

# Business Weekly

## Differing outlooks

### This Week

Following policy rate announcements from central banks globally last week, it is the turn of our central bank this week with the release of the Monetary Policy Statement on Thursday. While market consensus is for no change in the OCR, the key focus will be on the tone of the statement. Recent developments have generally reduced the upside risks to the economic outlook since the last set of forecasts were published in December.

In particular, housing market activity looks to be losing momentum with a fall in house sales, rebound in days to sell and signs that more listings are coming on board. Added to that, our own survey of housing confidence shows a slight softening in positive sentiment. The recent increase in mortgage rates and expectations of further rate increases in the near future is likely to be contributing to cooler demand. Furthermore, there is uncertainty over the Government's intentions towards changing the tax treatment for housing investment. These developments are expected to weigh on housing market activity in the near term.

In contrast, Australian housing market activity is robust. The increase in housing credit in January – to be 8.2% higher on year-ago levels – points to solid new lending activity. This revival in the housing market is encouraging construction of residential properties. While residential building approvals declined in January, there was an upward revision to the December outturn and annual growth is still running at a healthy 47.6%.

The strong Australian housing market echoes the healthy state of the Australian economy more generally. Indeed, the strong Q4 result (+0.9% qoq) and revision to the Q3 outturn (to +0.3% qoq) was all the more encouraging given signs that rising sales and falling unit labour costs are flowing through to improving business profitability. Looking at the 2009 year, the 7.4% in public spending played a key role in the 2.7% increase in the Australian economy over the year.

Reflecting the different state of the two economies, the RBA has commenced its tightening cycle earlier than the RBNZ. The RBA surprised markets with a 25 basis point increase in the October meeting last year, and has followed this up with a further three 25 basis point increases since then (including one at last Tuesday's announcement). Recent RBA commentary has reiterated a "normalisation" of monetary policy will be required. Meanwhile, the RBNZ has indicated it will look to lift its policy rate by "around the middle of 2010". While the subdued outturns of recent NZ data releases have reduced the urgency to lift the OCR, recovering demand and diminishing capacity will see inflation pressures build up over the coming year. As such, we expect the RBNZ will commence tightening at the June meeting, and deliver 25 basis point OCR increases at each meeting until July 2011.

### Click here for:

#### [Foreign Exchange](#)

- NZD/AUD continues to fall, euro stabilises.

#### [Interest Rates](#)

- Offshore sell-off limits the decrease in domestic interest rates.

#### [Week Ahead](#)

- RBNZ the highlight, Terms of Trade, retail trade and housing data also due.

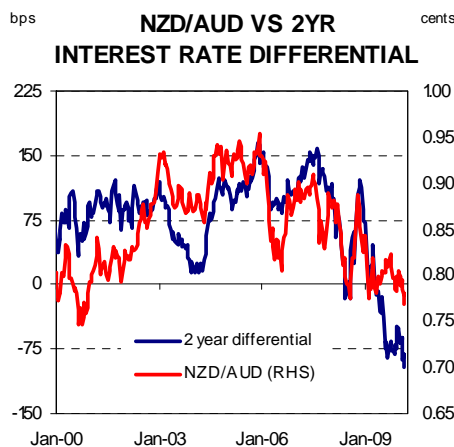
#### [Week in Review](#)

- Manufacturing sales strong, but non-residential construction weak.

#### [Global Calendars](#)

- Australian employment, US retail sales and consumer confidence.

### Chart of the week



- The different outlooks for NZ and Australian economies are attracting increased focus, in light of Australian GDP growing stronger than expected in Q4, and employment growth repeatedly defying expectations.
- The decline in the NZD/AUD cross reflects the growing differential in interest rate outlooks between the Trans-Tasman neighbours. The momentum in the Australian economy has prompted the RBA to lift its cash rate by 1% over the past 6 months, while the RBNZ is unlikely to begin lifting rates until June.
- The lower cross rate is one mechanism for NZ to enjoy Australia's 'crumbs', providing some much needed relief to many of NZ's manufacturing exporters and the tourism sector.

