

Business Weekly

Summer feels a little closer

This Week

Summer is unofficially here with the start of daylight saving. Economically speaking, the news of the last week also pointed to glimmers of approaching summer – or at least the end of a long, cold winter. As we indicated last week, we saw a chance that Q2 could register growth of the tiniest fraction, forecasting a 0.1% rise. The outcome, released last Wednesday, confirmed the end of 15 months continued economic contraction. The previous quarter's 1% decline was revised up to 0.8% decline – though still a sizable dip.

The uplifting news is that the economy has ended a 2.9% contraction. But before anybody starts popping champagne corks and declaring the recession is officially over, it is worth remembering that the growth we expect in the second half of the year is still very weak and – like in Q2 – just a margin of error between slight expansion or contraction. It is better to think of the economy as having stabilised rather than rebounding with any strength. The recovery is going to remain fragile in the initial stages, business profitability will remain under pressure, and unemployment will continue to rise further. It is within the realm of possibility that another negative quarter gets recorded at some stage over the next year, but the worst is passing.

Two other encouraging – and forward-looking – developments help reinforce that the economy should continue to gradually pick itself up off the floor. Fonterra lifted its dairy payout forecast for this season to \$5.10 per kg of milk solid, from \$4.55. The higher payout, coupled with a hard line on costs, will ease the financial pressure some dairy farmers are facing. Spending in dairy-intensive regions is still likely to be cautious, but the prospects are better.

The other piece of encouragement was the surge in consumer confidence, as surveyed by Westpac McDermott Miller. Sentiment is distinctly above average and at a 4-year high. The return of confidence points to wallets being opened slightly more readily heading into Christmas. There is still some caution evident in the details of the survey: the lifts in components relating to individuals' circumstances were more muted than the economy-wide components. Consumer spending grew modestly in Q2 and the survey points to further – though unspectacular – growth in the second half of the year.

And finally, something to make the ratings agencies relax slightly: the current account deficit narrowed by far more than expected to 5.9% of GDP on an annual basis. The Q2 quarterly current account actually registered a surprise surplus. Much of the surprise reduction came through very weak corporate profits – weak over and above the impact of BNZ's \$661mn provision against its structured finance case.

Click here for:

[Foreign Exchange](#)

- NZD sets fresh 2009 high against the USD, cracking 0.73 last week.

[Interest Rates](#)

- Rates lift following Fonterra's forecast revision and stronger GDP data.

[Week Ahead](#)

- Building Consents, RBNZ Credit Aggregates and NBNZ Business Outlook due.

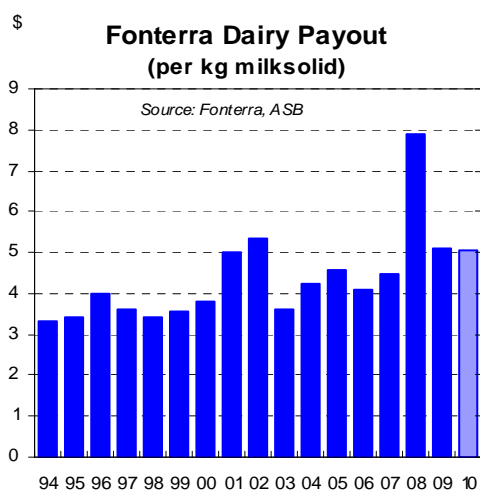
[Week in Review](#)

- Current Account, GDP the data highlights. Consumer confidence surges.

[Global Calendars](#)

- US non-farm payrolls, US housing data, and US and UK GDP reports due.

Chart of the week



• Fonterra has increased its forecasted dairy payout for the 2010 season from \$4.55 to \$5.10 per kgms. The Milk Price has been increased to \$4.60 (+60c) and the value add dividend decreased to 50c (-5c) per kgms.

• In its statement, Fonterra indicated that the increase is a result of a sustained improvement in dairy commodity prices recently and a more positive outlook for dairy markets. The \$5.10 forecast also takes into account the current high levels of the dollar at over 70c to the USD.

