

Business Weekly

A pick and mix week

This Week

This week brings a mix of second-tier data, though will give some flavour for how the economy is rebalancing. First out of the gates on Tuesday afternoon is the Reserve Bank Survey of Expectations, a small-sample survey of business professionals' view on the economic and inflation outlook. Much of the attention usually goes on the inflation expectations components, given the RBNZ's inflation goal and the use of inflation expectations in the RBNZ's superseded forecasting model. Inflation expectations are likely to fall again, however, the significance of the results is far less given that expectations are more middle of the road now.

Thursday's merchandise trade figures will show another monthly deficit, though the annual deficit will narrow further. However, the improvement in the trade balance is likely to start running out of steam going forward as we come out of the pastoral export season and imports stabilise after shrinking substantially over the past year.

Friday's building consents should show some rebound in July after dipping back in June. Looking through the noise created by spikes in apartment consents there is yet little sign of lift-off in residential construction intentions despite the clear lifting in the housing market. We expect it will come, with conditions conducive to construction gradually being created. Population growth is picking up thanks to fewer people leaving the country, as last week's migration figures confirmed. The recent lift in sales turnover and a period of weak construction activity has eliminated the glut of houses on the market. House prices have lifted slightly in recent months, another development giving those building some confidence that the product of their efforts will not be undermined.

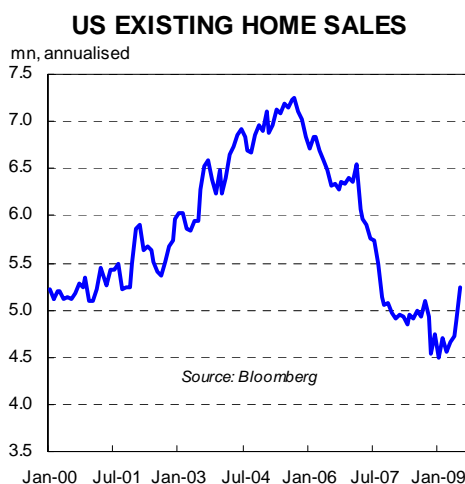
One note of caution against expecting an imminent housing boom is that mortgage lending growth, whilst picking up from a very weak finish to 2008, remains moderate. Friday afternoon sees the RBNZ release July's figures. In the three months to June mortgage lending growth averaged \$500mn a month, only a third of the pace averaged over 2007 when the housing market started slowing down. Mortgage approval figures from the RBNZ suggest that appetite for borrowing has not materially shifted recently from the pattern of previous months. Business and agriculture borrowing growth is likely to soften further.

Over the weekend central bankers and economists gathered for their annual conference in Jackson Hole, Wyoming (the RBNZ Governor chaired one of the sessions). Attendees sounded optimistic that the global economy is past the worst, though wary of counting their recovery eggs before they have hatched.

Click here for:

- [Foreign Exchange](#) • NZD lifts further against the USD, and also posts gains on the main cross rates.
- [Interest Rates](#) • NZ rates drift lower over the week.
- [Week Ahead](#) • RBNZ Survey of Expectations, Trade Balance, and Building Consents due.
- [Week in Review](#) • Migration pick-up continues. Tourism challenges remain.
- [Global Calendars](#) • Aussie CAPEX, US housing data, US and UK GDP due.

Chart of the week



- One of the encouraging signs in the US housing is the nascent recovery of the housing market. Sales of existing (i.e. not new) homes have started to lift noticeably in the last couple of months after stabilising earlier this year. Although a considerable overhang of unsold stock remains, the number is down from its peak.
- New home sales have also started to pick up. Importantly, the weak level of construction activity is enabling sales turnover to eat into the glut of built but unsold homes.
- House prices are also starting to stabilise according the Case-Schiller price measure as well as the existing house price measure.
- Given the linkage of housing to the US economy and financial system, the emerging recovery of housing is an important development.