#### 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	0.7002	0.6984	0.6898	0.6880	0.5013	FLAT	0.6800	0.7100
NZD/AUD	0.7693	0.7781	0.7945	0.8074	0.7808	FLAT	0.7600	0.7800
NZD/JPY	63.35	62.21	61.85	64.07	49.20	UP	61.50	64.50
NZD/EUR	0.5132	0.5132	0.5029	0.4799	0.3986	FLAT	0.5000	0.5200
NZD/GBP	0.4617	0.4606	0.4382	0.4200	0.3538	FLAT	0.4550	0.4700
TWI	64.7	64.7	64.1	63.6	51.8	FLAT	63.50	65.50

^Weekly support and resistance levels \* Current is as at 12.15 pm Monday; week ago as at Monday 5pm

- The AUD continued to climb over the week with the RBA delivering a 25 basis point cash rate hike on Tuesday, followed by the stronger than expected Q4 GDP on Wednesday. With the differing economic outlook between Australian and NZ once again in focus, the NZD/AUD came under further sustained pressure. The downward pressure is likely to remain this week as the Australian employment data and RBNZ Monetary Policy Statement continues to highlight the diverging economic outlooks.
- The NZD slipped during the week, but gained back ground following the better than expected US non-farm payrolls report. The better employment figures boosted global confidence, benefiting the commodity currencies, with both the AUD and NZD rising over the weekend.
- US retail sales are likely to be a key directional influence for the USD next week. Retail sales have been on a gradually improving trend in recent months and we look for that trend to continue and to provide support for the USD. But fragile confidence may hold consumer spending back (also released on Friday).
- The euro and Pound stabilised over the week. The Euro gained some support over the week as concerns around Greece gradually began to abate. Rating agencies Fitch and Moody's have acknowledged Greece's new austerity measures lend credibility to the fiscal adjustment plan (4% GDP fiscal correction in 2010), although remain wary as implementation of this plan is key. In addition, further buoying investor confidence Greece's issuance of €5b worth of 10 year bonds was oversubscribed (although expensive with a 6.3% yield).

### Short-term outlook:

Key data	Date	Time (NZST)	Market expects
Q4 Overseas Trade Indices	10/3	10.45am	-
RBNZ March MPS	11/3	9.00am	2.50%
February Manufacturing Confidence	11/3	10.30am	-
REINZ House Sales	12/3	10.00am	-
January Retail Trade Survey	12/3	10.45am	+0.5%

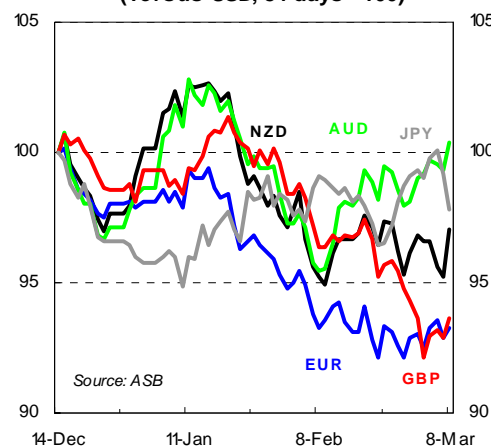
**Potential currency movers this week:** JP current account (8<sup>th</sup>); UK house prices, UK trade balance (9<sup>th</sup>); UK industrial production, US wholesale inventories, US monthly budget (10<sup>th</sup>); AU labour force, JP GDP, US jobless claims, US trade balance (11<sup>th</sup>); JP & EU industrial production, US retail sales, US consumer confidence, US business inventories (12<sup>th</sup>).

Speakers: BOE's Barker (8<sup>th</sup>), Fed Evans (9<sup>th</sup>), RBA's Lowe (10<sup>th</sup>), ECB's Trichet (10<sup>th</sup>, 12<sup>th</sup>), Fed's Dudley (11<sup>th</sup>), BOE's Dale (12<sup>th</sup>).

