

Business Weekly

Confidence in question

This Week

The magnitude of the economic recovery over Q4 will be the focus for the week. We are expecting a 0.5% increase in GDP (released Thursday 25th at 9am), close the RBNZ's pick of 0.6% but on the softer side of the median market expectation, centred on 0.8%. The overall picture for Q4 will be the economic recovery becoming more widespread throughout the different sectors of the economy. Retail and manufacturing will be making a strong contribution to growth, while the recovery in construction and services will remain slightly more muted. Although an important release, the data relates to the past, and what's of more interest is if growth is becoming self-sustaining through 2010. Certainly, the foundations are locking into place, with improved business and consumer confidence over the past year. In addition, the lower NZD/AUD is likely to provide a lending hand to manufacturing and tourism.

However, last week's easing in consumer confidence was a timely reminder of the caution that remains despite the improved outlook. The weaker result was most likely influenced by higher petrol prices and current uncertainties ahead of the May Budget tax announcement. Nonetheless, spending growth has been muted over recent months. A solid turn around in employment growth will be key to reassuring households.

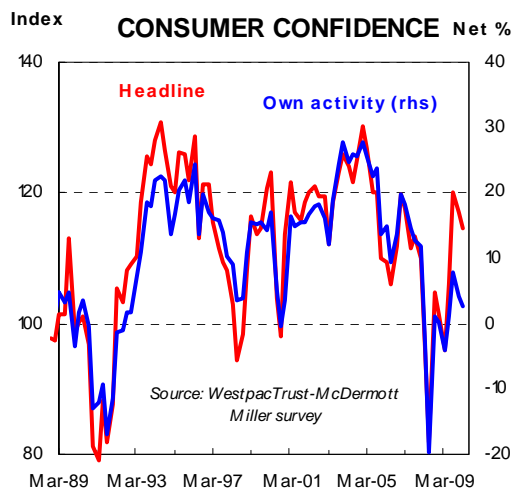
The current caution in households and business alike is weighing down economic activity, allowing the RBNZ to wait until the middle of 2010 before starting to unwind monetary policy stimulus. However, the RBNZ needs to remain wary of inflation risks. Capacity and inflation pressures have not unwound that far, despite the recession. The NZ economy will not get far through the recovery until these inflation pressures start to re-emerge, as is currently happening in Australia. With the risks to the inflation outlook skewed firmly to the upside, the RBNZ needs to weigh these risks carefully.

The current account is the other key release for the week, and the deficit has narrowed substantially over the past year, in the most part due to the recession. A decline in corporate profitability reduced the income flow out of New Zealand, which narrowed the investment income deficit. Meanwhile, a slump in import demand drove much of the improvement in the goods balance. As the NZ economy records its third quarter of positive growth, the drivers of the smaller current account deficit are starting to turn. Underlying corporate profitability is likely to improve over the next year, increasing dividends to the foreign owners. Import demand is set to recover with domestic demand. The February merchandise trade balance due Friday, will provide a more timely read on this process. The trade balance is currently recording strong (seasonal) surpluses. However, by winter the trade balance is likely to return to deficit as import growth recovers.

Click here for:

- [Foreign Exchange](#) • Commodity currencies NZD, CAD and AUD were top performers last week
- [Interest Rates](#) • Little change in long-term rates while bank bill yields ease lower.
- [Week Ahead](#) • GDP to grow 0.5% in Q4, current account deficit to narrow to -1.8% of GDP.
- [Week in Review](#) • Consumer confidence eases, net migration starts to slow.
- [Global Calendars](#) • RBA financial stability review, UK CPI, US GDP.

Chart of the week



- Headline consumer confidence has recovered strongly over the past year. However, the recovery in consumer spending has been more sluggish.
- Part of the divergence can be explained by separating the questions relating to consumers' own financial position from those related to the general economic outlook.
- While households acknowledge the improved prospects for the general economy, they remain less upbeat on their own personal circumstances.
- The majority of households (net 20%) remain financially worse off compared to a year ago. This most likely relates to the soggy labour market, with unemployment yet to peak and wage growth very weak. A visible improvement in employment is key to consumer confidence and spending improving.

