

Business Weekly

Rats and mice

This Week

It will be a rats and mice week for economic news over the next week with a large number of second-tier releases both here and overseas. For NZ there is little key data heading towards the December Monetary Policy Statement. The next week brings business confidence, overseas trade, credit growth and building consents. Elsewhere, US housing (sales, prices), Federal Reserve meeting minutes, US consumer confidence, and Australian capital expenditure will be the more important events to watch.

Business confidence and activity expectations in NZ have in recent months recovered to levels more consistent with trend economic growth. However, other components of surveys have recovered to a lesser extent, with employment and profit expectations still below average. A fair assessment of business survey results would be that most businesses believe the worst is past and things can only get better, but pressures, uncertainty and caution remain. Those latter realities do suggest it will be a while yet until businesses do have the confidence to loosen the purse strings and that economic growth in the short term will be subdued. Results in the latest survey (due Thursday) are likely to hover around recent levels.

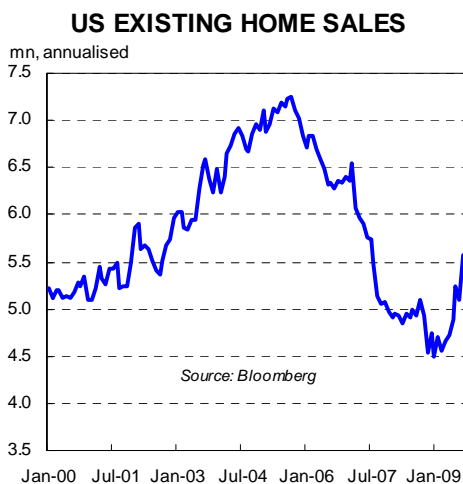
This Friday we expect a merchandise trade deficit of around \$300 million will be recorded for October as imports start to build up ahead of Christmas yet the agricultural export season is yet to get fully underway. The trade figures will be followed in the afternoon by credit growth, an area to keep an eye on. From the RBNZ's narrow perspective credit growth has been happening in the areas it would prefer not to see strong growth occurring in, namely household and agriculture. In contrast, for much of this year business loans have been amortising faster than new loans can be written, with business capex slashed back. At this stage household credit growth is still muted at around 3% annual growth and in dollar terms monthly growth is roughly a third of that seen in the first half of 2007 when the housing market was running hot. The RBNZ would be concerned if household credit growth started to take off, saying in its October statement that "the current composition of [housing-led] growth continues to raise questions about its sustainability. These concerns would intensify if credit growth began to propel stronger domestic demand."

Next Monday building consents for October will be released. With the housing market in recovery mode and a relative scarcity of listings, the environment for building new homes is becoming more favourable. Dwelling consents have been gradually lifting from their lows, a trend we expect to continue over time. Non-residential consents have so far been resilient during the downturn, aided by government activity.

Click here for:

- [Foreign Exchange](#) • NZD weakens as financial markets lose appetite for risk.
- [Interest Rates](#) • Rates drift lower over the week as markets reassess outlook.
- [Week Ahead](#) • NBNZ Business Outlook, trade balance, credit aggregates & building consents.
- [Week in Review](#) • International travel and Migration for October.
- [Global Calendars](#) • FOMC minutes, US housing data and second readings of US and UK GDP due.

Chart of the week



- The US housing market has been recovering from the rock-bottom at the start of the year. Low mortgage rates, subsidence of fear, and a first time home buyer tax credit have contributed to the turnaround.
- Home sales began picking up 6 months ago and by September were 24% off their low. The increased sales activity has helped to absorb the added supply coming onto the market which, at recent sales levels, would still take about 8 months to sell (from a peak of 11 months).
- House prices also started to increase from May – after falling 33% since 2006.
- US home sales are expected to increase slightly further this week: Monday night has existing home sales figures and Wednesday has new home sales.

