

Business Weekly

All I want for Christmas is growth

This Week

It is now only a few sleeps until Christmas, as anyone with children will be well aware of. But, even as the focus of many of us turns to last-minute Christmas shopping, the economic data keep coming until the holidays are almost upon us. The two last releases of the year are the Q3 current account deficit (Tuesday) and Q3 GDP (Wednesday). Both will get some attention, more so the GDP figures.

Our GDP forecast is for a flat quarter, slightly below the market median of 0.3%. The RBNZ's December Monetary Policy Statement included a 0.4% forecast, though we suspect the RBNZ has shaved a tiny bit off that forecast given weak data published since it was made. The range of expectations is unusually wide for this release, ranging from -0.5% to +1%. But, even if Q3 GDP records a pretty flat result, there are increasing signs that the economy has been gathering momentum as the year draws to a close. Confidence levels are much higher than 6 months ago, anecdotes suggest the labour market is starting to stir a little, and housing construction is starting to pick up from a low base.

In reflection 2009 has been a hard year for many, but the year could have been a lot harder. Heading into the end of 2008 and the early part of 2009 the global economy was in freefall as the global financial system came very close to collapse. What made the all difference were the huge and synchronised policy responses from governments and central banks. These swift efforts helped to stabilise the global economy fairly quickly, showing that people can learn from history (Ben Bernanke, an economic scholar of the Great Depression, recently got named Time Magazine Person of the Year).

NZ's recession started earlier than in other countries, but even so NZ came out of the crisis with less battle damage than most countries. One positive factor has been the strength of the banking sector: Canada, Australia and NZ have very vanilla banks so escaped the deep problems that a number of banks in the US, UK and Europe have been blighted with.

2010 will have a lot of uncertainties about it, the biggest one being just how fast the global economic recovery will be. But that is a far nicer uncertainty to have than the ones we faced a year ago!

The first Economics Weekly for 2010 will be on January 11. We wish you a safe and merry Christmas and New Year.



Click here for:

[Foreign Exchange](#)

- NZD mixed last week, easing slightly on a trade-weighted basis.

[Interest Rates](#)

- Interest rates fall in line with Australian declines as RBA tone more dovish.

[Week Ahead](#)

- Current Account and GDP figures for Q3 due.

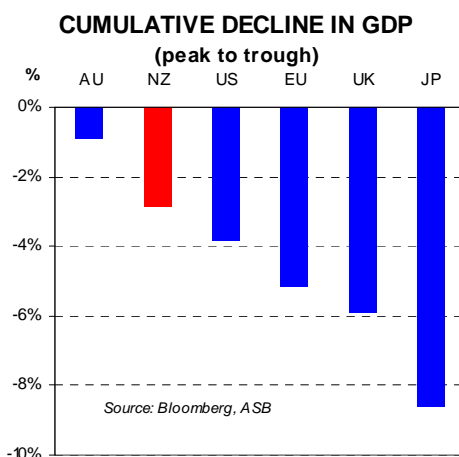
[Week in Review](#)

- Half Year Economic and Fiscal Update, business and consumer confidence.

[Global Calendars](#)

- UK & US GDP, US housing data, and Uni of Michigan Confidence due.

Chart of the week



- NZ fared better during the downturn than the major economic blocs, with its economy shrinking 2.9%. That figure includes the 1.2% decline that occurred prior to the global financial crisis deepening from September 2008.
- Australia was the stand-out performer, only registering one quarter of contraction (2008Q4). It benefited in the first half of 2008 from monetary and fiscal stimulus and is now benefiting from the rapid rebound in Asia.
- Japan, like a number of Asian exporting nations, was hit very hard by the sharp drop in global trade in late 2008 and early 2009. However, those hard-hit exporters have experienced equally as swift rebounds.
- Economic recovery in the US, UK and Europe will be more gradual, with the UK the laggard in that pack.