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	0.7071	0.7014	0.6959	0.7071	0.5573	FLAT	0.6950	0.7150
NZD/AUD	0.7726	0.7678	0.7814	0.8165	0.8105	FLAT	0.7650	0.7850
NZD/JPY	64.01	63.57	63.86	64.74	52.68	FLAT	63.00	65.00
NZD/EUR	0.5225	0.5106	0.5163	0.4814	0.4078	FLAT	51.80	52.80
NZD/GBP	0.4713	0.4626	0.4513	0.4358	0.3845	FLAT	0.4650	0.4750
TWI	65.5	64.7	64.9	64.6	55.1	FLAT	64.5	66.50

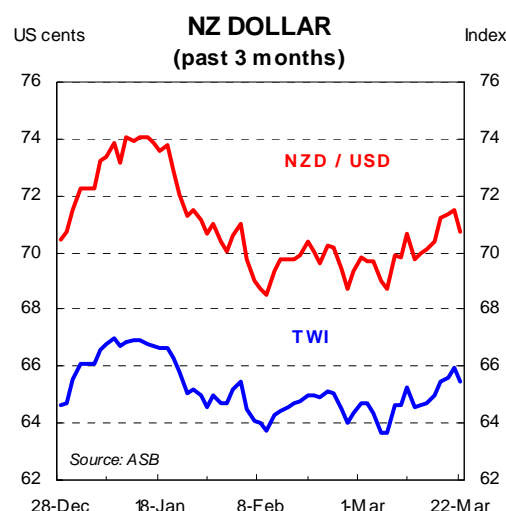
^Weekly support and resistance levels * Current is as at 11.00 am Monday; week ago as at Monday 5pm

- Commodity currencies (NZD, CAD and AUD) led the list of top currency performers last week. The euro was the worst performer, dropping around 1.5% against the USD over the week as uninspiring data and increased uncertainty regarding a Greek resolution all took their toll on the single currency.
- The NZD traded over 0.716 on Wednesday and Thursday last week. The NZD has subsequently eased a cent lower against the USD. A lack of local data meant the NZD direction was largely determined offshore last week. However the release of Q4 Current Account (Wednesday) and GDP (Thursday) gives plenty of on-shore focus for financial markets.
- More comments on the Greek bailout continue to surface and weigh on the Euro. Greece needs to refinance €8.2bn of sovereign bonds in April, plus a further €8.4bn in May. EURUSD struggled last week, trading down to 1.35. The NZDEUR hit a two-year high last week, trading over 0.52. EUR also came under heavy selling pressure against the Swiss Franc (CHF) as investors digested hawkish remarks from the Swiss National Bank Governor. He said that the "current expansionary monetary policy cannot be maintained indefinitely without incurring inflation risks ... households and firms should prepare themselves for a return....to a world of higher interest rates." The EUR touched its lowest ever level against the CHF last week.
- GBP has been incredibly weak as markets continue to be concerned about the prospect of a "hung" UK parliament. NZDGBP touched a high of 0.4746 earlier in March, and is trading just shy of that level now.

Short-term outlook:

Key data	Date	Time (NZST)	Market expects
Q4 Current Account %of GDP	24/3	10.45am	-2% GDP
Q4 GDP qoq	25/3	10.45 am	+0.8%
Feb Trade Balance	19/3	10.45am	+\$430m

Potential currency movers from the US this week: existing home sales, house prices (23rd); durable goods orders, new home sales (24th); jobless claims (25th); economic growth, consumer confidence (26th). **Speakers:** Lockhart (22nd), Plosser, Yellen (23rd), Hoenig, Kohn (24th), Pinalto, Bernanke (25th), Bullard, Warsh, Tarullo (26th).