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

- We have recently pulled back our NZD outlook, with the NZD now likely to remain relatively steady over the first half of 2010.
- Further upside to the Kiwi over the next few months is likely to be limited, as the USD has started to strengthen reflecting stronger economic data.
- Adding to the downside pressure 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 government debt levels have put pressure on the euro, which has flowed through to weaken the antipodean currencies.
- We have also pushed back the timing of the first RBNZ OCR increase from April to June, and expect the pace of increase to be gradual, reducing the scope for interest rate driven out-performance.

EXCHANGE RATE INDICES  
(versus USD, 84 days =100)



## 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	3.50	FLAT
90-day bank bill	2.70	2.70	2.76	2.77	3.16	FLAT
2-year swap	4.16	4.18	4.28	4.15	3.29	FLAT
5-year swap	5.14	5.18	5.28	5.43	4.18	FLAT
5-year benchmark gov't stock	4.97	5.04	5.22	4.89	3.83	FLAT/UP
NZSX 50	3220	3164	3105	3120	2471	FLAT

\* Current is as at 12.15 pm Monday; week ago as at Monday 5pm. Please note that we have recently changed the NZ gov't 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).

- NZ interest rates fell over the past week, as receiving interest dominated swap markets on continued Uridashi issuance. Downward pressure on interest rates was offset to a degree by offshore movements.
- Stronger US data saw US interest rates end the week higher. In particular, non-farm payrolls data showed a smaller than expected decline in employment in February. A large amount of US Treasury bond issuance over the coming week also supported the upward pressure on longer-term interest rates.
- Australian interest rates increased over the past week as the RBA increased its policy rate by 25 basis points and Q4 GDP came in above market expectations (with the Q3 result also being revised up). Other Australian data, including retail sales and building approvals, also pointed to a healthy Australian economic activity.

### Short-term outlook:

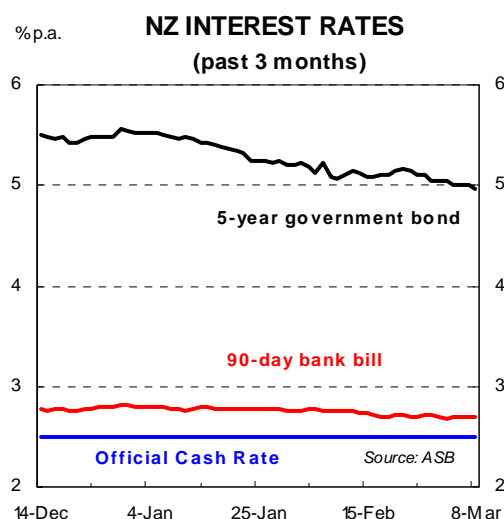
Key data	Date	Time (NZST)	Market expects
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February Manufacturing Confidence	11/3	10.30am	-
February Food Price Index	11/3	10.45am	-
REINZ House Sales	12/3	10.00am	-
January Retail Trade Survey	12/3	10.45am	+0.5%

**Comment:** Domestic markets continue to be in a holding pattern ahead of the RBNZ March MPS on Thursday, with markets expecting a fairly similar statement to the January OCR Review. Markets will also be looking to January retail sales to see if the gradual recovery in consumer spending has continued into the new year.

Following on from the robust Australian data last week, markets will be interested to see if this will also be reflected in January housing finance and labour force data. Other releases worth watching include February US retail sales.