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	0.7211	0.7430	0.7563	0.6176	0.5284	DOWN	0.7050	0.7300
NZD/AUD	0.7900	0.7952	0.8147	0.7916	0.8560	DOWN	0.7800	0.8000
NZD/JPY	64.05	66.57	69.23	58.52	49.90	DOWN	62.00	65.00
NZD/EUR	0.4857	0.4965	0.5032	0.4413	0.4241	DOWN	0.4800	0.4900
NZD/GBP	0.4373	0.4446	0.4545	0.3888	0.3583	DOWN	0.4300	0.4400
TWI	64.5	66.1	67.5	58.8	54.6	DOWN	63.50	66.00

^Weekly support and resistance levels * Current is as at 11.45 am Monday; week ago as at Monday 5pm

- It was a light week for local data. The NZD slipped on all the main cross rates, with a bout of risk aversion offshore setting the tone. US shares declined Wednesday through to Friday. Once again, reasons for the sharemarket declines were largely focussed on concerns about future economic growth. In this "risk off" environment, the NZD typically declines, and that was the case at the end of last week. The theme could continue this week, and on balance we expect the NZD's downward drift to continue in the short-term.
- AUD has been under similar pressure, but the NZD has underperformed the AUD, and the NZD/AUD cross rate slipped 0.5c last week.
- The current mood of risk aversion is USD and JPY positive. However, there are a raft of key data reports this week which could turn the tables back around. Australian QIII Capex might be seen by the market as a 'make or break' for a December RBA rate hike. Whilst the headline might be weak, the real focus will be on the expectations section. And, globally, the release of the second estimates of QIII US and UK GDP could support sentiment.

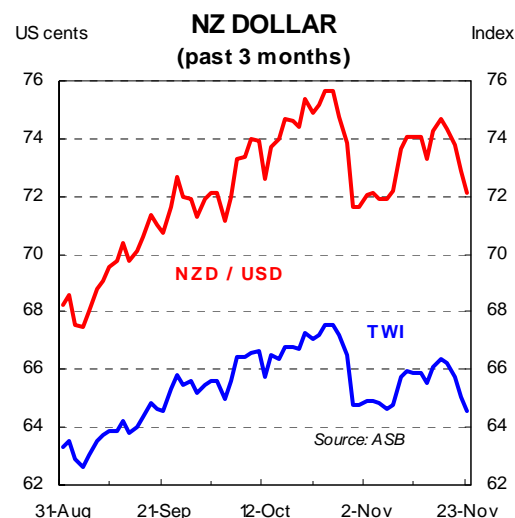
Short-term outlook:

Key data	Date	Time (NZST)	Market expects
Nov NBNZ Business outlook	26/11	3.00 pm	-
Oct Merchandise Trade	27/11	10.45 am	-\$480m

Potential currency movers from overseas this week: Eurozone PMI composite, Canadian Retail sales, Chicago Fed index, and US existing home sales (Mon 23rd); German IFO – business climate, US S&P/CS composite-20 house index, US Consumer confidence, Richmond Fed index (Tues 24th); US personal income & spending data, durable goods orders, PCE deflator, US initial jobless claims, US new home sales, FOMC meeting minutes (Wed 25th); Canada current account (Fri 27th)

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. 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	2.80	2.80	5.78	FLAT
2-year swap	4.38	4.54	4.83	3.61	5.22	FLAT/DOWN
5-year swap	5.52	5.65	5.81	5.06	5.65	FLAT/DOWN
5-year benchmark gov't stock	4.82	5.04	5.29	4.60	5.13	FLAT/DOWN
NZSX 50	3121	3174	3209	2741	2578	DOWN

* Current is as at 11.45 am 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).

- Global interest rate markets saw a strong rally (yields lower) over the week, which dragged NZ swap market interest rates lower. An announcement from the New Zealand opposition party that it would no longer support the long-standing political consensus on monetary policy, calling for the RBNZ targets to include a stable NZD, had little effect on NZ interest rate markets.
- Yields in Australian markets remained under pressure over the week after the RBA meeting minutes confirmed that future RBA hikes are likely to be more data dependent. While the RBA is concerned about renewed inflation pressures, some uncertainties on the strength of the recovery remain. We continue to expect a 25 basis point hike in December, following the stronger than expected employment result. The market currently only has 18 basis points priced in.
- US markets rallied hard as risk aversion set in over the latter part of the week and Federal Reserve Officials continued to reiterate that short-term interest rates were likely to remain low for a while yet. Demand for US Treasuries was strong (as the US equity markets remained under pressure) and US 3-month Treasury bill yields turned negative for the first time since the financial markets froze last year.