• International dairy prices have seen a remarkable recovery over the past 8 weeks. Whole milk powder traded on Fonterra's globalDairytrade auction has increased by over 52% since July's auction when they were below their long-term averages. We maintain a long-term average payout forecast in the \$5 to \$5.50 range.

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	0.7175	0.7071	0.6864	0.5641	0.6874	FLAT/DOWN	0.7000	0.7250
NZD/AUD	0.8281	0.8165	0.8175	0.8207	0.8240	FLAT/DOWN	0.8100	0.8350
NZD/JPY	0.6531	64.74	64.30	55.13	72.66	FLAT/DOWN	64.00	66.00
NZD/EUR	0.4881	0.4814	0.4779	0.4253	0.4685	FLAT/DOWN	0.4800	0.4950
NZD/GBP	0.4517	0.4358	0.4215	0.3960	0.3730	FLAT/DOWN	0.4450	0.4600
TWI	65.3	64.6	63.7	56.6	64.3	FLAT/DOWN	64.00	66.00

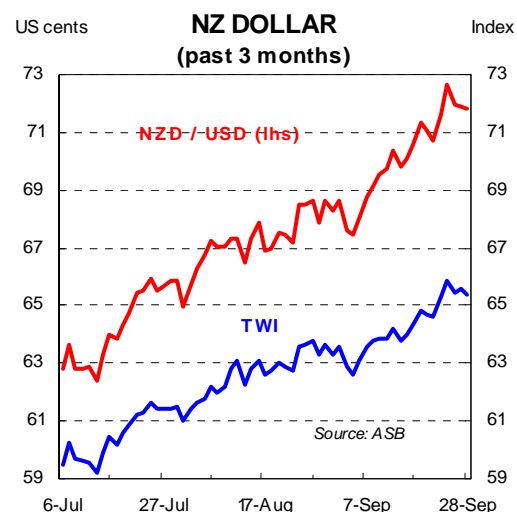
^Weekly support and resistance levels * Current is as at 12pm Monday; week ago as at Monday 5pm

- The NZD continued to set 2009 highs against the USD and GBP last week, breaking through 0.73 briefly during the week. The NZD has remained above 0.71 since breaking above the figure on the 22nd, and is currently in the middle of last week's 0.70-0.73 range.
- The NZD pressed higher this week in response to a surprising QII current account surplus, and a lift in the Fonterra payout on the 22nd, and a return to economic growth indicated when GDP data was published on the 23rd.
- Against the GBP, the NZD has broken through 0.45, and is trading around the top of its range from last week.
- The NZD was little changed on the Euro, and traded in a relatively narrow range last week. The NZD pressed higher against the AUD, breaking above 0.83 on several occasions. The NZD has remained above 0.82 since breaking through the figure on the 22nd.

Short-term outlook:

Key data	Date	Time (NZST)	Market expects
Aug Building Consents	29/9	10.45 am	-
Sep NBNZ Business Confidence	30/9	3.00 pm	-
Aug US Non-Farm Payrolls	3/10	1.30 am	-180k

Potential currency movers from the US this week: Chicago Fed activity index, Dallas Fed manufacturing activity (28th), S&P/CS composite-20 house price index, Consumer confidence (29th), ADP employment change, GDP, Core PCE, (30th), Personal income, PCE deflator, ISM manufacturing, Pending home sales, Construction spending (1st) Non-farm payrolls, Factory orders (2nd)



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

- We expect the NZD to appreciate a little further against the USD over the next 6-9 months, topping out around USD 0.74. Much of that story is about the USD, not the NZD.
- We continue to expect the USD to remain weak into 2010. 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.
 - 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.
- 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 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	3.00	7.50	FLAT
90-day bank bill	2.79	2.77	2.77	3.38	8.09	FLAT
2-year swap	4.26	4.12	4.19	4.15	6.97	FLAT
5-year swap	5.49	5.42	5.47	5.27	6.89	FLAT
11/11 gov't stock	4.84	4.82	4.91	4.56	5.64	FLAT
NZSX 50	3111	3159	3104	2642	3203	FLAT