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

- The RBNZ continued to hold the cash rate at 2.5% at the January OCR Review, and noted economic developments have generally turned out as it expected at the time of the December Monetary Policy Statement. As such, the Bank continues to expect to raise the OCR by around the middle of 2010. While acknowledging recent data have shown an improvement in household spending, the subdued nature of household credit growth is allaying fears that household debt levels will rise to unsustainably high levels.
- Furthermore, the reinstatement of the word "comfortable" in its assessment of inflation suggests the RBNZ is more relaxed about the inflation outlook following the subdued non-tradable inflation outturn in Q4. Nonetheless, we see inflation pressures building up in the non-tradable sector over the coming year, with our medium-term inflation outlook pushing closer to the top of the band. In particular, recent data have shown a rebound in capacity utilisation, the re-emergence of skills shortages and inflation expectations remain elevated.
- Recent softer data (unemployment and waning momentum in the housing market) have reduced some of the urgency to unwind stimulus. We now expect the RBNZ is likely to lift rates in June and we expect this tightening to occur at a slower pace, with OCR increases of 25bp instead of 50bp at the initial meetings.
- The relationship between the OCR and lending rates is likely to be a lot firmer than we previously assessed. We expect the large wedge that currently exists between the OCR and bank funding costs to largely remain, and as such now see an OCR of 5% (lower than our previous estimate of 5.5%) will be sufficient to remove the stimulus short-term rates provide. The likelihood of a relatively low OCR peak, coupled with uncertainty over the impact of OCR hikes, point to 25bp moves being most appropriate.



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

Data	Date	Time (NZST)	Previous	Market expects	ASB expects
February Electronic Card Transactions mom	9/3	10.45am	+0.5%	-	-
Q4 Overseas Trade Indices	10/3	10.45am	-1.3%	-	-
RBNZ March <i>Monetary Policy Statement</i>	11/3	9.00am	2.50%	2.50%	2.50%
February Primary Manufacturing Index	11/3	10.30am	52.0	-	-
February Food Price Index mom	11/3	10.45am	+2.1%	-	-0.1%
REINZ House Sales mom	12/3	10.00am	-17.8%	-	-
January Retail Trade Survey mom	12/3	10.45am	0.0%	+0.5%	+1.2%

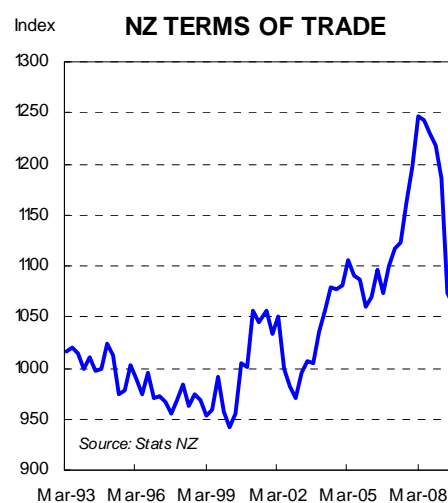
### Wednesday 10 March

#### Overseas Trade Indices – Q4

**Previous -1.2% qoq, ASB f/c: +2.0%**

We expect a 2% recovery in the Terms of Trade over Q4. The Terms of Trade have fallen 15% from their peak in March 2008. The recent recovery in dairy prices is now starting to lift export incomes, and should help boost export prices by 1% over Q4. Meanwhile, import prices are expected to fall 1%, subdued by an 8% increase the NZD.

On the volumes side, we expect flat export volumes over Q4, with small increases in key exports such as dairy and meat offset by declines in oil and logs. Import volumes are likely to remain weak, declining 1%. In particular, capital imports are likely to remain very weak, while we expect some improvement in consumer goods imports.



### Thursday 11 March

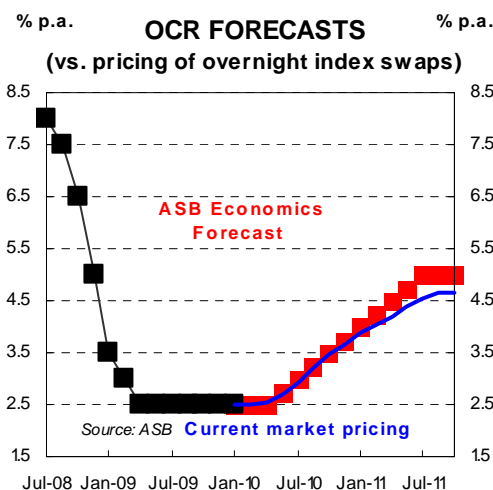
#### RBNZ March Monetary Policy Statement

**Previous 2.50%, ASB f/c 2.50%**

We expect the RBNZ to remain on hold at the March MPS. Recent developments have reduced the upside risks to the economic outlook. In particular, momentum in housing market activity is slowing, aided by uncertainty around impending changes to property tax laws.