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	0.7112	0.7216	0.7287	0.6395	0.5821	FLAT	0.7050	0.7200
NZD/AUD	0.7991	0.7958	0.7937	0.7974	0.8422	FLAT	0.7850	0.8000
NZD/JPY	64.28	63.84	64.83	61.44	51.91	FLAT	63.50	65.00
NZD/EUR	0.4959	0.4933	0.4888	0.4597	0.4075	FLAT	0.4900	0.5050
NZD/GBP	0.4404	0.4456	0.4380	0.3874	0.3839	FLAT	0.4350	0.4500
TWI	64.9	65.0	65.1	60.6	56.2	FLAT	64.50	65.50

^Weekly support and resistance levels * Current is as at 1.00 pm Monday; week ago as at Monday 5pm

- The NZD was mixed over the last week, easing against the USD, JPY and GBP, but posting gains on the AUD and EUR. The result was a slight dip on a trade-weighted basis.
- NZD and AUD traded within defined trading ranges last week. We saw good demand for NZD/USD late last week around 0.7050, which we expect will provide support again this week. NZ Current Account (22nd) and NZ GDP due on 23rd December are the local catalysts for a break out of the current trading range for the kiwi. Our GDP forecast is at the lower end of market expectations: if our flat Q3 GDP expectations prove correct, the NZD should weaken on the day.
- Although the AUD underperformed the NZD last week, the AUD has closed back above its 100 Day Moving Average against the USD, which sits at 0.8850. We expect the AUD should stabilise over the coming week as USD strength peters out and the relative health of Australia comes back to the forefront of traders' minds.
- The USD has received support as traders close out many 'short' positions ahead of the end-of-year reporting period as the US economy continues to improve. However, with the Federal Reserve still expected to leave interest rates on hold for the foreseeable future, we suspect that the recent USD rally may be coming to an end.

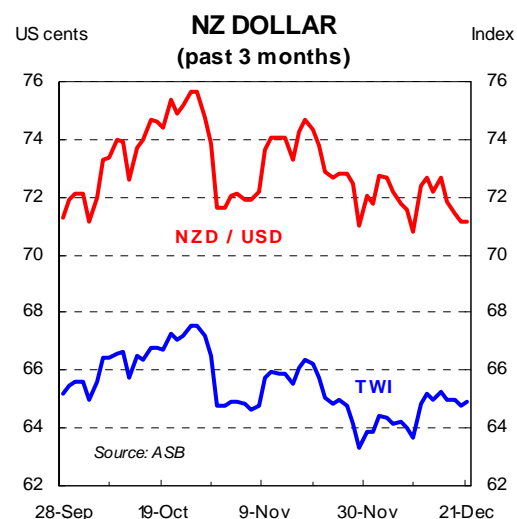
Short-term outlook:

Key data	Date	Time (NZST)	Market expects
Current Account – Q3 (% of GDP)	22/12	10.45 am	-3.9%
GDP – Q3	23/12	10.45 am	+0.3%
Trade Balance - November	7/1	10.45 am	-\$400m

Potential currency movers from overseas this week: UK GDP, Current Account, US GDP, US existing home sales (22nd); Euro Industrial Orders, US personal income and spending, University of Michigan confidence, Core PCE, new home sales, durable goods orders (23rd). Speakers: none.

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

- We continue to expect the NZD to appreciate further against the USD over the next 6 months. 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:
 - I. 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.
 - II. Diversification out of USD is expected to occur due to concerns about US government debt.
 - III. And, related, concern about the USD's future role as a reserve currency.
- Very recently, the USD has responded positively to strong US data, a change from the pattern of the past 8 months. There is a risk that the USD troughs a lower level than our current forecasts imply.
- 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.



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	5.00	FLAT
90-day bank bill	2.77	2.78	2.80	2.81	5.02	FLAT
2-year swap	4.56	4.72	4.38	3.94	4.64	FLAT/DOWN
5-year swap	5.54	5.64	5.52	5.44	5.00	FLAT/DOWN
5-year benchmark gov't stock	5.43	5.51	5.38	4.93	4.62	FLAT
NZSX 50	3154	3095	3114	2795	2679	UP

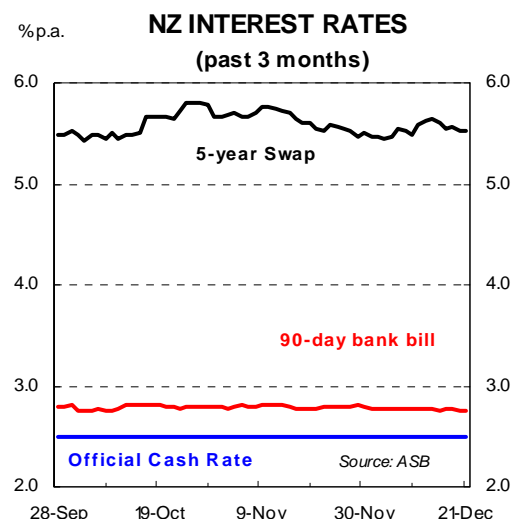
* Current is as at 1.00 pm Monday; week ago as at Monday 5pm. Please note that we have recently changed the NZ govt 5-year benchmark bond to April 2015 maturity (from April 2013). This does cause some distortion in the comparison against the previous levels (i.e. month ago).