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	0.6818	0.6691	0.6551	0.5120	0.7180	FLAT/UP	0.6750	0.6950
NZD/AUD	0.8165	0.8138	0.8039	0.7884	0.8171	FLAT/UP	0.8100	0.8250
NZD/JPY	64.50	63.27	62.11	47.56	78.24	FLAT/UP	63.00	65.50
NZD/EUR	0.4755	0.4729	0.4626	0.3965	0.4829	FLAT/UP	0.4700	0.4850
NZD/GBP	0.4137	0.4067	0.3973	0.3525	0.3831	FLAT/UP	0.4100	0.4200
TWI	63.3	62.6	61.4	51.9	66.5	FLAT/UP	62.00	64.00

^Weekly support and resistance levels * Current is as at 12pm Monday; week ago as at Monday 5pm

- The NZD strengthened last week, posting gains on all the main cross rates and on a trade weighted basis.
- As global growth expectations have lifted, the NZD has continued to lift off 2009 lows against the AUD, and posted further gains last week.
- The 'tug-of-war' between buying USD on US relative economic strength or selling USD on lower risk aversion has abated with risk aversion trading winning for now. The USD has erased all of the gains it received after the July stronger-than-expected employment report on 7 August.
- It is another light local data week, so offshore news will dominate FX movements. This week's US data will shed further light on the housing market and the second estimate of QII economic growth is released. The risk is some mild intra-day resurgence in risk aversion (lifting the USD) if US house prices fail to show marked improvement or the preliminary QII growth report reveals a revised accelerated rate of contraction.

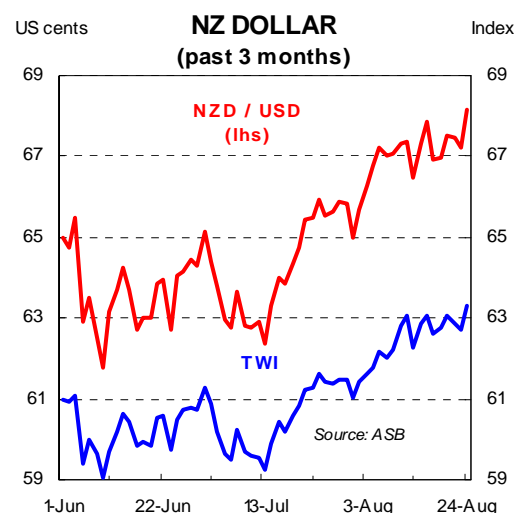
Short-term outlook:

Key data	Date	Time (NZST)	Market expects
Q3 RBNZ Expectations Survey	25/8	3.00pm	-
Merchandise Trade Balance - July	27/8	10.45am	-\$150M
Building Consents - July	28/8	10.45am	+8% mom

Potential currency movers from the US this week: Case-Shiller house prices (25th), Durable goods orders (26th), New home sales, GDP (27th), personal income and spending, Uni of Michigan confidence (28th). Speakers: Lockhart (27th), Bullard (28th).

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

- We expect the NZD to appreciate further against the USD over the next 6-9 months. Much of that story is about the USD, not the NZD.
- We continue to expect the USD to weaken into 2010. The reasons for the expected USD depreciation remain similar to the drivers in place since mid-March, namely:
 - US residents increase their offshore investment, encouraged by improvement in the global economy.
 - USD liquidity demand and safe-haven buying of the USD is reversing.
 - Diversification out of USD is expected to occur due to concerns about US government debt.
- Against the expected backdrop of USD weakness we also expect some moderate and broad-based NZD outperformance. Despite being mired in recession since the start of 2008, NZ's economy is holding up well compared to those of many key trading partners. Over time the NZD is likely to be buoyed by the rising tide of improving confidence in the global economic recovery and firmer commodity prices. Moreover, a buoyant AUD, on improved prospects for its resource exports and speculation of early 2010 rate hikes, will drag the NZD along on its coat-tails.
- We expect the NZD to firm noticeably against the USD and yen as those currencies remain under sustained pressure. Against other key currencies the NZD is likely to appreciate but to a more modest extent. However, the likelihood of the RBNZ intervening to try and weaken the NZD remains low given the NZD itself is not particularly elevated relative to both underlying economic fundamentals and past movements.



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	3.50	8.00	FLAT
90-day bank bill	2.76	2.76	2.78	3.28	8.16	FLAT
2-year swap	4.07	4.14	3.97	3.32	7.36	FLAT
5-year swap	5.39	5.44	5.39	4.07	7.08	FLAT
11/11 gov't stock	4.87	4.91	4.77	3.90	6.18	FLAT
NZSX 50	3035	3086	2961	2538	3316	FLAT