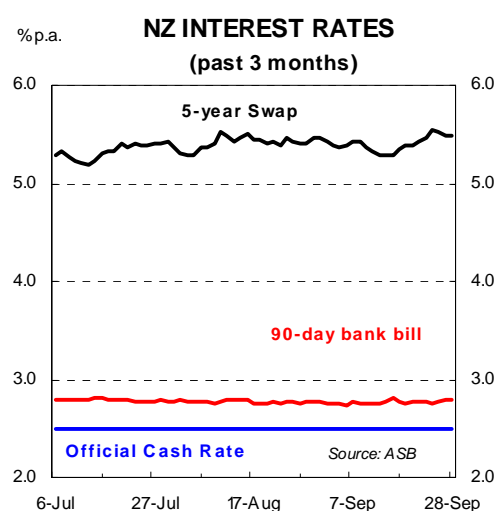
* Current is as at 12pm Monday; week ago as at Monday 5pm

- Interest rates initially picked up strongly over the week, buoyed by stronger than expected GDP and Fonterra's surprising upward revision to the payout forecast. The sharper increase in the short end (around 10 basis points) saw some flattening in the yield curve.
- Interest rates peaked after GDP, unwinding some of the gains over Thursday and Friday, but also weighed down by the decline in offshore markets. US sentiment was dampened somewhat by disappointing house sales data and weaker than expected durable goods orders.
- With domestic data continuing to come out stronger than expected, the market is focusing on the timing of the first OCR increase. With GDP stabilising earlier than expected the RBNZ is likely to start tightening earlier than its prior expectation of "latter part of 2010". We currently expect the first hike to be in June, although the market anticipates the possibility of an even earlier move, with 10 basis points already priced in for the January meeting.

Short-term outlook:

Key data	Date	Time (NZST)	Market expects
Aug Building Consents	29/9	10.45 am	-
Sep NBNZ Business Confidence	30/9	3.00 pm	-
Aug US Non-Farm Payrolls	3/10	1.30 am	-180k

Comment: This week's data calendar returns to normal following last week's onslaught of local data. The focus will be on the monthly NBNZ business confidence survey and if it can retain the strong gains over the past few months. Business confidence own activity tends to be a very reliable guide on the near-term GDP outlook, and recent gains had pointed to a swifter recovery than factored in. Beyond business confidence, markets are likely to continue to follow offshore movements with the focus on next week's QSBO and RBA rate announcement.



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

- The RBNZ continues to hold the cash rate at 2.5%, although has now backed off its easing bias. The market did not see a strong easing bias as credible given the number of stronger than expected indicators of late. The RBNZ continues to expect it will hold the cash rate at or below current levels until the latter part of 2010.
- The RBNZ declined to cut the cash rate at the September meeting, despite financial conditions tightening since its July statement. The Bank steered away from its earlier threat to cut should financial conditions not ease. This action has signaled the RBNZ is extremely unlikely to ever cut the OCR further in this downturn.
- The RBNZ has resigned itself to the role of spectator, accepting the current levels of the NZ dollar and interest rates. The RBNZ finally incorporated more realistic NZ dollar outlook (although still depreciating from current levels, in contrast to our view of further increase).
- The RBNZ's overall growth and inflation forecasts were unchanged, 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.
- The next move in the OCR is up, it's just a matter of when. We expect the RBNZ will hike by June next year (previously July). However, the risks are skewed to an earlier start. 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
Building Consents - August	29/9	10.45am	+5%mom	-	+10%
RBNZ Credit Aggregates - August	29/9	3.00pm	-	-	-
NBNZ Business Outlook	30/9	3.00pm	+34.2	-	-