Furthermore, labour market and inflation data were on the weak side of expectations, reducing the urgency to lift rates from emergency settings. However, recent data point to a building up of inflation pressures over the coming year as capacity diminishes in line with a recovery in activity.

The Reserve Bank is likely to remain comfortable with its “middle of 2010” outlook for rate hikes. We expect the RBNZ will commence tightening at the June meeting, with 25 basis point OCR increases at each meeting until July 2011.



**Friday 12 March**

**REINZ House Sales – February**

**House sales (s.a.): previous -17.8% mom**

**House prices (s.a.): previous +0.4% mom**

**Median days to sell (s.a.): previous 36**

In spring, the pick-up in activity in the market swung the balance back towards a seller's market - a low level of listings meant the market was reasonably tight, on a modest level of sales. Right now, it appears the market is swinging back to favour the buyer. Sales volumes over recent months have been low, and listings are ticking up.

Mortgage approval data are pointing to a low level of activity in February. When low lending activity is combined with the pick up in listings recorded in the month, it is looking like autumn will be quite a different market from spring.

**Friday 12 March**

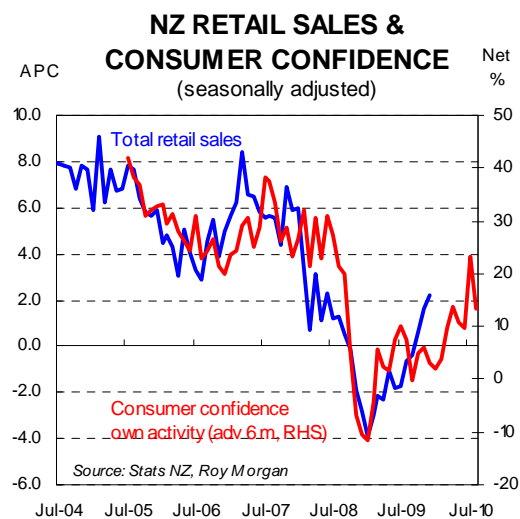
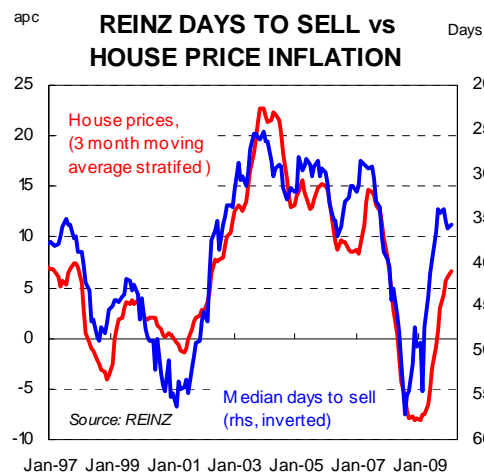
**Retail Trade Survey – Q4**

**Total (s.a.): previous +0.0%, ASB f/c +1.2% mom**

**Ex-auto (s.a.): previous -1.8%, ASB f/c +1.0% mom**

We expect January retail sales to continue to point to a gradual recovery in consumer spending. Whilst February saw a dip in consumer confidence from the very high levels of the previous month, there has been a substantial improvement over the past year from precipitously low levels. In particular, consumers feel more confident about purchasing big-ticket items. Nonetheless, given the continued weakness in the labour market we expect the flow-through to real spending to be gradual. Reflecting this caution, consumer credit growth remains subdued.

Improvement in the own activity outlook of retailers have been limited as a result of the continued pressure on retailers' margins and thus profitability.