- Offshore developments drove sharp declines in NZ interest rates last week. The improved outlook for Budget deficits and future debt requirements in the Government's Half Year Economic and Fiscal update had almost no impact on interest rate markets.
- In Australia, Tuesday's RBA minutes were more dovish than expected, with December's rate increase proving to be a close call for the RBA. The market is now giving serious consideration to a pause in February. Adding to this sentiment were comments by RBA Deputy Governor Battelino suggesting that given the wedge from Bank funding costs the current 3.75% cash rate is akin to a 4.75% cash rate in 'normal times' hence monetary policy settings are now in the normal range.
- Thursday morning's FOMC statement saw US Treasury yields drop (although had limited impact on local markets). Despite giving a nod to the recent improvement in data, the Fed stuck with its policy assessment and reiterated it expected to keep interest rates low for an extended period.

Short-term outlook:

Key data	Date	Time (NZST)	Market expects
Current Account – Q3 (% of GDP)	22/12	10.45 am	-3.9%
GDP – Q3	23/12	10.45 am	+0.3%
Credit Growth - November	30/12	3.00 pm	-
Trade Balance - November	7/1	10.45 am	-\$400m

Comment: Local interest rate markets are likely to trade sideways, with GDP the highlight. We see potential for GDP to disappoint market expectations of 0.3%. Given the weakness in Australian markets last week, there is scope for further declines in interest rates in NZ. Otherwise markets head into holiday mode and November credit statistics could fly under the radar with a Dec 30 release date.



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

- The RBNZ continues to hold the cash rate at 2.5%. The RBNZ adopted a more hawkish tone at the December Monetary Policy Statement. The RBNZ now recognises the stronger economic outlook and the risks to inflation moving toward the upside. The RBNZ has moved forward its expected tightening to the middle of 2010, with the 90-day interest rate track now increasing from Q3 2010.
- The RBNZ has revised up its view on the economic outlook, with the composition of growth now more household led. The move acknowledges the recent strength in house prices as well as the improvement in consumer and business confidence. The RBNZ notes there is upside risk to spending growth given the strength of house prices, although points the weakness in household credit growth as indicating cautious consumer behaviour.
- The RBNZ has become more concerned on future inflation pressures, noting it has been surprised by the extent non-tradable prices have help up. The recession has not triggered a period of muted inflation; it merely appeared to wipe out the excess inflation pressure from the economy. There is no longer much scope for the RBNZ to absorb upside surprises to the inflation outlook other than to lift rates earlier than currently intended.
- The next move in the OCR is up, it's just a matter of when. We continue to expect the RBNZ will hike by April next year, as the strength in the housing market continues to test the RBNZ's patience. 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

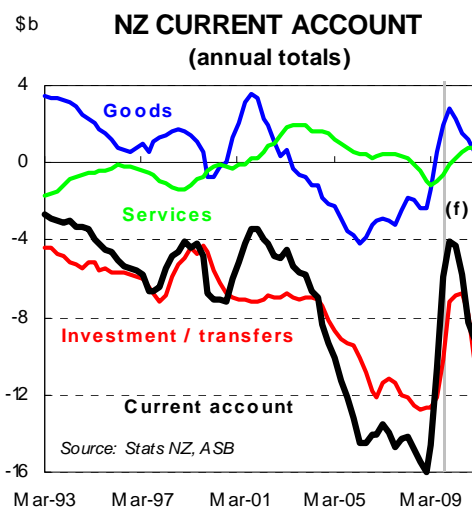
Data	Date	Time (NZST)	Previous	Market expects	ASB expects
Current Account – Q3 (% of GDP)	22/12	10.45 am	-5.9%	-3.9%	-3.3%
GDP – Q3	23/12	10.45 am	+0.1%	+0.3%	0.0%
Household Credit Growth (RBNZ) – November	30/12	3.00 pm	+0.4%	-	-
Trade Balance – November	7/1	10.45 am	-\$487	-\$400	-\$400