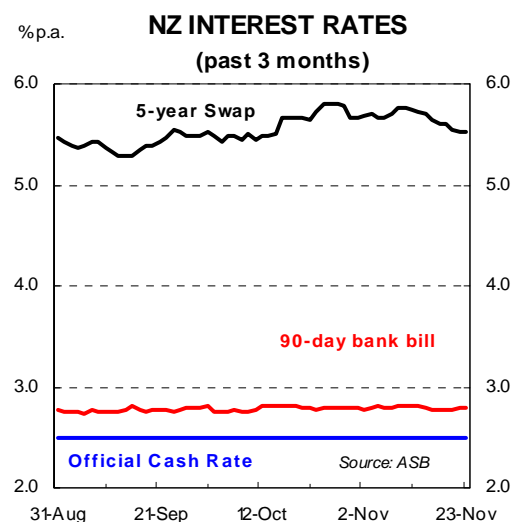
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Oct RBNZ Credit Aggregates	27/11	3.00 pm	-
Oct Building Consents	30/11	10.45 pm	-

Comment: The Australasian data calendar is very light this week and yields are likely to remain under pressure as the global market mood remains downbeat. The FOMC meeting minutes (Wed morning 8.00 am NZT) is likely to be the highlight of the week.

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

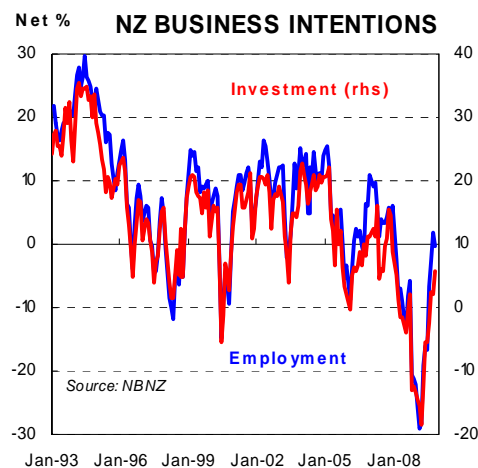
Data	Date	Time (NZST)	Previous	Market expects	ASB expects
November NBBO	26/11	10.45 am	+48.2	-	-
November Merchandise Trade Balance	27/11	10.45 am	-\$242m	-480m	-\$300m
October RBNZ Credit Aggregates	27/11	3.00pm	2.7%	-	-
October Building Consents	30/11	10.45 am			

November NBNZ Business Outlook

General Business Confidence: previous + 48.2

Own activity Outlook: previous + 30.5

There has been a substantial improvement in business confidence over 2009, albeit from very low levels. In line with this, investment and employment intentions have also improved. However, the lagged nature in which these intentions flow through to actual activity suggest businesses will still be looking to keep their operations lean over the coming months, with many unlikely to expand until the second half of 2010. Thus while business confidence is expected to remain at the higher levels of recent months, the recovery in economic activity is still expected to be fragile.



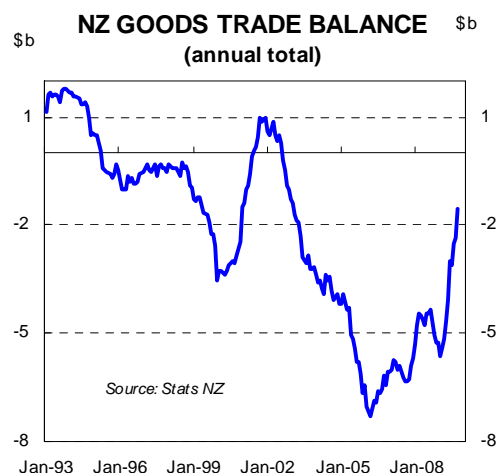
November Merchandise Trade Balance

Net balance: previous -\$424 million

We expect a trade deficit of \$300 million in October. On a seasonal basis, we expect to see a decline in trade deficits over the next few months.

Dairy exports will start to lift off seasonal lows as new season production starts to be exported. We expect a lacklustre start to the dairy season, with prices yet to fully benefit from the up tick in spot contract prices. Meat exports will continue to soften, as slaughter volumes remain weak and the high NZ dollar weighs down on prices.

Imports move into the seasonal run up to Christmas. However, we expect a relatively muted lift as retail volumes have been disappointing and as the high exchange rate keeps price increases muted.



October RBNZ Credit Aggregates

Household: previous: 2.3% yoy

Business: previous -1.0% yoy

Household credit continued to expand at a very subdued pace in September, up 0.2%. Credit secured against housing appears to be recovering, up 3% on year-ago levels, reflecting the recent improvement in the housing market. In contrast, consumer credit remains very weak, down 5.6% on year-ago levels, perhaps reflecting continued caution in retail spending as consumers remain wary of the difficult labour market. Business credit remains very weak, down 1.0% on year-ago levels.