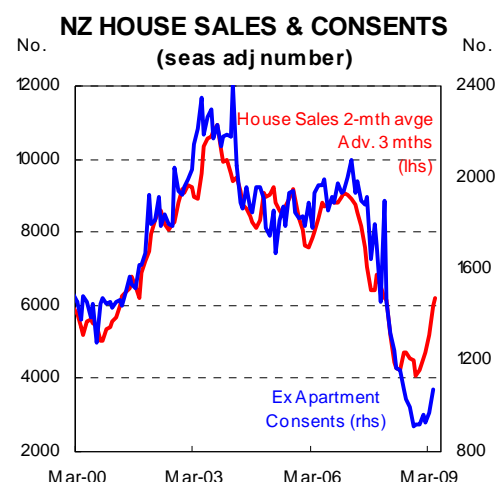
Tuesday 29 September

Building Consents - August

Previous: +5%mom, ASB forecast +10%mom

Residential consent issuance increased 5% in July, buoyed by a solid 11.2% pick up in core consent issuance. A decline in apartment consent issuance (which is typically volatile month to month) weighed on the overall increase. Ex-apartment consent issuance now looks to have made a tentative recovery, following the pick-up in demand evident in house sales. We expect 1300 consents to be issued in August, which results in a solid 10% mom gain. However, consent issuance remains at very low levels compared with the boom years.

Non-residential consents, although down 3.2% on year-ago levels in July, remain relatively robust given the economic back drop.

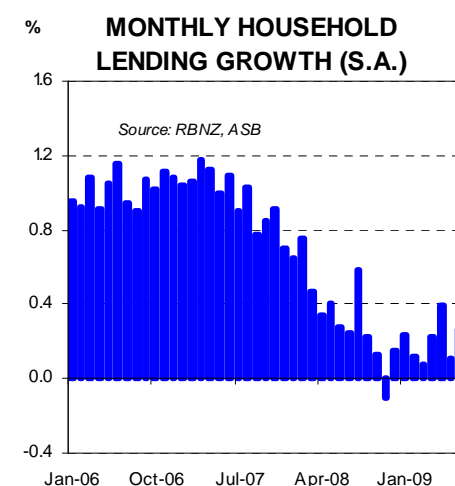


Tuesday 29 September

RBNZ Credit Aggregates - August

Mortgage lending increased \$337mn over the month of July after very weak growth in June. Overall seasonally-adjusted household lending, up 0.3% for July, is only a shadow of past growth. Sub 3% annual growth is muted, and underscores that the housing market recovery seen to date is a long way from being a highly debt-fuelled recovery that would concern the RBNZ. Consumer lending continues to shrink, down 3.6% yoy in July. This trend reinforces that NZ households are spending well within their means, though supply issues may be contributing given that consumer lending by non-banks has fallen 23% yoy.

Annual business lending growth has weakened significantly in the past 6 months. Agriculture lending continues to grow from one month to the next, though the annual growth rate of circa 14% over June and July is substantially lower than the 22% rates at the start of the year. We expect these trends to continue in the August data.

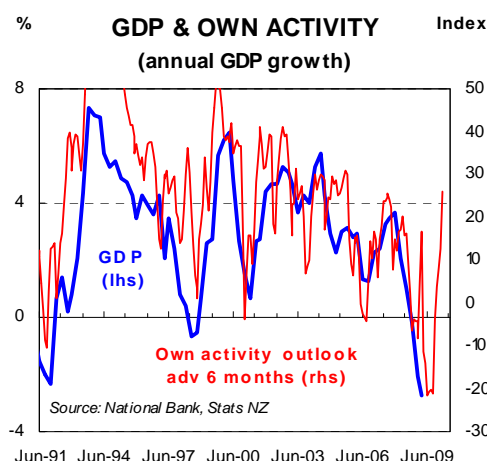


Wednesday 30 September

NBNZ Business Outlook

Prev: Net 34% expect better times over the next 12 months

Recent NBNZ business opinion surveys showed the vast majority believe that the recession is largely behind us and the NZ economy is now poised to recover. General business confidence and own activity expectations surged in August. Net 34% expected better times over the next 12 months, up from 19% in July. Net 26% expected to see their own businesses activity to improve over the next 12 months, implying a firm rebound in economic growth. The improvement in confidence has been universal across retailing, manufacturing, agriculture, construction and services. Export expectations have lifted strongly, likely reflecting the stabilisation in world demand led by firm economic activity in key trading partners such as Australia and Non-Japan Asia. We expect confidence will remain high in the September survey.



