

Business Weekly

Labour market still lagging

This Week

Employment over the September quarter was weaker than widely anticipated, and softer than the tentative signs of stabilisation implied by business surveys. Employment fell by 0.8%, against expectations of a milder fall of around 0.2% to 0.3%. Employment had been surprisingly resilient in the first half of the year given how much the economy itself contracted. Q3, however, demonstrated a little more lagged weakness than anticipated. The further run of job losses pushed the unemployment rate up to 6.5%. We expect employment will start to pick up in 2010Q1, after roughly stabilising in Q4 but caution over hiring is likely to remain in the short term. The unemployment rate will continue to rise (a little above 7% we think) because it will take a while for job growth to be strong enough to absorb the fresh flows of people seeking work.

The RBNZ Governor stepped up the jawboning of markets last week, emphasising the differences between Australia and NZ. In his words, "New Zealand has had a recession, and the pick-up is slower and more vulnerable – a difference financial markets do not appear to appreciate... This is particularly evident in the relatively stable cross-rate on foreign exchange markets. If financial markets can't see the differences, they will eventually lose money, and it will hurt the New Zealand economy." The NZD did soften over the next 24 hours, but interest rate markets continue to price in a high chance of a 25bp hike in March.

But markets can't afford to completely discount rate hikes before 2010H2. Not all news over the past week has been bad. The housing market continues to show strong signs of undersupply in the Auckland market and QV's monthly house price measure just edged into positive annual price growth at 0.2%. The REINZ housing figures will be released on Friday, but already its housing price measure is up 8% from its low.

One very solid piece of good news is that Fonterra is revising up its dairy payout forecast for the current season to \$6.05 per kg of milk solid from \$5.10, after another strong outcome in its online dairy auction. The magnitude of the lift is huge, and puts the payout at a level that will take considerable strain off the sector over the next year.

Although the RBNZ has continued to say it expects to be on hold until the second half of next year, we remain of the view that it will be uncomfortable keeping the OCR so low for so long. The housing market is uncomfortably strong for the RBNZ. The higher dairy payout, assuming it is achieved, means the rural economy will be in much better shape than anticipated. Moreover, the economic recovery now has something more than just housing to fall back on, reducing the risk of a double dip.

Click here for:

[Foreign Exchange](#)

- NZD boosted by Fonterra's massive revision to its payout forecast.

[Interest Rates](#)

- Muted reaction to dovish tone from central banks and Fonterra announcement

[Week Ahead](#)

- NZ retail trade likely to disappoint, REINZ house prices to remain firm in Oct.

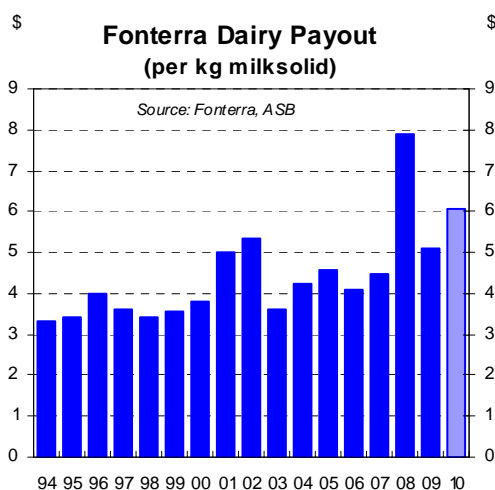
[Week in Review](#)

- Employment weaker than expected, Unemployment rises to 6.5%

[Global Calendars](#)

- AU Employment report the highlight, also watch UK unemployment

Chart of the week



- Last week Fonterra's online dairy auction showed another strong increase in dairy prices with an average wholemilk powder price of \$US3,437/tonne, up around \$US400 from the preceding auction. Encouragingly, the longer-dated delivery contracts receiving the highest prices (\$US3,700), suggesting Fonterra could benefit from strong selling prices beyond just the near term.
- Subsequent to the auction Fonterra has revised its 2009/10 payout forecast up considerably to \$6.05/kg of milk solid from \$5.20.
- We estimate the total payout to Fonterra's farmers will be around \$8 billion, roughly \$1.3 billion up on last year's. The lift will make a substantial difference to the viability of farms carrying a high cost of production and make for a more comfortable year for the vast majority of dairy farmers.