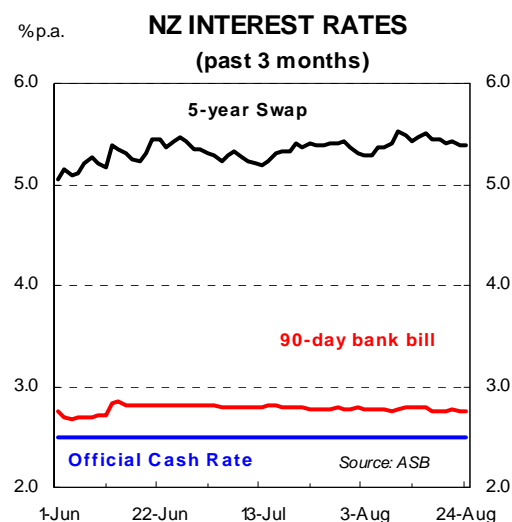
* Current is as at 12pm Monday; week ago as at Monday 5pm

- NZ interest rates were little changed last week, with swap rates slowly drifting lower across the curve. New Zealand Government Bond yields pressed slightly lower, with the 10-year yield down around 10bp over the week.
- Australian Treasurer Swan announced on Friday the removal of withholding tax on Commonwealth Government Bonds. The government's action (which looks set to receive Royal Assent by the end of the year) is a positive development that removes a disincentive for foreign investors to participate in the Aussie government bond market. It brings Government bonds into line with tax treatment of publicly-issued corporate bonds and state gov't bonds, and into line with US and UK. The move has been talked about for the last few years so comes as no major surprise, and seems likely to have a relatively limited medium-term impact.

Short-term outlook:

Key data	Date	Time (NZST)	Market expects
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Merchandise Trade Balance - July	27/8	10.45am	-\$150M
Building Consents - July	28/8	10.45am	+8% mom

Comment: The data flow continues to be light, and the next major focus for interest rate markets in New Zealand is the RBNZ OCR Review on 10 September. This week the RBNZ's survey of expectations will likely show inflation expectations continuing to diminish, and should be of little consequence to the market. Building consents and credit data will provide more in the way of insights into the housing recovery, and the NBNZ Business Outlook Survey next Monday will provide another leading indicator for the NZ recovery.



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

- The RBNZ continues to hold the cash rate at 2.5%, although has a very strong easing bias. The RBNZ has cut the cash rate 575 basis points in less than a year in response to the financial crisis offshore. The RBNZ has previously expressed reluctance to cut the OCR below 2%, which leaves just 50 bp of rate cuts up its sleeve.
- The RBNZ's July statement was extremely dovish, choosing to ignore any green shoots or positive developments and highlighting the vulnerabilities in the export sector. The RBNZ also stepped up its easing bias, repeating the potential for the OCR to move lower and its expectation to hold the OCR at current levels until the latter part of 2010. In addition, the RBNZ explicitly stated its willingness to "reassess policy settings" if the NZ dollar and wholesale interest rates remain at current levels.
- The RBNZ June MPS forecasts have CPI inflation falling briefly through the bottom of the target band later this year then recovering to remain 'comfortably' in the middle of the target band. In contrast, our higher NZ dollar outlook suggests considerable downside risk to the medium-term inflation outlook.
- The market has underestimated the RBNZ's willingness to cut further, with market pricing implying the easing cycle is over – and that the OCR will increase as early as the start of 2010. This is despite the RBNZ becoming more explicit, expressing its intention to cut the OCR further if wholesale interest rates and the NZ dollar remain elevated at then-current levels (both have subsequently *increased*). In our view, the NZ dollar is likely to remain strong and we have pencilled in two 25 basis point cuts for September and October, although the timing of these are partly dependent on the NZ dollar.
- The OCR remains the RBNZ's primary tool, although it has started to lose traction at very low levels. While the RBNZ has investigated other options, it remains very reluctant to use them while there is potential to cut the OCR further.

NZ Data Preview: a look at the week ahead

Data	Date	Time (NZST)	Previous	Market expects	ASB expects
Q3 RBNZ Inflation Expectations Survey	25/8	3.00pm	2.2%	-	-
Merchandise Trade Balance - July	27/8	10.45am	-\$417M	-	-\$150M
Building Consents - July	28/8	10.45am	-9.5%mom	-	+11.5%mom

Tuesday 25th August

Q3 RBNZ Inflation Expectations Survey

Previous 2.2% (2-year ahead expectations)

Inflation expectations will be taking a back seat in markets' eyes given the crisis backdrop. Nevertheless, they have played a role in the RBNZ's forecasting process.

Inflation expectations have been declining in line with receding headline inflation from last year's peak.

Inflation expectations could be sticky in the short term given that petrol prices have lifted back to \$1.70 a litre from a little over \$1.30 earlier this year, and food price inflation, although easing, remains significant.