NZ Data Review: weekly recap

NZ QII Balance of Payments

The annual current account deficit shrunk further to 5.9% of GDP. The Q2 current account threw out a few surprises: even a 2 billion range in forecasts was not wide enough to capture the first quarterly surplus since March 2001. The main point to note was that BNZ's \$661 million provision for its structured finance court case, which heavily impacted its Q2 result, flowed straight through to the current account income figures. However, even taking into account the provision, the profits attributable to foreign investors were substantially weaker than anticipated. In the background were the other recent influences: recovering dairy exports, weak import demand, and reduced debt-servicing costs. Further declines in the annual current account deficit will run out of steam at year end. Beyond 2009 we expect the deficit to range between 6% and 7% of GDP. Export earnings will be constrained by the weak global environment, while the stabilising domestic economy will soon halt the slide in imports and domestic profitability.

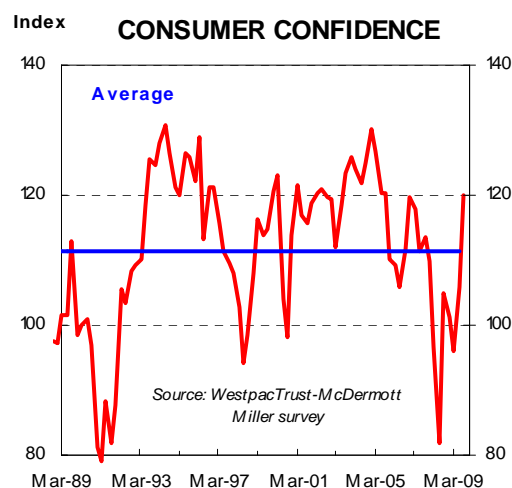
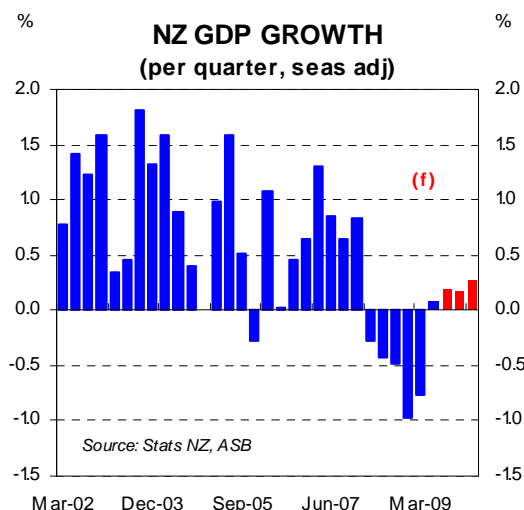
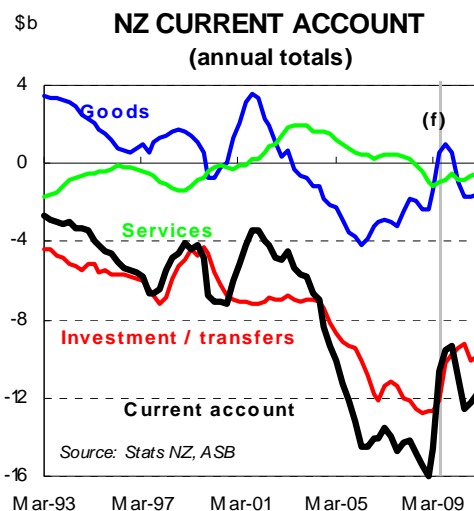
QII Gross Domestic Product.