Tuesday 22 December

Q3 Current Account

Previous: -5.9% GDP ASB(f): -3.3% GDP

We expect a quarterly current account deficit of \$1.36 billion. The deficit narrowed sharply in Q2, as the investment income balance was far higher than anticipated. The Bank of New Zealand's \$661m tax provision for its structured finance tax case flowed straight through into the Balance of Payments, dampening the recorded income outflow. In Q3, Westpac, ANZ and ASB made provisions for their respective structured finance cases. In addition to the large impact of one-off bank provisioning, underlying profitability for corporates in general has also been slowing, reducing the investment income deficit. Furthermore, the goods deficit remains significantly smaller than year-ago levels, owing to the weakness in imports. Hence, Q3 should reflect some underlying narrowing of the current account deficit – over laid by some significantly one-offs.

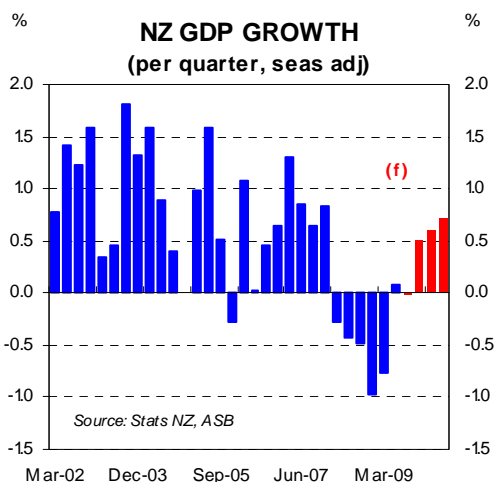


Wednesday 23 December

Q3 Gross Domestic Product

Previous: +0.1% ASB(f): 0.0%

We expect GDP was flat over Q3, as the economy remained on the cusp of a recovery. Growth in Q2 was stronger than many initially expected, bringing an early end to the recession. For Q3, although there are pleasing signs of stabilisation in many sectors, we are yet to see evidence of a widespread recovery. Pockets of strength, particularly the housing market, have been offset by continued weakness in other sectors such as construction. We expect the recovery to gain traction over the final quarter of 2009, in part due to support from the inventory cycle as firms slow down in the destocking process. The economy remained fragile during Q3, and in continued need of policy support. It is possible that Q3 growth will undershoot expectations, with the RBNZ expecting 0.4% in the December *Monetary Policy Statement*. As the recovery becomes more widespread and self sustaining over 2010, the RBNZ can look to begin reducing monetary policy support.

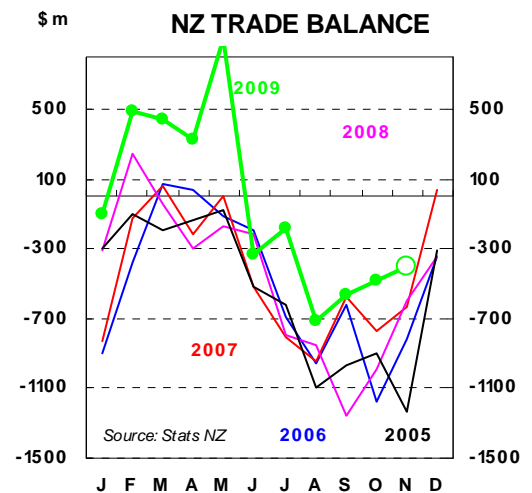


Thursday 7 January 2010

Trade Balance – November

Previous: -\$487m ASB(f) -\$400m

The trade balance typically narrows in the latter months of the year, as new season dairy production kicks in. However, we expect the narrowing to be slightly sluggish this year as exports remain soft. Dairy receipts are likely to remain constrained by poor prices (from earlier in the year), whilst production volumes may underperform the usual seasonal pick up. The full impact of the recent recovery in dairy spot prices may not show up in product shipments until early 2010. Meanwhile, meat volumes are likely to be constrained by low slaughter levels. Imports were slightly softer than expected in October. We expect to see pick up in import volumes (underpinned by recovery domestic demand), although the high NZD is likely to dampen prices.