However, our inflation forecasts would suggest 1- and 2-year ahead inflation expectations still have plenty of scope to fall in the latest survey, and inflation pressures will be very low in the year ahead.

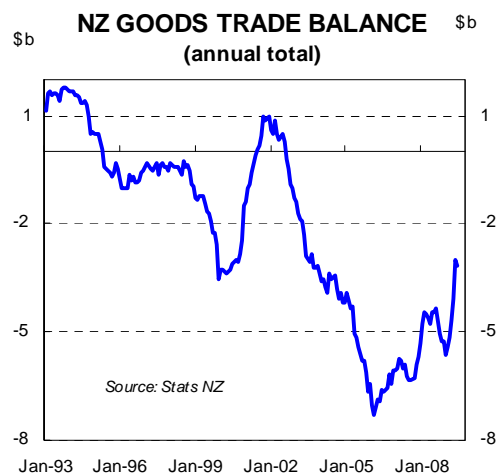
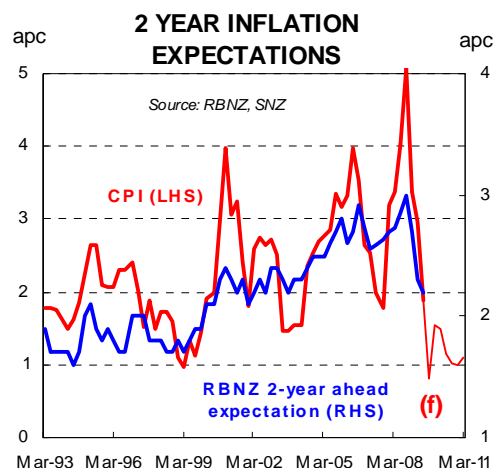
Thursday 27th August

Merchandise Trade Balance - July

Previous: -\$417.5 million ASB(f): -\$150 million

Following a strong run of surpluses, the June trade balance recorded a surprising deficit. The deficit resulted from the importation of JetStar's fleet of airplanes (worth \$571 million). Excluding the aircraft the trade balance would have recorded another surplus of \$154m.

Nonetheless, NZ's run of strong trade surpluses is likely to have come to an end. Exports are set to decline as agricultural production moves into a seasonally weak part of the year. This decline is being exacerbated by weak commodity prices and the rising New Zealand dollar. Meanwhile, imports are starting to stabilise (following some sizable declines) as the economy begins to find its feet. Oil imports have been surprisingly low, and the possibility of revisions risks a larger deficit in July.



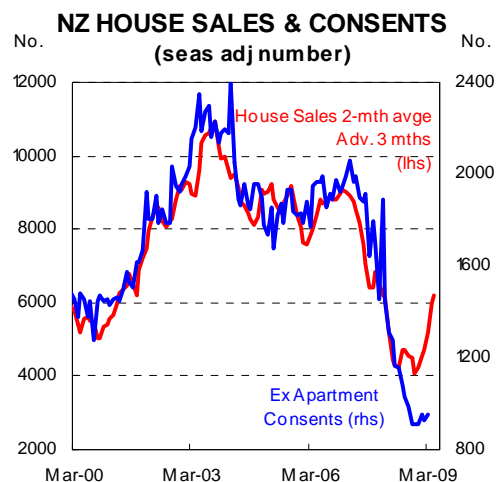
Friday 28th August

Building Consents - July

Previous: -9.5% mom -24% yoy

A fall in apartment consent issuance drove the decline in July's total dwelling consent issuance. Excluding the volatile apartment component, consents picked up 3% seasonally adjusted. This increase, whilst a move in the right direction, is still somewhat disappointing.

We are looking for a more robust lift in core consent issuance over the next few months given the firm lift seen in housing demand. A pick up in net migration will continue to support underlying demand for housing. Meanwhile, low mortgage rates have brought prospective buyers back into the housing market.



