

Business Weekly

Households in focus

This Week

With businesses starting to invest in plant and machinery and build up inventory, it appears a sustainable recovery is taking shape. However, the recovery in the household sector has been less encouraging. Household spending and credit growth, whilst improving, remains subdued and below levels suggested by the increase in consumer confidence over late 2009.

There are a few factors keeping households cautious. Recent housing data have indicated a slowing in momentum in housing market activity, with the number of house sales at low levels and prices beginning to ease back. This slowing in activity is also reflected in the subdued level of lending secured against housing. It is likely that uncertainty surrounding potential changes to the tax treatment of property investment is restraining demand. On the supply side, while there has been some increase in house listings in recent months, it appears there is little sign yet of a rush to sell off investment properties in anticipation of any tax changes. Nonetheless, we expect the uncertainty surrounding changes to tax on property investment will weigh on the housing market until the release of the Budget on May 20. March REINZ housing data released this Friday will shed further light on how the housing market is evolving nationwide.

Furthermore, continued softness in the labour market is also affecting consumer confidence. The higher than expected unemployment rate in the December quarter last year suggests there is still considerable slack in the labour market. While more recent business surveys point to a continued recovery in hiring intentions and tentative signs of an emerging skills shortage, wage growth is likely to be restrained in the near term. In contrast, employment growth has been solid in Australia since the second half of 2009, as recovering demand for its minerals drives a rebound in economic activity. We have started to see this divergence in labour markets in the two countries flow through to an increase in departures to Australia, and we expect this upward trend will continue over 2010.

Certainly, it appears households still face a few hurdles through this fledgling recovery. As such, caution remains amongst households. March electronic card transactions and February retail trade survey data released tomorrow and Wednesday, respectively, should provide further clues on the recovery in household spending in the near term. We continue to expect the RBNZ will commence the tightening cycle in June with a 25 basis point increase in the OCR, given the need to strike a balance between providing support to the fledgling recovery while at the same time keeping emerging inflation pressures in check. Even with OCR increases starting from June, stimulatory short-term rates are likely to prevail into early 2011, thus providing support to the economy during much of the tightening cycle.

Click here for:

[Foreign Exchange](#)

- NZD lifts sharply on the USD, and is a touch higher on other cross rates.

[Interest Rates](#)

- Local market struggles for direction, US interest rates fall on dovish FOMC.

[Week Ahead](#)

- Electronic card transactions, retail trade, Business NZ PMI, REINZ housing data.

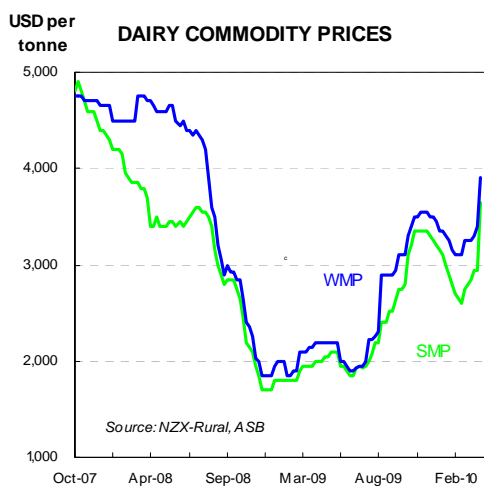
[Week in Review](#)

- No local data after Tuesday's NZIER Business Survey (reviewed last week)

[Global Calendars](#)

- US & EU CPIs, US retail sales, Fed's Beige Book, US Confidence, Chinese data.

Chart of the week



- Fonterra's global Dairy trade auction last week showed a surprisingly high lift in dairy prices. Whole milk powder increased an average of 21% to US\$3,969 per tonne, and skim milk powder increased an average of 25.5% to US\$3,672 per tonne.
- Global dairy production is likely to be slightly down this year given the recent cold US and European winters. NZ and Australia have also had their own weather difficulties which are contributing to slightly weaker than expected production levels. Lower supply volumes have underpinned prices.
- While the price increases are positive, it is too early to tell whether this level of prices will be sustained. We expect prices may pull back from the current levels as the Northern Hemisphere dairy seasons picks up.

