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