GDP came out bang on our expectation of a 0.1 *increase*, stronger than the market median expectation of a 0.2% decline, and technically speaking breaking the recession of 5 quarters. In addition to the stronger than expected headline, the previous quarter's 1% decline was revised up to 0.8% decline. The breakdown of the GDP result was close to expectations, although on balance suggests slightly more underlying strength in the economy than we had expected. The weakness was noticeable in government spending (down 1.0%) and stocks (a 2.3% percentage point drag on the overall result). Other pockets of weakness included exports of services which fell 2.6%, including a 1.6% decline in the volume of tourist spending. Much of the strength in GDP came from the solid net export contribution. Exports increased 4.7% - thanks to the lift in dairy export volumes and strength in other commodity exports. Meanwhile, import volumes fell 3.8% on weak domestic demand. Consumer spending increased 0.4%, slightly stronger than our flat expectation, although not too surprising given the lift in the retail trade survey.

Consumer Confidence – QIII

The quarterly Westpac McDermott Miller consumer confidence survey showed a staggering lift in optimism. Headline consumer confidence lifted to a four-year high of 120 from 106 over Q3, beating the more modest lift foreshadowed by the fortnightly Roy Morgan survey. The result is well above the series average of 111.4, and the 100 level which indicates optimists outnumber pessimists. The lift was led by an improvement in the short-term outlook for the economy and year-ahead financial conditions. A net 17% of consumers now expect good economic times over the coming year. This is the second biggest quarterly improvement recorded for this component (up 45.7 points from the June survey when a net 28.7% expected bad economic times).

Present conditions continue to provide more "sober reading", in Westpac's words. This index sits at 98.6, lifting from 94.7 in Q2. A net 21.9% of respondents still say they are worse off financially now compared to a year ago. The headline confidence has yet to translate into a willingness to buy big ticket items. The response to the question around whether now is a good or bad time to buy a major household item showed only a net 19.2% think now is a good time. This is up just 3.6 points from the June survey and is still below the long run average of +27% on this measure. This caution is reflected in the majority of respondents saying they would save a cash windfall, despite feeling more confident in the economic outlook.



Global Data Calendars

Note: Calendar 2 is in UK times. Add 12 hours for NZ times.

Calendar – Australasia, Japan and China

Date	Time		Econ Event	Period	Unit	Last	Forecast	
	NZT						Market	ASB/CBA
Mon 28 Sep	12.15	AU	RBA Governor speaks before the Senate Economics References Committee					
	17.35	AU	Treasury Secretary Henry speaks to Senate Committee in Sydney					
Tue 29 Sep	10.45	NZ	Building permits	Aug	m%ch	5.0	~	10.0
	12.30	JP	National CPI	Sep	y%ch	-2.2	-2.2	~
	12.30	JP	National CPI ex-fresh food	Sep	y%ch	-2.2	-2.4	~
	12.30	JP	National CPI ex food, energy	Sep	y%ch	-0.9	-1.0	~
	14.30	AU	RBA's Richards speaks in Sydney					
Wed 30 Sep	05.00	CH	Leading index	Aug	Index	103.2	~	~
	12.15	JP	Manufacturing PMI	Sep	Index	53.6	~	~
	12.50	JP	Industrial production	Aug	m%ch	2.1	1.8	~
					y%ch	-22.7	-18.8	~
	14.30	AU	Private sector credit	Aug	m%ch	0.2	0.2	0.1
					y%ch	3.0	~	2.6
	14.30	AU	Retail sales	Aug	m%ch	-1.0	0.5	0.5
	14.30	AU	Building approvals	Aug	m%ch	7.7	~	5.0
					y%ch	-3.9	~	4.5
	14.30	JP	Labor cash earnings	Aug	y%ch	-5.6	~	~
	14.00	NZ	NBNZ business confidence	Sep	Index	34.2	~	~
	15.30	CH	HSBC manufacturing PMI	Sep	Index	55.1	~	~
	17.00	JP	Vehicle production	Aug	y%ch	-31.9	~	~
	18.00	JP	Housing starts	Aug	y%ch	-32.1	-31.8	~
	Thu 1 Oct	12.30	AU	Ai Group PMI	Sep	Index	51.7	~
12.50		JP	Tankan lge manuf index	QIII	Index	-48.0	-34.0	~
12.50		JP	Tankan non-manufacturing	QIII	Index	-29.0	-27.0	~
12.50		JP	Tankan non-manuf outlook	QIII	Index	-21.0	-22.0	~
12.50		JP	Tankan lge non-man outlook	QIII	Index	-30.0	-26.0	~
12.50		JP	Tankan Capex	QIII	Index	-9.4	-9.5	~
					m%ch	0.5	~	~
12.50		JP	Retail trade	Aug	y%ch	-2.4	-2.4	~
					%	-8.4	~	~
12.50		JP	Large retailers' sales	Aug	%	-8.4	~	~
12.00	CH	PMI manufacturing	Sep	Index	54.0	54.8	~	
18.00	JP	Vehicle sales	Aug	%	2.3	~	~	
Fri 2 Oct	12.30	JP	Job-to-applicant ratio	Aug	m%ch	-2.0	0.0	~
	12.30	JP	Jobless rate	Aug	%	5.7	5.8	~
	12.30	JP	Household spending	Aug	y%ch	6.1	~	~