Friday 28th August

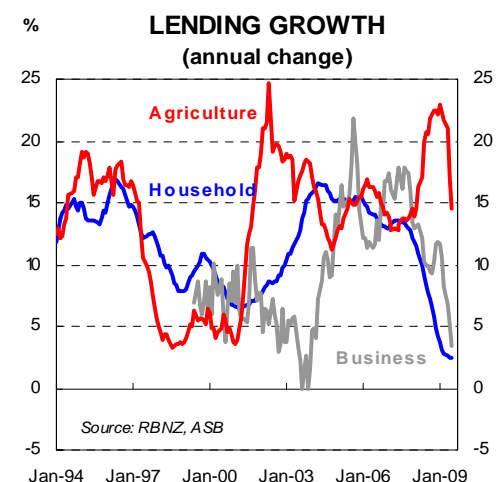
July Credit Aggregates

Previous: Total Household Lending +0.1% s.a. mom

Mortgage lending had a relatively robust month in May, with net lending up \$801mn. In June, more modest growth of \$192 mn was recorded. Ongoing strength in house sales over July suggests that lending growth is likely to remain firm. In contrast, consumer lending continued to contract slightly on an annual basis, and we expect these declines are likely to continue. Growth in household lending is likely to remain muted as households focus more on saving, and unemployment continues to rise.

Business lending growth has started to slow more noticeably in recent months and moderation in growth is likely to continue. Customer demand is weak, profits are under pressure, and capital investment is consequently being pared back.

Agricultural lending growth has been surprisingly resilient, but growth is now slowing sharply. This is likely to continue. In particular, the low dairy payout for the upcoming season reinforces that on-farm investment is likely to be muted.



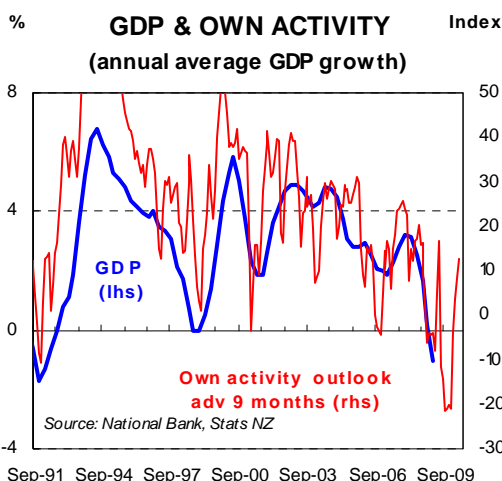
Monday 31st August

August NBNZ Business Outlook

Business confidence continued to improve over July, with net 18.7% expecting business conditions to improve over the next 12 months, up from net 5.5% in June. The outlook for firms' own activity over the next 12 months (the better predictor of GDP growth) also lifted, up to net 12.6% from 8.3% previously. The improvement was broad based across sectors – except agriculture – with services, retail and manufacturing all lifting substantially. The improvement suggests that demand has started to stabilise and growth is set to resume, albeit at a slow pace.

The investment and employment outlooks, while improving, remain comparatively sluggish with firms still looking to reduce staff numbers and reduce investment. Profitability also remains under pressure. While demand appears to have stabilised, the lagged effects of the recession are still being felt throughout the economy.

This survey can be volatile from month to month, but overall we do not expect further lifts in confidence, given the pressure many businesses are under.

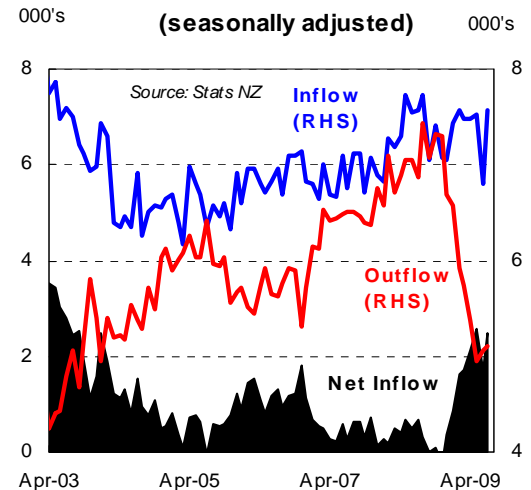


NZ Data Review: weekly recap

International Travel and Migration – July

The outflow of NZ migrants continues to slow, still the overall driver of the lift in net migration flows. Month to month, the gross seasonally-adjusted inflow remains around 7,500 while the gross outflow appears to be settling around 5,000 (having been around 7,000 per month last year). Annual net migration was 14,488 in the year to July. It remains the case that the outflow is reducing most to Australia: the outflow in July 2009 was 42% down from July last year. Over the past 12 months departures to Australia are 5,000 lower than in the preceding 12 months. The next most significant drop was unsurprisingly to the UK, down 2,100 year on year. Both countries are the 2 biggest single destinations for departing Kiwis, and their labour markets have weakened during the global financial crisis. The net migration flows are likely to continue lifting, and we expect the annual net inflow to reach 25,000. July visitor arrivals were up 3.9% mom SA. However, the issue is the mix has changed dramatically: overall, visitors are staying less and tourism incomes will be affected accordingly.