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	0.7337	0.7205	0.7393	0.6100	0.5863	FLAT	0.7200	0.7400
NZD/AUD	0.7967	0.7972	0.8176	0.7944	0.8779	DOWN	0.7900	0.8100
NZD/JPY	65.84	64.90	65.93	60.07	56.97	FLAT	64.50	66.50
NZD/EUR	0.4932	0.4884	0.5019	0.4473	0.4595	FLAT	0.4850	0.5000
NZD/GBP	0.4407	0.4379	0.4613	0.4008	0.3735	DOWN	0.4300	0.4450
TWI	65.6	64.9	66.6	59.2	59.3	DOWN	64.20	66.20

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

- The NZD had a slightly more stable week, following last week's dramatic decline. The NZD gained ground against all the major crosses, with the exception of the AUD. Early over the week the NZD waxed and waned with market sentiment. The NZD had a steady upward run from the 3rd until the 5th underpinned by improving global sentiment, until the weaker than expected NZ employment undermined the NZD. The NZD then remained fairly steady, until Fonterra's surprising payout revision on the 9th gave the NZD an immediate lift.
- The NZD/AUD was pushed lower on Thursday by comments from the RBNZ Governor. Bollard highlighted the difference in economic outlooks for Australia and NZ, and made pointed comments on the market's apparent lack of differentiation between the two countries.
- This week we are expecting NZ retail sales to disappoint, meanwhile the AU employment report has potential for upside surprise, which will continue to put downward pressure on the NZD/AUD.
- There is a risk the Bank of England's (BoE) Quarterly Inflation Report may include upward revisions to its inflation forecasts. Markets may interpret this shift as a sign the BoE may have expanded its alternative program for the final time. The GBP could find support over the week as markets become more confident in the UK economy.

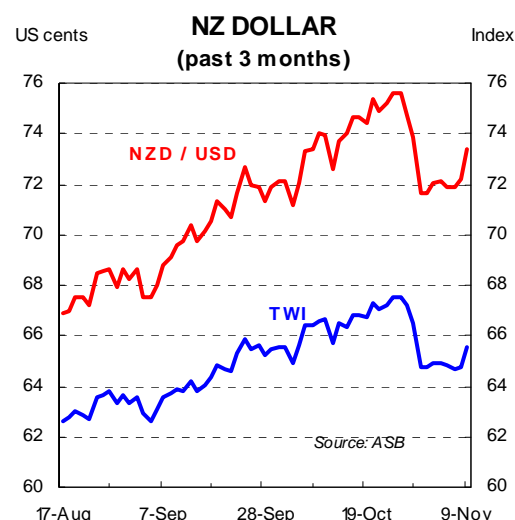
Short-term outlook:

Key data	Date	Time (NZST)	Market expects
RBNZ Financial Stability Report	11/11	9.00 am	-
Q3 Retail Trade Survey (volumes)	12/11	10.45 am	+0.0%
Oct AU Employment Report	12/11	1.30 pm	-10,000
Oct REINZ House Sales	13/11	10.00	-

Potential currency movers from overseas this week: UK unemployment report and the Bank of England's Quarterly Inflation Report (11th). US trade balance (14th). Speakers: Tarullo (10th), Lockhart, Yellen, Rosengren, Fisher, Tarullo (11th), Evans (14th).