## NZ Data Review: weekly recap

### Q4 Economic Survey of Manufacturing

Manufacturing sales increased 0.7% over Q4, and adjusting for price movements, volumes increased 3.1%.

Food manufacturing (meat and dairy) accounted for much of the strength, up 4.9% over the quarter (and 19% on year-ago levels).

Non-food volumes also increased stronger than expected, up 1.8% compared to a relatively flat expectation, although still remain below the previous year's level of activity (-6.4% yoy).

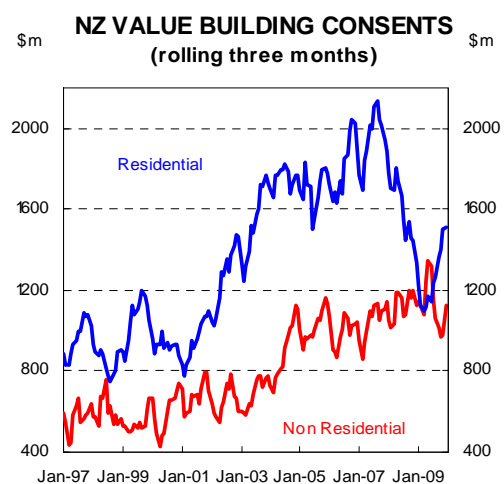
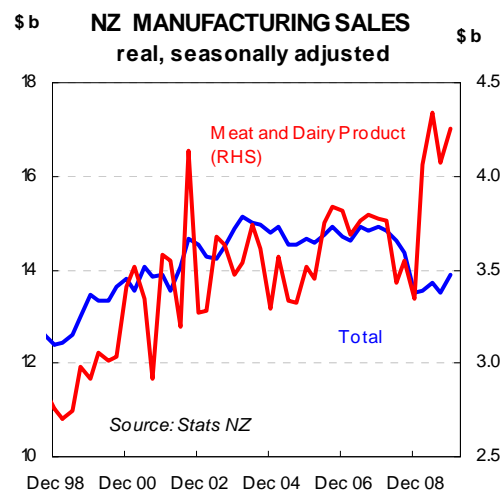
With global activity starting to stabilise manufacturing confidence has improved substantially. In addition, the lower NZ dollar cross rate against the Australian dollar will continue to be beneficial to many NZ exporters.

We estimate manufacturing stocks were relatively flat, and we expect an increase of 1.5% in manufacturing production in Q4 GDP.

### Q4 Value of Building Work Put in Place

The 7.4% increase in Residential building work done comes after a trend decline since the end of 2007. The real value of work done remains down 26% on the peak activity in Q4 2007. Dwelling consent issuance picked up steadily over the second half of 2009 as housing demand recovered and confidence improved. We expect residential construction activity continue to recover over the coming quarters, following the sharp drop off in activity since mid-2008.

Non-residential activity was significantly weaker than our expectation of a 3% quarterly lift, falling by 6.1%. Real non-residential construction was flat in Q1 2009, and contracted in the remaining 3 quarters of 2009. Despite the weakness we continue to expect non-residential construction activity to improve over 2010. In particular, public projects should provide an offset some weakness in business building investment.



## Global Data Calendars

Note: Calendar 2 is in UK times. Add 13 hours for NZ times.