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 28 Sep	13.30	US Chicago Fed activity index	Aug	Index	-0.74	~	~
	15.30	US Dallas Fed manuf activity	Aug	Index	-9.1	~	~
Tue 29 Sep	09.30	UK GDP	QII	q%ch	-0.7	-0.6	~
	09.30	UK Current account	QII	£bn	-8.5	-7.8	~
	09.30	UK Net consumer credit	Aug	£bn	-0.2	0.1	~
	10.00	EZ Business climate indicator	Sep	Index	-2.2	-1.99	~
	14.00	US S&P/CS composite-20	Jul	y%ch	-15.4	-14.3	~
	15.00	US Consumer confidence	Sep	Index	54.1	57.0	~
	00.01	UK GfK consumer confidence	Sep	Index	-25.0	-24	~
Wed 30 Sep	09.00	EZ CPI estimate	Sep	y%ch	-0.2	-0.2	~
	13.15	US ADP employment change	Sep	'000	-298	-200	~
	13.30	CA GDP	Jul	m%ch	0.1	0.3	~
	13.30	US GDP (annualised)	QII	q%ch	-1.0	-1.2	~
	13.30	US Core PCE	QII	%	2.0	2.0	~
	14.45	US Chicago purchasing manager	Sep	Index	50.0	52.0	~
	15.00	US NAPM-Milwaukee	Sep	Index	56.0	~	~
	09.30	UK PMI manufacturing	Sep	Index	49.7	~	~
Thu 1 Nov	10.00	EZ Unemployment rate	Aug	%	9.5	9.6	~
	13.30	US Personal income	Aug	%	0.0	0.1	~
	13.30	US PCE deflator	Aug	y%ch	-0.8	~	~
	13.30	US Initial jobless and continuing claims					
	15.00	US ISM manufacturing	Sep	Index	52.9	54.0	~
	15.00	US Pending home sales	Aug	m%ch	3.2	1.0	~
	15.00	US ISM prices paid	Sep	Index	65.0	67.0	~
	15.00	US Construction spending	Aug	m%ch	-0.2	-0.3	~
Fri 2 Nov	09.30	UK PMI construction	Sep	Index	47.7	~	~
	13.30	US Change in non-farm payrolls	Sep	'000	-216	-188	~
	13.30	US Unemployment rate	Sep	%	9.7	9.8	~
	15.00	US Factory orders	Aug	%	1.3	1.1	~

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