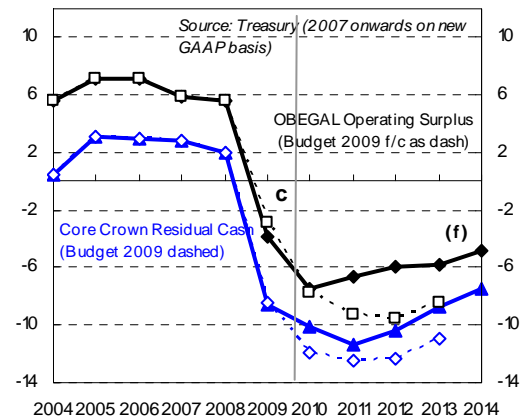
NZ Data Review: weekly recap

NZ Government Half Year Economic and Fiscal Update.

Compared to the May 2009 Budget, the Government's key bottom line 'OBEGAL' (operating balance excluding gains and losses) ended up worse than expected in 2009, but forecasts for 2010 and beyond are now for much smaller deficits.

The forecast operating deficits also improve more swiftly than anticipated in the latest Budget outlook. Part of the improvement is based off expectations of a better economic environment and part is based on careful expense management. Consequently, the Government's funding requirement is starting to taper off significantly in the latter years of the forecast horizon. Rating agencies should be a lot more comfortable with the evident improvement in the fiscal outlook. For governments that are issuing large amounts of debt in the short term, it will become increasingly important to demonstrate some sort of exit strategy. NZ is starting to do that.

NZ KEY FISCAL BALANCES
(\$ billion, HYEFU 2009)

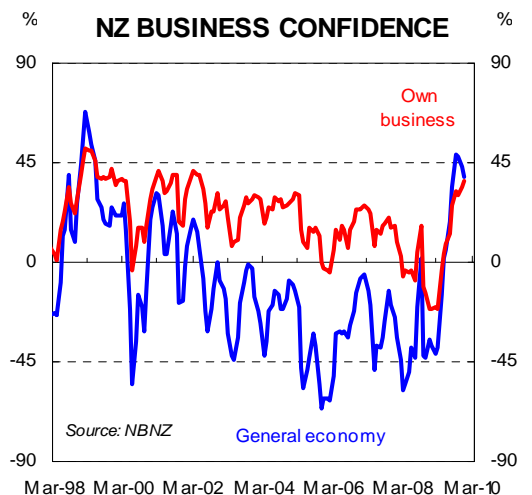


NBNZ Business Outlook – December.

Headline business confidence edged back slightly for the second month in a row in December. However, more importantly, firms' view on their own activity over the next 12 months continues to improve. Net 36.9% expect own activity to increase over the next 12 months, compared to 33.7% in November. Over the December quarter, business confidence has made small steady gains. In addition, further gradual improvement in profitability expectations, investment and employment intentions suggest that the recovery is now gaining traction.

Pricing intentions ticked up slightly, although remain at very low levels and do not present an immediate concern for the inflation outlook.

The ongoing strength in business confidence will reassure the RBNZ that the economic recovery is likely to gain traction over the first half of 2010.



Westpac McDermott Miller Consumer Confidence

Consumer confidence edged down in Q4 according to the Westpac McDermott Miller survey. The index stands at 116.9 after jumping to 120.3 in Q3 on the "relief" factor.

The decline was driven by the forward-looking components of the survey, with the future conditions index down 5.9 points to 128.8. A key driver of the less upbeat outlook was a drop in the 5-year outlook for the economy, with the 1-year outlook also a touch softer. Consumers' expectations of their own financial position also softened slightly. Consumers still have a very circumspect view of their current situation and expect significant improvement ahead – just not quite to the same extent as in Q3.