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

- We continue to expect the NZD to appreciate further against the USD over the next 6-9 months. However, we have revised up our expected peak to USD 0.82. The story remains primarily one of USD weakness, also overlaid by some Downunder strength. We expect the USD to remain under pressure until the Federal Reserve starts to unwind its policy stimulus: the earlier that starts the sooner the NZD's rise is likely to be capped.
- 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, with USD liquidity demand and safe-haven buying also no longer boosting the USD.
 - Diversification out of USD is expected to occur due to concerns about US government debt.
 - And, related, concern about the USD's future role as a reserve currency.
- The NZD is also likely to mildly outperform other major currencies in the ongoing environment of improving global growth prospects and rising commodity prices. Outright weakness in the Pound will continue to hold the NZD/GBP rate at very elevated levels. The Pound, like the USD, is being weighed down by debt concerns and the state of its financial sector – both of which have ramifications for the future growth rate of the economy.
- The buoyant Australian dollar is also likely to contribute to an overall strengthening of the NZD. The RBA is likely to continue lifting its cash rate back to a less stimulatory level. Rising interest rates there will lift the AUD. The NZD will be caught in the middle: weakening slightly against the AUD but up against other currencies.
- For more on the relative fundamentals driving the NZD see our Economic Note "[NZD: The Flighty Bird](#)".
- 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 (at the least, very risky) 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	2.50	6.50	FLAT
90-day bank bill	2.80	2.78	2.77	2.92	6.61	FLAT
2-year swap	4.58	4.53	4.37	3.58	5.97	FLAT
5-year swap	5.74	5.68	5.44	4.89	6.30	FLAT
11/11 gov't stock	5.06	5.05	4.90	4.53	5.72	FLAT
NZSX 50	3167	3184	3164	2829	2799	FLAT

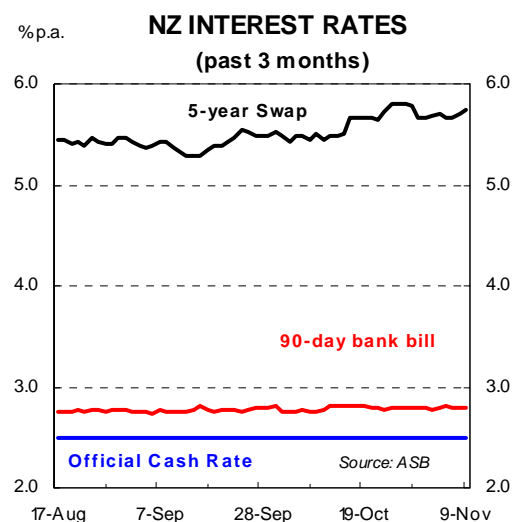
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- Despite plenty of central bank communication and swings in overseas markets, NZ fixed interest markets remained relatively stable over the week. While NZ rates lifted slightly over the week, rates (particularly in the short-end) remain well down from the previous week following the more dovish RBNZ statement on Oct 29.
- The market largely ignored comments by the RBNZ Governor on Thursday, highlighting the difference between NZ and Australian outlooks. Bollard noted that financial markets do not appear to 'appreciate' the difference between NZ and Australian outlooks. The substantial revision to the Fonterra payout on Monday morning also failed to have much impact on the interest rate market. We continue to expect the RBNZ will deliver its first hike in April 2010 (as does current market pricing).
- The RBA increased its cash rate by 25 bps as expected on the 3rd Nov. However, in the accompanying statement the tone was less hawkish than market anticipated. Australian short-end rates initially fell, although gained back some of the decline over the week, dragged up by rising long-end rates. In the US, the FOMC statement on Thursday was on the dovish side of expectations. Weaker than expected Payrolls further weighed on the market. Nonetheless, over the week US Treasury Bond 10-year yields actually rose by 12 basis points on supply concerns, while US 2-year bond yields fell 3 basis points.

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Oct REINZ House Sales	13/11	10.00	-

Comment: Given the mix of data over this week there is potential for some volatility, although we have no strong bias in one direction. In Australia, business and consumer confidence surveys have the potential to underwhelm given recent rate hikes, but the employment report later in the week may help improve sentiment. In NZ the retail trade survey is the highlight, and has potential to disappoint.