### Calendar - Australasia, Japan and China

Date	Time		Econ Event	Period	Unit	Last	Forecast	
	NZT						Market	ASB/CBA
Tue 9 Mar	13.30	AU	NAB Business Confidence	Feb	Index	15.0	~	~
Wed 10 Mar	11.00	AU	RBA Deputy Bank Governor Lowe speaks					
	10.45	NZ	Terms of Trade Index	QIV	q%ch	-1.3	~	2.0
	12.30	AU	Westpac Consumer Confidence	Mar	m%ch	-2.6	~	~
	12.50	JP	Domestic CGPI	Feb	y%ch	-2.1	~	~
	13.30	AU	Housing finance	Jan	~	~	~	~
	18.00	CH	Trade Balance	Feb	USD bn	14.2	9.3	~
Thu 11 Mar	06.00	NZ	RBNZ Official Cash Rate	Mar	%	2.5	2.5	2.5
	10.30	NZ	Business NZ PMI	Feb	Index	52.0	~	~
	10.45	NZ	Food Prices	Feb	m%ch	2.1	~	~
	13.30	AU	Employment Change	Feb	'000	52.7	15.0	15.0
	13.30	AU	Unemployment Rate	Feb	%	5.3	5.3	5.4
	13.30	AU	Participation Rate	Feb	%	65.3	65.3	65.3
	15.00	CH	Producer Price Index	Feb	y%ch	4.3	5.1	~
	153.00	CH	Purchasing Price Index	Feb	y%ch	5.5	8.4	~
	15.00	CH	Consumer Price Index	Feb	y%ch	1.5	2.6	~
	15.00	CH	Retail Sales	Feb	y%ch	~	18.5	~
	15.00	CH	Industrial Production	Feb	y%ch	~	19.6	~
	15.00	CH	Fixed Assets Inv Urban	Feb	y%ch ytd	~	27.0	~
Fri 12 Mar	10.00	NZ	REINZ House Sales	Feb	m%ch	-1.1	~	~
	10.45	NZ	Retail Sales	Jan	m%ch	0.0	~	1.2
	10.45	NZ	Retail Sales Ex-Auto	Jan	m%ch	-1.8	~	1.0
	15.30	JN	Capacity Utilization	Jan	m%ch	1.4	~	~

## 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 8 Mar	09.30	EZ	Sentix Investor Confidence	Mar	Index	-8.2	~	~
	11.00	GE	Industrial Production	Jan	m%ch	-2.6	~	~
	14.00	CA	Housing Starts	Feb	'000	186	~	~
Tue 9 Mar	00.01	UK	BRC February Retail Sales Monitor					
	00.01	UK	RICS House Price Balance	Feb	%	32.0	~	~
	09.30	UK	Total Trade Balance	Jan	£mn	3,262	~	~
Wed 10 Mar	~	UK	NIESR GDP Estimate	Feb	q%ch	0.4	~	~
	07.00	GE	Trade Balance	Jan	€bn	13.5	~	~
	07.00	GE	Current Account	Jan	€bn	20.6	~	~
	07.00	GE	CPI - EU Harmonised	Feb	m%ch	0.2	~	~
	09.30	UK	Industrial Production	Jan	m%ch	0.5	~	~
	15.00	US	Wholesale Inventories	Jan	m%ch	-0.8	0.2	~
Thu 11 Mar	19.00	US	Monthly Budget Statement	Feb	\$bn	-42.6	-202	~
	10.00	EZ	ECB Publishes Mar. Monthly Report	Mar	~	~	~	~
	13.30	CA	Capacity Utilization Rate	QIV	%	67.5	~	~
	13.30	CA	New Housing Price Index	Jan	m%ch	0.4	~	~
	13.30	CA	Int'l Merchandise Trade	Jan	\$bn	-0.2	~	~
	13.30	US	Trade Balance	Jan	\$bn	-40.2	-40.6	~
Fri 12 Mar	13.30	US	Initial Jobless and continuing claims					
	11.00	EZ	Euro-Zone industrial production	Jan	m%ch	-1.6	~	~
					y%ch	-4.8	~	~
	12.00	CA	Net Change in Employment	Feb	'000	43.0	10.0	~
	12.00	CA	Unemployment Rate	Feb	%	8.3	8.4	~
	13.30	US	Advance Retail Sales	Feb	m%ch	0.5	0.2	~
	13.30	US	Retail Sales Less Autos	Feb	m%ch	0.6	0.2	~
	13.30	US	Retail Sales Ex Auto & Gas	Feb	m%ch	0.6	~	~
	14.55	US	U. of Michigan Confidence	Mar	Index	73.6	73.7	~
15.00	US	Business Inventories	Jan	%	-0.2	0.1	~	

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