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	0.7194	0.7032	0.6997	0.7263	0.5825	FLAT	0.6950	0.7250
NZD/AUD	0.7667	0.7638	0.7641	0.8050	0.8100	UP	0.7600	0.7800
NZD/JPY	66.95	66.36	63.44	65.47	58.46	UP	66.00	68.00
NZD/EUR	0.5263	0.5214	0.5110	0.4942	0.4425	FLAT	52.00	53.00
NZD/GBP	0.4656	0.4598	0.4644	0.4589	0.3977	FLAT	0.4550	0.4750
TWI	66.2	65.7	64.6	65.7	58.1	FLAT	65	67

^Weekly support and resistance levels * Current is as at 11.30 am Monday; week ago as at Monday 5pm

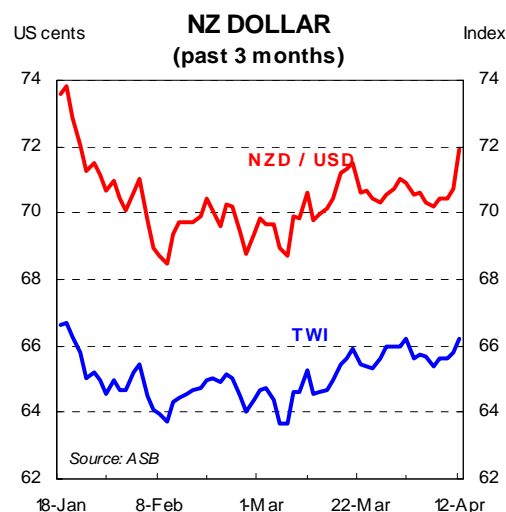
- The NZD has been range trading over the past week, and generally drifting up on the cross rates monitored.
- The NZD has moved sharply higher against the USD over Friday night and today, and is now above the 0.715 level which marked the top of its recent range.
- The below-market Australian housing finance and the above-market New Zealand retail reports we are expecting this week pose upside risks to the NZD/AUD this week.
- In an environment where currency speculators are very short EUR/USD, news about a detailed European Commission-International Monetary Fund package to assist Greece could be the circuit breaker to see EUR/USD push higher this week. The Greek package could also be a template for helping Portugal, if needed. Risk appetites have improved as positive developments occur for Greece. The Euro has lifted, taking others, including the NZD along with it.

Short-term outlook:

Key data	Date	Time (NZST)	Market expects
Retail Trade Survey	14/4	10.45am	+0.2%
REINZ March Housing Data	16/4	10.00am	-

Potential currency movers from offshore this week: US, UK trade balance (13th), US CPI, retail trade, business inventories, Federal Reserve's Beige Book of business conditions (14th); US industrial production, Chinese data releases (15th); US consumer confidence, building permits, housing starts (16th).

Speeches: Bernanke, Lacker (13th), Bernanke, Pinalto, Fisher (14th), Bullard, Lockhart, Volcker, Yellen (15th), Warsh, Hoenig (16th).



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 NZD/USD 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	2.70	2.70	2.70	2.81	3.19	FLAT
2-year swap	4.29	4.29	4.24	4.40	3.89	FLAT
5-year swap	5.26	5.26	5.20	5.48	5.07	FLAT
5-year benchmark gov't stock	5.19	5.20	5.11	4.97	4.54	FLAT
NZSX 50	3320	3276	3225	3174	2571	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).

- NZ interest rates remained steady last week with very little local action to give the market direction. The QSBO headlines were on par with expectations, although the detail was a little more mixed. The key event ahead of the RBNZ's next OCR announcement is Q1 CPI next week. We continue to expect the RBNZ to commence rate hikes in June.
- US Treasury bond yields eased over the week. Interest rates spiked the previous week as the market struggled to digest a large volume of Treasury bond issuance. However, the FOMC minutes released last week revealed the Committee's surprisingly dovish outlook, which saw Treasury yields completely unwind the previous week's surge.
- The RBA increased the cash rate to 4.25%, in what was viewed as a tight call for the RBA. The hike helped buoy Australian interest rates across the week.