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

- The RBNZ continues to hold the cash rate at 2.5%. While the RBNZ has backed off its easing bias, it maintains a very dovish tone. The Bank has stated it sees no urgency to withdraw monetary stimulus, and expects to keep the OCR at the current level until the second half of 2010. However, given the recent improvement in the outlook, we see that stance becoming untenable in time.
- The RBNZ's overall growth and inflation forecasts were unchanged at the September MPS, 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.
- October's statement suggest some change in the RBNZ's outlook, though not enough to convince the RBNZ it is likely to hike in the first half of 2010. World demand has stabilised and the outlook for 2010 continues to improve. Dairy prices have lifted off lows and have led Fonterra to revise up its forecast payout significantly. Net migration continues at a robust pace, and continues to provide support to housing demand in a tight market. Housing supply has been slow to respond, resulting in a surprisingly strong lift in house prices over the past 6 months which is likely to make the RBNZ uncomfortable. Business and consumer confidence has surged pointing to an earlier recovery in growth than previously thought. Meanwhile, the downside risks to inflation have also abated.
- The next move in the OCR is up, it's just a matter of when. We expect the RBNZ will hike by April next year (previously June). 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
October Electronic Card Transactions	10/11	10.45 am	+0.7%	-	-
RBNZ Financial Stability Report	11/11	9.00 am	-	-	-
October Food Price Index (yoy)	11/11	10.45 am	+3.3%	-	-
Q3 Retail Trade Survey (Q3 Total volumes)	12/11	10.45 am	+0.4%	0.0%	-0.2%
Q3 Retail Trade Survey (September month)	12/11	10.45 am	+1.2%	+0.3%	0.0%
October REINZ Housing Data (sales, yoy)	13/11	10.00 am	+43.7%	-	+45%
Q3 Producer Price and Capital Goods Price Indices	16/11	10.45 am	-	-	-

Q3 Retail Trade Survey

ASB(f) September Quarter Total: +0.6%, Real -0.2%

ASB(f) September Quarter Ex-Auto: +0.5%, Real +0.0%

September Month Ex-Auto: Previous +1.2%, ASB (f) +0.0%

Retail sales remained sluggish over the September quarter. The tepid rise in nominal spending can mostly be explained by our estimate of price increases over the quarter. The strength in the CPI figure suggests the anecdotes of discounting were more likely seasonal sales rather than genuine weakness in prices. As a result, volumes were likely to be fairly flat, consistent with an economy which remains very fragile.

Spending surged in August, although was largely underpinned by unseasonably warm weather and strong clothing sales. As a result that strength is unlikely to be sustained and September spending will be more muted.

October REINZ House Sales and Prices

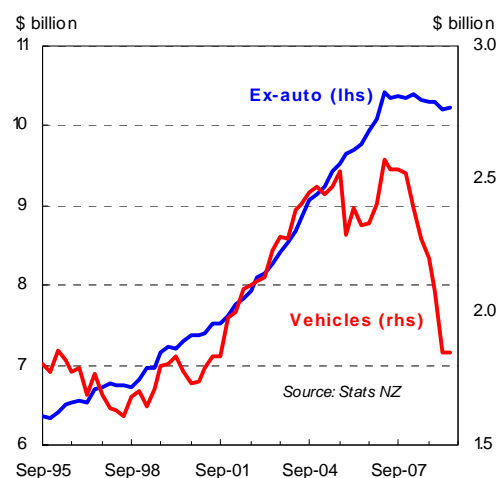
Previous: House Sales: +3% (mom, s.a.)

House Prices: +1.9% (mom)

Days to Sell: 31.4 (days to sell)

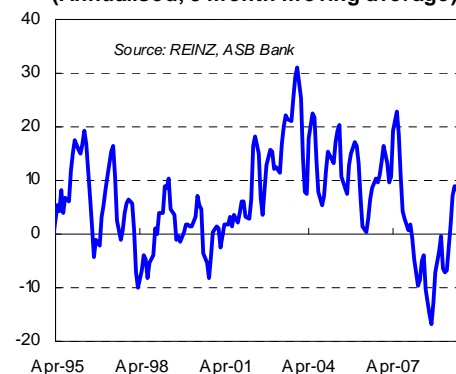
Housing turnover has remained fairly steady over the past 6 months, after lifting firmly off lows. While the level of demand remains fairly subdued, the response in supply has been very sluggish. Low numbers of new listings have pushed market conditions to become very tight. The median number of days to sell has fallen dramatically and is now indicative of a sellers' market. House prices have been bid up in the process. In the 3 months to September, house prices increased at an annualised rate of 10%. Auckland agent listing data for October suggest housing supply remained tight and sales steady and we expect the pressure on house prices to continue.