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 NZDUSD over the next few months is likely to be limited, as the USD has started to strengthen reflecting improving 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 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	2.62	2.70	2.72	2.77	3.26	FLAT/DOWN
2-year swap	4.22	4.23	4.26	4.12	3.48	DOWN
5-year swap	5.21	5.20	5.25	5.42	4.43	DOWN
5-year benchmark gov't stock	5.14	5.11	5.14	4.84	3.95	FLAT
NZSX 50	3229	3231	3107	3159	2599	FLAT

* Current is as at 11.00 am 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 90-day bank bill rates have declined relative to the OCR. Expectations for OCR increases remain unchanged by the market, following what has been a very quiet and stable period. However, changes in how banks are funding themselves have seen banks move away from using bank bills to using more offshore funding. The reduced issuance of bank bills, and conversion of foreign funding into NZD exposures, have both put downward pressure on bank bill rates.
- The RBA minutes (16th) were mostly as expected, leaving market rates unchanged. The minutes noted the RBA's intention to "move gradually towards normal levels" and revealed an intention to set policy for the most likely outcome – i.e. to respond to potential risks if they become actualities, rather than before. The minutes spent considerable time on the state of the credit and rates markets as well as the underlying economics.
- The FOMC statement (17th) was largely as expected, with the Federal Reserve reiterating the message that it intends to keep the Federal Funds rate low "for an extended period".

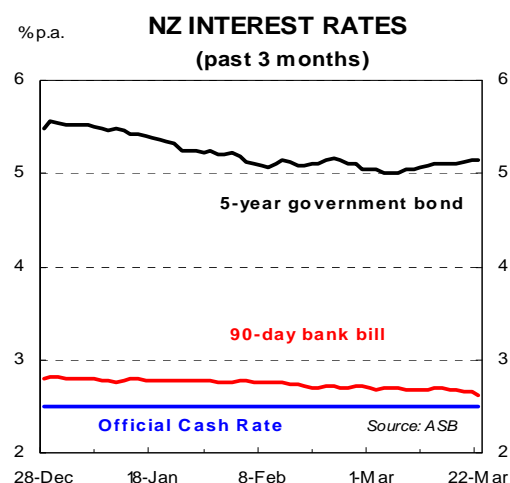
Short-term outlook:

Key data	Date	Time (NZST)	Market expects
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Q4 GDP qoq	25/3	10.45 am	+0.8%
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Comment: The current account is expected to narrow from 3.1% of GDP to 2.0% of GDP (ASB forecast is for a slightly smaller deficit of 1.8% of GDP). Current account balances tend to have little direct influence on monetary policy decisions. The focus will be on Q4 GDP, a weaker than expected number will add to the recent run of softer data, and is likely to reduce pricing for a June OCR hike. Nonetheless, we look to inflation as being more important for policy decisions, and continue to expect a June OCR hike (even if GDP is slightly softer than market 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 (see our discussion on the first page). 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 and the implementation of the Emissions Trading Scheme, 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.
- 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 reduce 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

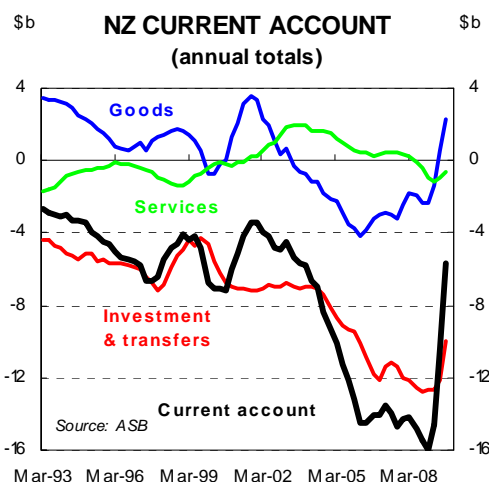
Data	Date	Time (NZST)	Previous	Market expects	ASB expects
Q4 Current Account Balance -% of GDP	24/3	10.45am	-3.1%	-2.0%	-1.8%
Q4 Gross Domestic Product qoq	25/3	10.45am	+0.2%	+0.8%	+0.5%
February Merchandise Trade	26/3	10.45am	+\$269m	+408m	+400m