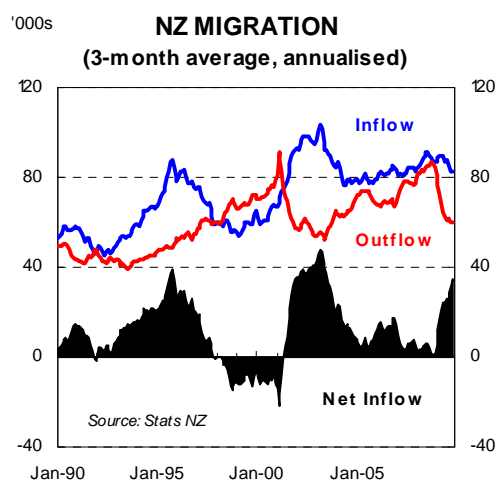
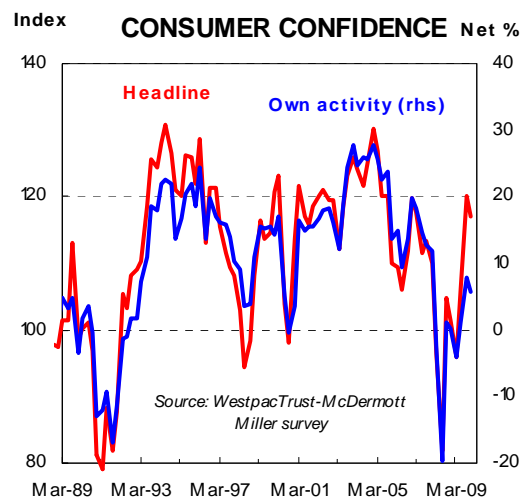
Consumers' own activity assessment has held onto recent improvement, but remains at a slightly subdued level. This suggests consumer behaviour is likely to remain cautious over the next year, which will appease RBNZ concerns of a return to debt-fuelled consumption growth.

Net Migration - November

Monthly net migration remained firm in November, although softened slightly as departures lifted 7.3%. Over the past year, the increase in net inflows has been underpinned by a fall in departures, particularly to Australia. Permanent departures to Australia now appear to be stabilising.

Annual net migration pushed above 20,000 per annum in November, underpinned by a fall in departures while arrivals have remained relatively steady. The annual rate of net migration is likely to peak around 23,000 early in 2010. We expect a recovery in departures to Australia (as the Australian economy and labour market recovers) to help ease the pace of net migration over 2010.

Short-term visitor arrivals fell 3.7% over November, but remain up on year-ago levels. Arrivals from Australia remain strong, although growth in Australian arrivals appears to be slowing. Over the past year, the composition of short-term visitor arrivals has changed dramatically with a surge in Australian tourists offsetting the decline in arrivals from Asia, US and the UK. Arrivals from long-haul markets tend to stay longer and spend more in NZ, and the fall in these arrivals has been challenging for NZ tourism.



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	
	NZST						Market	ASB/CBA
Mon 21 Dec	10.45	NZ	Visitor arrivals	Nov	m%ch	-0.7	~	~
	12.00	AU	Conf. board leading index	Oct	m%ch	0.3	~	~
	12.50	JP	Merchandise trade balance	Nov	¥bn	805.4	~	~
	13.30	AU	New Motor Vehicle Sales	Nov	m%ch	3.7	~	~
					y%ch	3.3	~	~
	15.00	NZ	Credit card spending	Nov	m%ch	-0.4	~	~
	17.30	JP	All industry activity index	Oct	m%ch	-0.6	~	~
18.00	JP	BoJ monthly report	Dec	~	~	~	~	
Tue 22 Dec	10.45	NZ	Current account balance	QIII	% of GDP	-5.9	~	-3.3
	14.00	NZ	Westpac NZ cons. confidence	QIV	Index	120.3	~	~
Wed 23 Dec	10.45	NZ	GDP	QIII	q%ch	0.1	~	0.0
Thu 24 Dec	12.50	JP	BoJ monetary policy meeting minutes for May					
Fri 25 Dec	~	AU	Christmas Day	~	~	~	~	~
	~	AU	Financial accounts	QIII	~	~	~	~
	12.30	JP	Jobless rate	Nov	%	5.1	~	~
	12.30	JP	Household spending	Nov	y%ch	1.6	~	~
	12.30	JP	National CPI	Nov	y%ch	-2.5	~	~
	12.50	JP	Corp service price	Nov	y%ch	-2.2	~	~
	17.00	JP	Vehicle production	Nov	y%ch	-19.1	~	~
	18.00	JP	Housing starts	Nov	y%ch	-27.1	~	~
	18.00	JP	Construction orders	Nov	y%ch	-40.1	~	~
Mon 28 Dec	~	AU	Boxing Day	~	~	~	~	~
	12.50	JP	Industrial production	Nov	m%ch	0.5	~	~
	12.50	JP	Retail trade	Nov	m%ch	-0.9	~	~
	14.30	JP	Labor cash earnings	Nov	y%ch	-1.7	~	~
	15.00	CH	Industrial profits	Nov	ytd y%ch	-10.6	~	~
	18.00	JP	Vehicle sales	Dec	y%ch	36.0	~	~
Wed 30 Dec	12.15	JP	Nomura/JMMA manuf. PMI	Dec	Index	52.3	~	~
Thu 31 Dec	13.30	AU	Private sector credit	Nov	m%ch	0.0	~	0.1
					y%ch	1.1	~	0.9
2010								
Fri 01 Jan	14.00	CH	PMI manufacturing	Dec	Index	55.2	~	~
Wed 06 Jan	13.30	AU	Building approvals	Nov	m%ch	-0.6	~	4.0
					y%ch	11.7	~	29.2
Thu 07 Jan	13.30	AU	Retail sales	Nov	m%ch	0.3	~	0.5
	13.30	AU	Trade balance	Nov	\$bn	-2.4	~	-1.5