NZ RETAIL SALES VOLUMES



REINZ STRATIFIED MEDIAN HOUSE PRICE INFLATION

(Annualised, 3 month moving average)



NZ Data Review: weekly recap

Labour Cost Index and Quarterly Employment Survey

The Labour Cost Index increased by 0.4% over Q3 (private sector ordinary time), slightly stronger than expectations of a 0.3% increase. Annual wage cost inflation moderated to 1.9%. For the second quarter in a row labour cost growth has been muted in the private sector. Public sector wage growth has been less affected by the recession.

The Quarterly Employment Survey results were mixed, with filled jobs declining 0.8% while total paid hours actually increased by 0.2%.

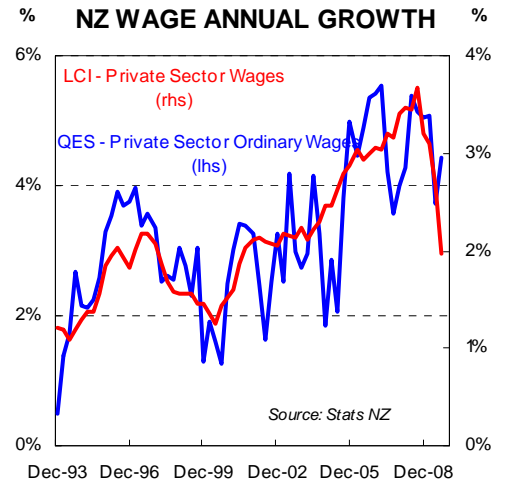
Continued decline in wage growth reinforces that the recession is still exerting some downward pressure on inflation. The result suggests some downside risks to the RBNZ's wage forecasts. The RBNZ will likely see the modest labour cost growth as reinforcing its view that there is no hurry to lift the OCR until "the second half of 2010".

Household Labour Force Survey

Employment fell 0.8%, much weaker than expectations and softer than the tentative signs of stabilisation implied by business surveys. The unemployment rate increased to 6.5% from 6%. Although the working age population increased 0.4%, the size of the work force declined by 0.2% as participation dropped (possibly reflecting a discouraged worker effect).

Over the past year, the declines have been centred in manufacturing and construction, although there has been some offset by jobs expansion within the public sector and mining.

Underemployment (defined as those employed part time but would prefer to work more hours) continues to rise, pointing to a large amount of slack remaining in the labour market.