Wednesday 24 March

Q4 Current Account Balance

Previous -3.9% of GDP, ASB f/c -1.8% of GDP

We expect a current account deficit of \$1.6 billion in Q4, which brings the annual deficit to just 1.8% of GDP. The current account has improved substantially over the past year, due to a strong trade surplus (owing to a very sharp drop in imports) as well as a reduced income deficit (owing to a decline in the profitability of foreign-owned NZ businesses as well as provisions by various banks for the structured tax finance court cases). However, in Q4 the drivers of the narrowing current account were starting to turn. Underlying bank profitability improved over Q4, and profits were further boosted by a tax write-back relating to the settlement of the structured tax finance cases in December. The final settlement was smaller than the sum of the provisions ahead of the settlement.

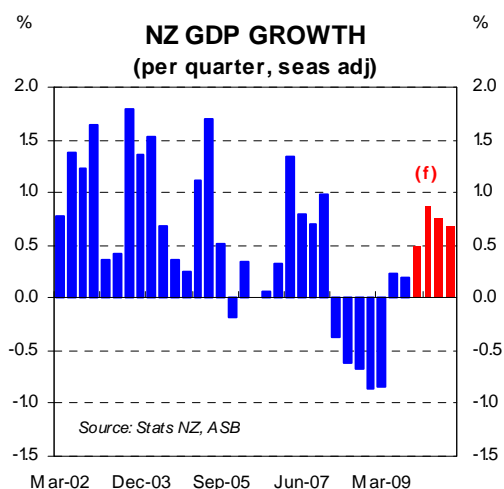


Thursday 25 March

Q4 Gross Domestic Product

Previous +0.2% qoq, ASB f/c +0.5% qoq

We expect GDP to increase 0.5% over Q4, with the recovery becoming broader based across different sectors of the economy. Manufacturing and construction activity are set to join the recovery, after bearing the brunt of decline throughout the recession. Retail, wholesale trade and transport are likely to record firm growth as demand recovers. However, we expect growth to remain subdued in services and primary production.



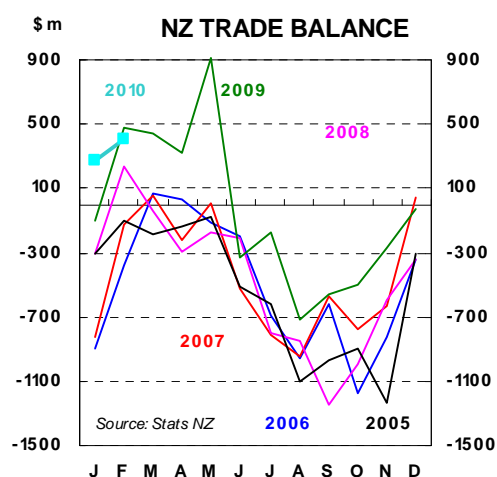
Friday 26 March

February Merchandise Trade Balance

Previous +\$269m, ASB f/c +\$400m

The Trade Balance enters a seasonally strong period during the early part of the year, typically beginning in February, as meat and dairy exports are both around seasonal peaks. The recovery started early this year, with January recording a very strong trade surplus due to very strong dairy exports. We expect this strength to continue in February, as dairy prices realise gains.

To date, imports have been slow to recovery, although will gradually gather momentum along with recovering economic demand.