Calendar – North America & Europe

Please note all days and times are UK time, not local release day/times

Date	UK		Econ Event	Period	Unit	Last	Forecast	
	time						Market	CBA
Mon 21 Dec	13.30	CA	Retail sales	Oct	m%ch	1.0	~	~
	13.30	US	Chicago Fed activity index	Nov	Index	-1.08	~	~
Tue 22 Dec	07.00	GE	GfK cons. confidence survey	Jan	Index	~	~	~
	09.30	UK	GDP	QIII	q%ch	-0.3	-0.1	~
					y%ch	-5.1	-4.9	~
	09.30	UK	Current account	QIII	£bn	-11.4	-8.1	~
	09.30	UK	Bank of England minutes	Dec	~	~	~	~
	13.30	US	GDP (annualised)	QIII	q%ch	2.8	2.8	~
	15.00	US	Richmond Fed manuf. index	Dec	Index	1.0	4.0	~
	15.00	US	House price index	Oct	m%ch	0.0	~	~
	15.00	US	Existing home sales	Nov	\$mn	6.1	6.3	~
					m%ch	10.1	3.3	~
Wed 23 Dec	10.00	EZ	Industrial New Orders	Oct	m%ch	1.5	~	~
					y%ch	-16.5	~	~
	13.30	CA	GDP	Oct	m%ch	0.4	~	~
	13.30	US	Personal income	Nov	%	0.2	0.5	~
	14.00	US	RPX composite 28dy	Oct	y%ch index	-10.0 194.0	~	~
	15.00	US	Uni of Michigan confidence	Dec	Index	73.4	73.7	~
	15.00	US	New home sales	Nov	m%ch	6.2	2.3	~
Thu 24 Dec	13.30	US	Durable goods orders	Nov	%	-0.6	0.4	~
Mon 28 Dec	00.01	UK	Hometrack housing survey	Dec	m%ch y%ch	0.2 -2.9	~	~
Tue 29 Dec	~	GE	CPI	Dec	m%ch y%ch	-0.1 0.4	~	~
	09.30	UK	BoE housing eq. withdrawal	QIII	£bn	-7.0	~	~
	14.00	US	S&P/CS composite-20	Oct	y%ch	-9.4	~	~
	15.00	US	Consumer confidence	Dec	Index	49.5	~	~
	Wed 30 Dec	14.45	US	Chicago purchasing manager	Dec	Index	56.1	~
Thu 31 Dec	00.01	UK	GfK cons. confidence survey	Dec	Index	-17.0	~	~
	15.00	US	NAPM-Milwaukee	Dec	Index	57.0	~	~
2010								
Mon 04 Jan	08.55	GE	PMI manufacturing	Dec	Index	~	~	~
	09.30	EZ	Sentix investor confidence	Dec	Index	-5.5	~	~
	09.30	UK	Net consumer credit	Nov	£bn	-0.6	~	~
	09.30	UK	PMI manufacturing	Dec	Index	51.8	~	~
	10.00	EZ	PMI manufacturing	Dec	Index	51.2	~	~
	15.00	US	ISM manufacturing	Dec	Index	~	~	~

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