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		
	NZST						Market	ASB/CBA	
Mon 9 Nov	13.30	AU	ANZ job ads	Oct	m%ch	4.4	~	~	
	13.30	AU	Housing finance	Sep	m%ch				
			Value of all loans			-1.7	~	5.0	
			No of owner-occupier			-0.6	3.0	4.0	
	16.20	AU	RBA Assistant Governor Lowe speaks in Perth						
Tue 10 Nov	~	JP	Eco watchers survey: current	Oct	Index	43.1	~	~	
	~	JP	Eco watchers survey: outlook	Oct	Index	44.5	~	~	
	10.45	NZ	Card spending	Oct	m%ch	0.7	~	~	
	12.00	AU	RBA official John Broadbent speaks in Sydney						
	12.50	JP	Adj current account total	Sep	JPY mn	1,233.6	~	~	
	13.30	AU	NAB business conditions	Oct	Index	3.0	~	~	
	13.30	AU	NAB business confidence	Oct	Index	14.0	~	~	
	19.00	JP	Machine tool orders	Oct	y%ch	-62.1	~	~	
Wed 11 Nov	~	CH	Trade balance	Oct	USD \$bn	12.9	19.05	~	
	~	CH	Exports	Oct	y%ch	-15.2	-12.8	~	
	~	CH	Imports	Oct	y%ch	-3.5	-0.6	~	
	10.45	NZ	Food prices	Oct	m%ch	-0.7	~	~	
	12.30	AU	WBC consumer confidence	Nov	%	1.7	~	~	
	12.50	JP	Machine orders	Sep	m%ch	0.5	~	~	
						y%ch	-26.5	~	~
	13.30	AU	Lending finance	Sep	m%ch	-1.7	~	~	
	15.00	CH	Producer price index	Oct	y%ch	-7.0	-5.2	~	
	15.00	CH	Purchasing price index	Oct	y%ch	-10.1	-8.0	~	
	15.00	CH	CPI	Oct	y%ch	-0.8	-0.4	~	
	15.00	CH	Retail sales	Oct	y%ch	15.5	15.7	~	
ytd y%ch						15.1	15.2	~	
15.00	CH	Industrial production	Oct	y%ch	13.9	15.2	~		
					ytd y%ch	8.7	9.5	~	
Thu 12 Nov	10.45	NZ	Retail sales	Sep	m%ch	1.1	~	~	
	10.45	NZ	Retail sales ex-auto	Sep	m%ch	1.2	~	0.0	
	10.45	NZ	Retail sales ex inflation	QIII	q%ch	0.4	~	-0.2	
	13.30	AU	Labour force	Oct					
Employment change						'000	40.6	-10.0	10.0
Unemployment rate						%	5.7	5.8	5.9
Participation rate						%	65.2	65.2	65.2
Fri 13 Nov	17.30	JP	Industrial production	Sep	m%ch	1.4	~	~	
					y%ch	-18.9	~	~	
	17.30	JP	Capacity utilisation	Sep	m%ch	2.3	~	~	

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 9 Nov	07.00	GE Trade balance	Sep	€bn	8.1	11.8	~
	07.00	GE Current account	Sep	€bn	4.6	~	~
	09.30	EZ Sentix investor confidence	Nov	Index	-12.6	~	~
	11.00	GE Industrial production	Sep	m%ch y%ch	1.7	1.7	~
					-16.8	-13.7	~
13.15	CA Housing starts	Oct	'000	149.3	154.0	~	
Tue 10 Nov	00.01	UK BRC October retail sales monitors					
	00.01	UK RICS house price balance	Oct	%	22.0	~	~
	07.00	GE CPI	Oct	m%ch y%ch	0.1	0.1	~
					0.0	0.0	~
	09.30	UK Total trade balance	Sep	£mn	2,318	~	~
	09.30	UK DCLG UK house prices	Sep	y%ch	-5.6	~	~
	10.00	EZ ZEW survey (econ sentiment)	Nov	Index	56.9	~	~
	10.00	GE ZEW survey (econ sentiment)	Nov	Index	56.0	54.0	~
10.00	GE ZEW (current situation)	Nov	Index	-72.2	-70.0	~	
Wed 11 Nov	09.30	UK Claimant count rate	Oct	%	5.0	5.1	~
	09.30	UK Jobless claims change	Oct	'000	20.8	20.0	~
	09.30	UK ILO unemployment rate	Sep	%	7.9	8.0	~
	09.30	UK Bank of England Quarterly Inflation Report					
Thu 12 Nov	09.00	EZ ECB publishes November Monthly Report					
	10.00	EZ Industrial production	Sep	m%ch y%ch	0.9	0.6	~
					-15.4	-13.6	~
	10.00	EZ CPI	Oct	m%ch y%ch	0.0	0.3	~
					-0.3	-0.1	~
	10.00	EZ GDP	QIII	q%ch y%ch	-0.2	0.6	~
-4.8					-3.9	~	
13.30	CA New housing price index	Sep	m%ch	0.1	0.2	~	
13.30	US Initial jobless and continuing claims						
Fri 13 Nov	07.00	GE GDP	QIII	q%ch y%ch	0.3	~	~
					-5.9	~	~
	13.30	CA International merch. trade	Sep	C\$bn	-2.0	~	~
	13.30	US Trade balance	Sep	\$bn	-30.7	-32.0	~
	13.30	US Import price index	Oct	m%ch y%ch	0.1	1.0	~
					-12.0	-5.6	~
15.00	US Uni of Michigan confidence	Nov	%	70.6	71.9	~	

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