NZ Data Review: weekly recap

Q1 Westpac McDermott Miller consumer confidence

March Roy Morgan consumer confidence

Consumer confidence has eased over the last two quarters, after hitting a 4-year high in Q3 2009. The headline Westpac McDermott Miller confidence indicator remains well above the 100 threshold which indicates optimists outnumber pessimists and above the long run average of 112. The monthly Roy Morgan survey for March moved in sync with the quarterly survey results.

The present conditions index improved slightly from 99 to 99.5 while the future conditions index eased from 128.8 to 124.7. Both measures are significantly up on year-ago levels (90.7 and 99.6 respectively). Consumers remain optimistic about future conditions, but less so than in the preceding quarters.

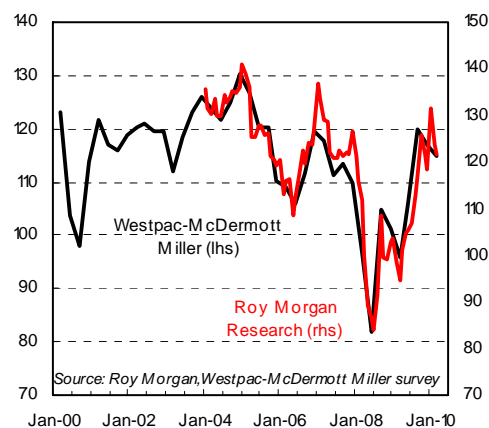
This easing of optimism is likely reflecting the slow nature of the recovery from recession, as well as some recent pressure on households from rising interest rates and petrol prices. A lift in the unemployment rate in Q1 and a slowing in the housing market is also likely to be weighing on consumer sentiment. A level of caution remains within consumer sentiment, and the recovery in spending growth is likely to remain subdued.

February International Travel and Migration

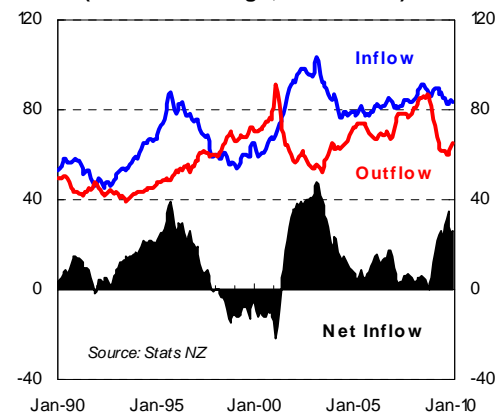
Net migration continues at a firm pace, recording net 1,060 new migrants over February, although showing some signs of softening. The annual pace of inflow is now easing from its peak, recording 21,600 new migrants over the year to February, compared to 22,600 in January. The slowing pace of migration comes as permanent departures have started to recover, rising 7.2% in February. This pick up has been underpinned by a recovery in departures to Australia, a trend we expect to continue over 2010.

Short-term visitor arrivals fell 1.9% in January. Nonetheless, the current trend level in visitor arrivals remains firm. Australian visitor numbers remain steady, after strong growth over the second half of 2010. We expect Australian visitor arrivals to remain firm, as the lower NZD/AUD makes New Zealand a relatively cheap alternative for Australian holiday makers. Encouragingly, there also appears to be an improvement in Asian visitor arrivals over the past few months. The increased interest has been broad based, with a rise in Japanese, Korean and Chinese numbers. However, StatsNZ noted extra caution should be applied to interpreting Chinese visitor arrivals, as the typical seasonal pattern has been disrupted by the change in timing of Chinese New Year.