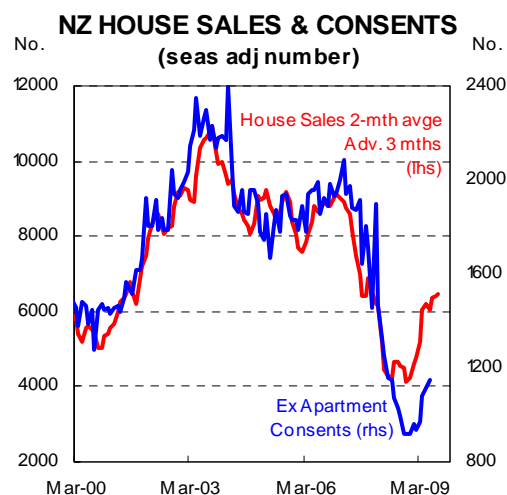
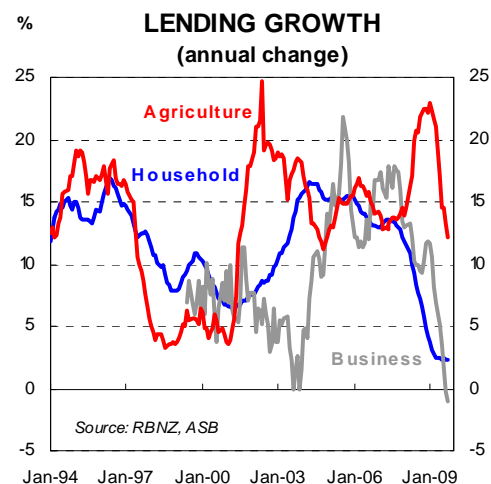
In the RBNZ's October OCR Review Statement it highlighted credit growth as a factor which could undermine the sustainability of growth. The RBNZ is likely to be wary of the current momentum in house prices underpinning a resurgence in borrowing by NZ households. This would undermine the improvement in savings rates and continue to exacerbate New Zealand's external indebtedness.

The subdued nature of growth to date will have made the RBNZ confident it can keep the OCR on hold for a sustained period, as signalled today. However, ongoing strength in the housing market and the possibility of a stronger pick up in housing credit may test the RBNZ's patience over coming months.

October Building Consents

ASB forecast +8.4% mom, +17% m/m-12

Dwelling consent issuance continues to make slow improvement. Total consent issuance increased 3.3% over September, with a 2.8% lift in ex-apartment consents. Core consent issuance fell around 50% from 2007 levels, but is now 26% up off its lows earlier in 2009. However, the recovery in residential construction continues to lag behind the recovery in housing demand. Low interest rates and an increase in net migration have underpinned a lift in demand for housing. However, supply has been sluggish to respond. The recent increase in house prices should also help stimulate new construction. Our residential forecasts are based on a steady pick-up in consent issuance over the next six months. Non-residential consents have remained comparatively steady over the past 18 months, and we expect this to continue.



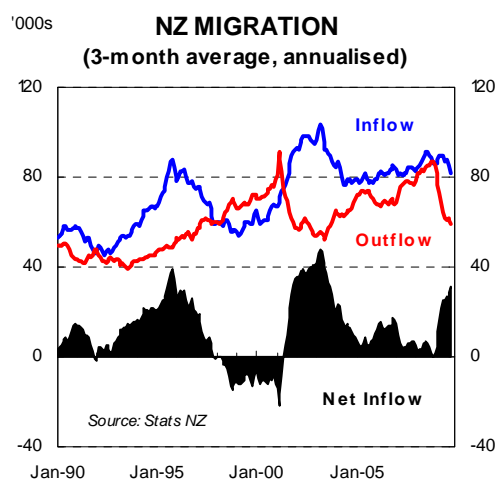
NZ Data Review: weekly recap

October Travel and Migration

Net migration added another 2,130 people to the population in October, bringing the annual pace of net inflow to 18,560. The combination of weak departures and comparatively firm arrivals will see net migration peak around 22,000 at the beginning of next year.

Departures to Australia and the UK remain weak after falling considerably over the past 9 months. The global recession has seen unemployment rise in most economies and has put a dampener in permanent and long-term departures as overseas job opportunities have become scarce. Permanent arrivals picked up slightly over the past month, but on a trend basis migration inflows have also eased slightly as NZ unemployment has increased.