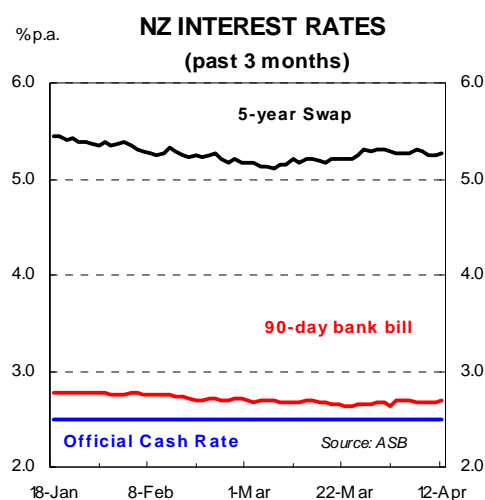
Short-term outlook:

Key data	Date	Time (NZST)	Market expects
Retail Trade Survey	14/4	10.45am	+0.2%
REINZ March Housing Data	16/4	10.00am	-

Comment: This week provides another read on the household sector, including retail trade and house sales figures. The figures are likely to confirm the subdued sentiment in housing and consumer spending at the minute. The next piece of influential data is the CPI.

Market pricing remains on track for a June hike, although the CPI and tone in the April statement will be key in shaping expectations.

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. 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 above 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 reduces 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 Preview: a look at the week ahead

Data	Date	Time (NZST)	Previous	Market expects	ASB expects
March Electronic Card Transactions mom	13/4	10.45am	-0.4%	-	-
February Retail Trade Survey – total mom	14/4	10.45am	+0.8%	+0.2%	+0.6%
March Business NZ PMI	15/4	10.30am	53.3	-	-
March REINZ Housing yoy	16/4	10.00am	-3.8%	-	-

Wednesday 14 April

February Retail Trade

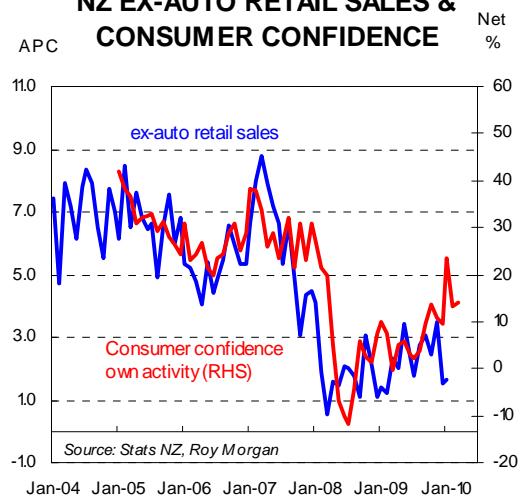
Total: previous +0.8% mom, ASB f/c +0.6% mom

Ex-auto: previous +0.3% mom, ASB f/c +0.6% mom

The recovery in household spending has been very gradual to date, and we expect this to continue to be reflected in subdued retail sales over the next few months. Weaker consumer confidence more recently is likely to weigh on the recovery in retail sales. The dip in consumer confidence in March likely reflects uncertainty over potential tax changes regarding property investment, and lingering softness in the labour market.

The release of March electronic card transactions data on Tuesday will shed further light on household spending in the near term.

NZ EX-AUTO RETAIL SALES & CONSUMER CONFIDENCE



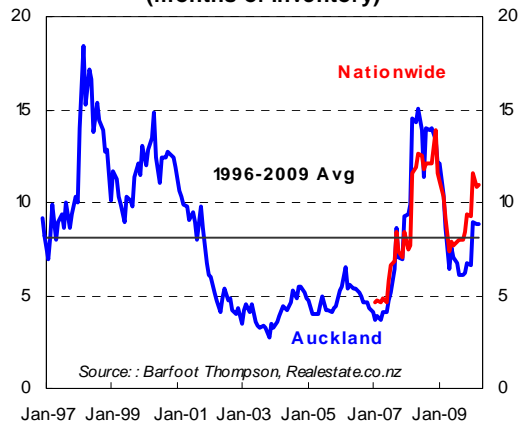
Friday 16 April

March REINZ House Prices

Previous (s.a.): 5.5% annual price change

March is typically one of the strongest sales months for NZ property. We expect the nationwide REINZ turnover figures will be roughly flat on year-ago levels in seasonally-adjusted terms. Days to sell and sales turnover will be an important measure to monitor in the March report. We have started to see an increase in listings come onto the market more recently, and this will likely weigh on house prices.