NZ CONSUMER CONFIDENCE SURVEYS



NZ MIGRATION
(3-month average, annualised)



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	Forecast						
	NZT					Last	Market	ASB/CBA				
Mon 22 Mar	13.30	AU	New motor vehicle sales	Feb	m%ch	-3.4	~	-2.0				
					y%ch	15.6	~	16.8				
Tue 23 Mar	12.50	JP	BoJ monetary policy meeting minutes for February	Feb	y%ch	-4.9	~	~				
					18.00	JP	Supermarket sales	Feb	y%ch	-4.9	~	~
Wed 24 Mar	10.45	NZ	Current account balance	QIV	\$bn	-1,413	~	~				
					10.45	NZ	Account deficit-GDP ratio	QIV	% of GDP	-3.1	~	~
	12.50	JP	Merchandise trade balance (seas adj)	Feb	¥bn	728	~	~				
	12.50	JP	Merchandise trade exports	Feb	y%ch	40.8	~	~				
	12.50	JP	Merchandise trade imports	Feb	y%ch	9.1	~	~				
	13.00	AU	DEWR Skilled Vacancies	Mar	m%ch	1.6	~	~				
	10.45	NZ	GDP	QIV	q%ch	0.2	~	0.5				
Thu 25 Mar	12.40	AU	RBA Deputy Bank Governor Lowe speaks at AIG conference Sydney	Feb	y%ch	-1.3	~	0.1				
					12.50	JP	Corp service price	Feb	y%ch	-1.0	~	~
					13.30	AU	Reserve Bank releases Financial Stability Review					
					10.45	NZ	Trade Balance	Feb	\$mn	269	~	~
Fri 26 Mar	11.15	AU	RBA Governor Stevens addresses ACI World Congress in Sydney	Jan	%	0.6	~	~				
					12.00	AU	Conference Board Leading Index	Jan	%	0.6	~	~
					12.30	JP	National CPI	Feb	y%ch	-1.3	~	~
					12.30	JP	National CPI ex-fresh food	Feb	y%ch	-1.3	~	~
					12.30	JP	National CPI ex food, energy	Feb	y%ch	-1.2	~	~
					15.00	CH	Industrial Profits	Feb	ytd y%ch	7.8	~	~

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 22 Mar	12.30	US	Chicago Fed Nat activity index	Feb	Index	0.02	~	~	
	15.00	EZ	Euro-Zone consumer confidence	Mar	Index	-17.0	~	~	
Tue 23 Mar	09.30	UK	CPI	Feb	m%ch	-0.2	~	~	
					y%ch	3.5	~	~	
	09.30	UK	Core CPI	Feb	y%ch	3.1	~	~	
	09.30	UK	BBA loans for house purchase	Feb	~	35,038	~	~	
	12.30	CA	Leading indicators	Feb	%	0.9	~	~	
	14.00	US	Existing home sales	Feb	m%ch	-7.2	-1.0	~	
	14.00	US	House price index	Jan	m%ch	-1.6	-2.0	~	
	14.00	US	Richmond Fed manufacturing index	Mar	Index	2.0	~	~	
Wed 24 Mar	08.30	GE	PMI manufacturing	Mar	index	57.2	~	~	
	08.30	GE	PMI services	Mar	index	51.9	~	~	
	09.00	EZ	PMI services	Mar	index	51.8	~	~	
	09.00	EZ	PMI manufacturing	Mar	index	54.2	~	~	
	09.00	EZ	PMI composite	Mar	index	53.7	~	~	
	09.00	GE	IFO - business climate	Mar	Index	95.2	~	~	
	10.00	EZ	Industrial new orders	Mar	m%ch	0.8	~	~	
	12.30	US	Durable goods orders	Feb	m%ch	2.6	0.4	~	
	12.30	US	Durables ex transportation	Feb	m%ch	-1.0	0.3	~	
	12.30	US	New home sales	Feb	'000	309	315	~	
	Thu 25 Mar	07.00	GE	GfK consumer confidence survey	Apr	Index	3.2	~	~
		09.30	UK	Retail sales ex auto fuel	Feb	m%ch	-1.2	~	~
09.30		UK	Total Business Investment	QIV	q%ch	-5.8	~	~	
			y%ch		-24.1	~	~		
Fri 26 Mar	12.30	US	GDP annualized	QIV	y%ch	5.9	5.9	~	
	12.30	US	U. of Michigan confidence	Mar	~	72.5	73.0	~	

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