Short-term visitor arrivals ticked down very slightly in October, although remain well up on year-ago levels. The rise over the past year has predominantly come from an increase in Australian tourists, encouraged by the favourable cross exchange rate and Australian stimulus measures increasing disposable income.



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	
	13.30	AU	New motor vehicle sales	Oct	m%ch y%ch	2.9 -2.0	~ ~	-5.5 ~	
Tue 24 Nov	12.00	AU	Conf board leading index	Sep	%	1.8	~	~	
Wed 25 Nov	11.20	AU	RBA Deputy Governor Battellino speaks in Melbourne						
	12.50	JP	Corporate service price	Oct	y%ch	-3.2	~	~	
	12.50	JP	Adj merch trade balance	Oct	¥bn	58.6	~	~	
	13.00	AU	DEWR skilled vacancies	Nov	m%ch	1.9	~	~	
	13.30	AU	Construction work done	QIII	q%ch	-2.6	0.0	-1.0	
Thu 26 Nov	12.50	JP	BoJ monetary policy meeting minutes						
	13.30	AU	Capex	QIII	m%ch	3.3	1.0	-4.0	
	15.00	NZ	NBNZ business confidence	Nov	Index	48.2	~	~	
Fri 27 Nov	10.45	NZ	Trade balance	Oct	\$mn	-424	-480	-300	
	10.45	NZ	Imports	Oct	\$bn	3.3	3.6	~	
	10.45	NZ	Exports	Oct	\$bn	2.8	3.1	~	
	10.45	NZ	Trade balance	Oct	12mth ytd	-1,533	-1,010	~	
	12.30	JP	Jobless rate	Oct	%	5.3	~	~	
	12.30	JP	Household spending	Oct	y%ch	1.0	~	~	
	12.30	JP	National CPI	Nov	y%ch	-2.2	~	~	
	12.30	JP	National CPI ex food, energy	Nov	y%ch	-1.0	~	~	
	12.50	JP	Large retailers sales	Oct	%	-5.6	~	~	
	12.50	JP	Retail trade	Oct	m%ch y%ch	0.9 -1.3	~ ~	~ ~	

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 23 Nov	08.30	GE PMI manufacturing	Nov	Index	51.0	~	~
	08.30	GE PMI services	Nov	Index	50.7	~	~
	09.00	EZ PMI composite	Nov	Index	53.0	~	~
	13.30	CA Retail sales	Sep	m%ch	0.8	~	~
	13.30	US Chicago Fed index	Oct	Index	-0.81	~	~
	15.00	US Existing home sales	Oct	m%ch	9.4	2.3	~
Tue 24 Nov	07.00	GE GDP	QIII	y%ch	-7.1	~	~
	07.00	GE IFO – business climate	Nov	Index	91.9	~	~
	09.30	UK Total business investment	QIII	q%ch	-10.2	~	~
	10.00	EZ Industrial new orders	Sep	m%ch	2.0	~	~
	13.30	US GDP (annualised)	QIII	%	3.5	3.1	~
	13.30	US Core PCE	QIII	q%ch	1.4	1.4	~
	13.30	US S&P/CS composite-20	Sep	y%ch	-11.3	-9.2	~
	15.00	US Consumer confidence	Nov	Index	47.7	48.1	~
	15.00	US Richmond Fed manuf index	Nov	Index	7.0	~	~
Wed 25 Nov	09.30	UK GDP	QIII	q%ch	-0.4	~	~
	13.30	US Personal income	Oct	%	0.0	0.2	~
	13.30	US Personal spending	Oct	%	-0.5	0.5	~
	13.30	US Durable goods orders	Oct	%	1.0	0.6	~
	13.30	US PCE deflator	Oct	y%ch	-0.5	~	~
	13.30	US PCE core	Oct	m%ch	0.1	0.1	~
	13.30	US Initial jobless and continuing claims					
	13.30	US Uni of Michigan confidence	Nov	Index	66.0	~	~
	13.30	US New home sales	Oct	'000	402	414	~
19.00	US Minutes of Nov. 4 FOMC meeting						
Thu 26 Nov	~	GE CPI – EU harmonised	Nov	m%ch	0.1	~	~
Fri 27 Nov	10.00	EZ Business climate indicator	Nov	Index	-1.8	~	~
	13.30	CA Current account (BOP)	QIII	\$bn	11.2	~	~

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