NZ MONTHLY MIGRATION
(seasonally adjusted)



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 24 Aug	13.30	AU	New motor vehicle sales	Jul	m%ch	5.7	~	~				
					y%ch	-7.2	~	~				
Tue 25 Aug	17.00	JP	Supermarket sales	Jul	y%ch	-4.4	~	~				
Wed 26 Aug	15.00	NZ	RBNZ 2yr inflation exp.	QIII	%	2.2	~	~				
Thu 27 Aug	11.50	JP	Merchandise trade balance	Jul	¥bn	507.5	~	~				
					11.50	JP	Adj. merch. trade balance	Jul	¥bn	438.2	~	~
					11.50	JP	Corporate service price	Jul	y%ch	-3.2	~	~
					13.00	AU	DEWR skilled vacancies	Aug	m%ch	-1.7	~	~
13.30	AU	Construction work done	QII	q%ch	-3.7	~	~					
				y%ch	3.5	~	~					
17.00	JP	Small business confidence	Aug	Index	41.1	~	~					
Fri 28 Aug	10.45	NZ	Trade balance	Jul	\$mn	-417	~	~				
					12.00	AU	Conf. board leading index	Jun	m%ch	-0.1	~	~
									13.30	AU	CAPEX	QII
y%ch	6.8	~	-8.0									
Fri 28 Aug	10.45	NZ	Building permits	Jul	m%ch	-9.5	~	~				
					11.15	JP	Nomura/JMMA manuf. PMI	Aug	Index	50.4	~	~
					11.30	JP	Jobless rate	Jul	%	5.4	~	~
					11.30	JP	Job-to-applicant ratio	Jul	Ratio	0.4	~	~
11.30	JP	Household spending	Jul	y%ch	0.2	~	~					
11.30	JP	National CPI	Jul	y%ch	-1.8	~	~					
11.30	JP	National CPI ex food, energy	Jul	y%ch	-1.7	~	~					

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 24 Aug	10.00	EZ	Industrial new orders	Jun	m%ch	-0.2	~	~
					y%ch	-30.1	~	~
	13.30	CA	Retail sales	Jun	m%ch	1.2	~	~
	13.30	US	Chicago Fed activity index	Jul	Index	-1.8	~	~
Tue 25 Aug	07.00	GE	GDP	QII	q%ch	-3.8	~	~
					y%ch	-6.9	~	~
	09.30	UK	BBA loans for house purch.	Jul	# of loans	35,235	~	~
	14.00	US	S&P/Case-Shiller US HPI	Jun	y%ch	-19.1	~	~
	15.00	US	Consumer confidence	Aug	Index	46.6	48.0	~
	15.00	US	Richmond Fed manf. Index	Aug	Index	14.0	~	~
	Wed 26 Aug	09.00	GE	IFO – Business climate	Aug	Index	87.3	~
09.00		GE	IFO – Current assessment	Aug	Index	84.3	~	~
09.00		GE	IFO - Expectations	Aug	Index	90.4	~	~
13.30		US	Durable goods order	Jul	m%ch	-2.5	3.2	~
15.00		US	New home sales	Jul	'000	384	386	~
Thu 27 Aug	~	GE	CPI	Aug	m%ch	0.0	~	~
	07.10	GE	GfK cons. confidence survey	Sep	Index	3.5	~	~
	09.30	UK	Total business investment	QII	q%ch	-7.6	~	~
	13.00	US	GDP (annualised)	QII	q%ch	-1.0	-1.4	~
Fri 28 Aug	00.01	UK	GfK cons. confidence survey	Aug	Index	-25.0	~	~
	09.30	UK	GDP	QII	y%ch	-5.6	~	~
	10.00	EZ	Business climate indicator	Aug	Index	-2.7	~	~
	10.00	EZ	Economic confidence	Aug	Index	76	~	~
	13.30	CA	Current account (BOP)	QII	\$bn	-9.1	~	~
	13.30	CA	Industrial product price	Jul	m%ch	0.7	~	~
	13.30	CA	Raw materials price index	Jul	m%ch	6.2	~	~
	13.30	US	Personal income	Jul	m%ch	-1.3	0.1	~
	13.30	US	PCE core	Jul	m%ch	0.2	0.1	~
	15.00	US	Uni. Of Michigan confidence	Aug	Index	63.2	65.0	~

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