HOUSE LISTINGS TO SALES (months of inventory)



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
Mon 12 Apr	11.50	JP	BoJ monetary policy meeting minutes for March					
	13.30	AU	Housing finance	Feb				
			No. of own-occupiers		m%ch	-7.9	~	-4.0
			Value of all loans		m%ch	-5.0	~	-3.0
Tue 13 Apr	11.50	JP	Domestic CGPI	Mar	y%ch	-1.5	~	~
	13.30	AU	NAB business conditions	Mar	Index	8.0	~	~
	13.30	AU	NAB business confidence	Mar	Index	19.0	~	~
Wed 14 Apr	10.45	NZ	Retail sales ex-auto	Feb	m%ch	0.8	~	~
					m%ch	0.3	~	~
	13.00	AU	MI/WBC Consumer Sentiment	Apr	Index	117.3	~	~
Thu 15 Apr	10.30	NZ	Business NZ PMI	Mar	Index	53.3	~	~
	13.00	AU	MI/WBC consumer inflation expectation	Apr	m%ch	3.2	~	~
	14.00	CH	Real GDP	Q1	y%ch	10.7	11.6	~
	14.00	CH	Producer price index	Mar	y%ch	5.4	6.4	~
	14.00	CH	Purchasing price index	Mar	y%ch	10.3	11.5	~
	14.00	CH	Consumer price index	Mar	y%ch	2.7	2.6	~
	14.00	CH	Retail sales	Mar	y%ch	22.1	18.0	~
					ytd y%ch	17.9	18.1	~
	14.00	CH	Industrial production	Mar	y%ch	12.8	18.2	~
					ytd y%ch	20.7	20.4	~
	14.00	CH	Fixed assets inv urban	Mar	ytd y%ch	26.6	26.0	~
	16.30	JP	Industrial production	Feb	m%ch	-0.9	~	~
					y%ch	31.3	~	~
	16.30	JP	Capacity Utilization	Feb	m%ch	3.9	~	~
Fri 16 Apr	10.00	NZ	REINZ housing price index	Mar	Index	3,215	~	~

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 12 Apr	13.15	CA	Housing starts	Mar	'000	196.7	~	~
	19.00	UK	Monthly Budget Statement	Mar	\$bn	191.6	186.5	~
Tue 13 Apr	00.01	UK	RICS House Price Balance	Mar	%	17.0	~	~
	09.30	UK	Total trade balance	Feb	£mn	3,768	~	~
	09.30	UK	DCLG UK House Prices	Feb	y%ch	6.2	~	~
	13.30	US	Trade balance	Feb	\$bn	-37.3	-39.0	~
	13.30	CA	New housing price index	Feb	m%ch	0.4	~	~
	13.30	CA	International merchandise trade	Feb	\$bn	0.8	~	~
	1000	EZ	Industrial production	Feb	m%ch	1.6	~	~
Wed 14 Apr	13.30	US	CPI	Mar	m%ch	0.0	0.1	~
	13.30	US	CPI Core Index	Mar	Index	220.6	~	~
	13.30	US	Advance retail sales	Mar	m%ch	0.3	1.0	~
	15.00	US	Business Inventories	Feb	m%ch	0.0	0.4	~
	19.00	US	Fed's Beige Book	~	~	~	~	~
	~	~	~	~	~	~	~	~
Thu 15 Apr	09.00	EZ	ECB publishes April monthly report	~	~	~	~	~
	10.00	EZ	Trade balance	Feb	€bn	3.3	~	~
	13.30	US	Initial jobless and continuing claims	Apr	~	~	~	~
	13.30	US	Empire manufacturing	Apr	Index	22.9	23.8	~
	14.00	US	Net long-term TIC flows	Feb	\$bn	19.1	~	~
	14.15	US	Industrial Production	Mar	m%ch	0.1	~	~
	14.15	US	Capacity Utilization	Mar	%	72.1	~	~
	15.00	US	Philadelphia Fed.	Apr	Index	18.9	~	~
Fri 16 Apr	10.00	EZ	CPI	Mar	m%ch	0.3	~	~
	13.30	CA	Manufacturing sales	Feb	m%ch	2.4	~	~
	13.30	US	Housing starts	Mar	'000	575.0	610.0	~
	13.30	US	Building permits	Mar	'000	612.0	623	~
	13.30	US	U. of Michigan confidence	Mar	Index	73.6	74.5	~

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