

Business Weekly

Stocking up for the future

This Week

The RBNZ has noted in recent policy statements that a sustainable economic recovery was needed before it begins to withdraw monetary policy stimulus. December quarter GDP data released last week indicate such a recovery is beginning to take shape. Importantly, businesses appear confident enough about the recovery in demand to begin rebuilding stock levels and investing again. Over the past few quarters, we have seen an improvement in business confidence from precipitously low levels, and it appears that this improvement is finally being translated into action.

The recovery in demand was reflected in the increase in activity in the goods-producing industries. In particular, there was an increase in manufacturing activity for the first quarter since December 2007, with support from robust activity in Australia and the favourable NZD/AUD. With indicators of manufacturing sector confidence and export intentions continuing to rise in recent months, this sector should continue to improve over the coming year.

Although recent spending and consumer credit data indicate households remain cautious in light of continued softness in the labour market and subdued wage growth, household spending is recovering. This upturn follows an improvement in consumer confidence in recent months, and supported a rebound in retail and wholesale trade activity in Q4.

Stronger domestic demand – from both households and businesses – underpinned the strong pick-up in imports. Consumption goods imports continue to recover in line with the recovery in household spending. Meanwhile, businesses now have enough faith in the recovery in demand to begin thinking about expanding their operations. As a result, they are importing transport and capital goods in order to implement their investment plans, some of which had been put on hold in the midst of the recession.

It looks as though the foundations for a sustainable recovery are falling into place. However, against the backdrop of rising output are signs recently of emerging capacity pressures. The RBNZ will be mindful of the need to keep inflation pressures in check while still providing the necessary amount of support to this fledgling recovery. Over the coming weeks, credit growth data and surveys of business confidence will provide important updates on the development of this recovery, thus providing further clues as to when the RBNZ will commence its tightening cycle. We continue to expect the RBNZ will raise the OCR by 25 basis points in the June meeting.

Click here for:

[Foreign Exchange](#)

- NZD lifts on the JPY, but little changed on other cross rates.

[Interest Rates](#)

- Rates press higher both here and abroad.

[Week Ahead](#)

- Building consents, credit aggregates and NBNZ Business Outlook.

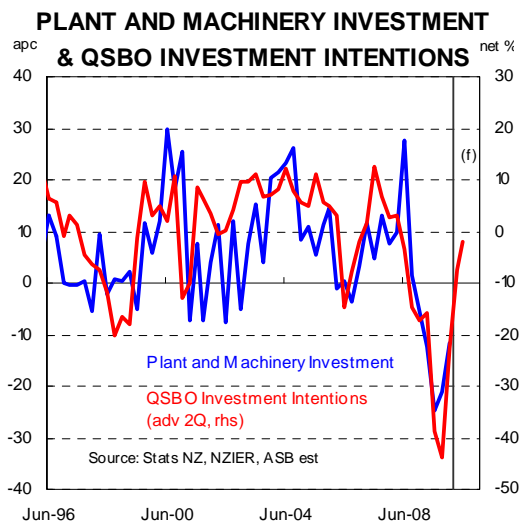
[Week in Review](#)

- GDP growth of 0.8% in Q4, current account deficit narrowed to -2.9% of GDP.

[Global Calendars](#)

- PMI manufacturing surveys due. US Non-farm Payrolls due on Friday.

Chart of the week



- Core components of investment demonstrated a pleasing recovery over Q4. Plant and machinery investment increased 4% while transport equipment lifted 7%.
- The recovery follows a pick up in investment intentions (albeit modest). There was some concern that the strong lift in headline business confidence had not fully flowed through to action. However, the quarterly accounts proved evidence to the contrary.
- The surprising lift in inventories and core investment came a quarter earlier than we expected, an encouraging sign that businesses are increasingly preparing for the future.
- We will get a further read on business confidence and investment intentions over the next week. Improving profitability and renewed pressures on capacity pressures are likely to contribute to further improvement in investment intentions.

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	0.7049	0.7060	0.6937	0.7131	0.5753	FLAT	0.6950	0.7150
NZD/AUD	0.7794	0.7724	0.7795	0.8289	0.8212	FLAT	0.7650	0.7850
NZD/JPY	65.12	63.88	61.95	63.72	56.58	FLAT	64.00	66.00
NZD/EUR	0.5226	0.5223	0.5106	0.4890	0.4241	FLAT	51.80	52.80
NZD/GBP	0.4715	0.4723	0.4541	0.4513	0.3972	FLAT	0.4650	0.4750
TWI	65.7	65.5	64.4	65.2	57.2	FLAT	64.5	66.50

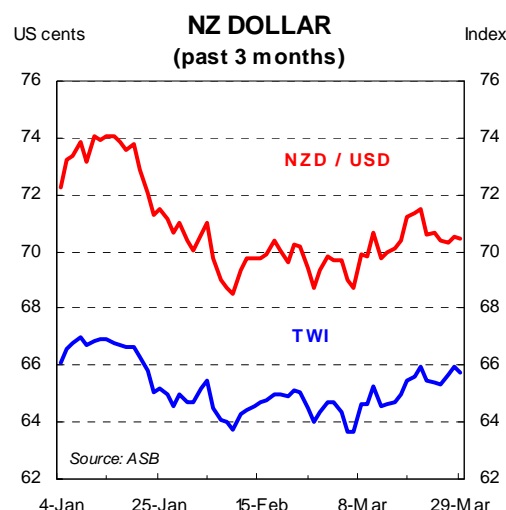
^Weekly support and resistance levels * Current is as at 11.00 am Monday; week ago as at Monday 5pm

- The euro has been under pressure in March, as concerns about Greece (and other fiscally challenged euro-zone economies) weighed on the single currency. EUR sank from a high of over 1.38 against the USD on 17 March to as low as 1.327 late last week. However, the euro recovered nearly 2 cents on Friday 26th and Monday 29th following the confirmation late last week of a support mechanism for Greece. The support, if required as a last resort, comes in the form of IMF assistance and bilateral loans from euro area members.
- US Payrolls report for March is likely to be the data highlight of the week, and is expected to show a steep rise in job creation, though it is mainly a snap back from the snow-storm-induced fall in February. Other US data for February are likely to be weak because of the snow-storms. The USD is being supported by concerns about government debt in the euro zone, particularly Greece. Events last week may have drawn a line under the Greek fiscal issue for the time being. However, to say that the fiscal position remains challenging across several European countries is something of an understatement! EUR is likely to remain weak against the USD for quite some time.
- The NZD has traded between 0.685 and 0.718 against the USD in March. Last week the NZD traded in the top half of that range, ranging between 0.70 and 0.71. Against the AUD, the NZD traded below 0.77 in the first half of the week, but ground back towards 0.78 late last week and early this week. The biggest lift for the NZD was against the JPY last week. On the other crosses the NZD is little changed.

Short-term outlook:

Key data	Date	Time (NZST)	Market expects
Feb Building Consents	30/3	10.45 am	-
Feb RBNZ Credit Aggregates	30/3	3.00 pm	-
Mar NBNZ Business Confidence	31/3	3.00 pm	-
MarQ NZIER Quarterly Survey	6/4	10.00 am	-
RBA Cash Rate Announcement	6/4	4.30 pm	4.00%

Potential currency movers from offshore this week: US personal income, spending (29th), US house prices, consumer confidence, UK GDP (30th), ADP employment, factory orders (31st), Global manufacturing reports, US jobless claims (1st), US Non-farm Payrolls (2nd). **Fed speakers:** Fisher (31st), Bullard, Dudley (1st).



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

- We expect the NZD 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.
- Another influence capping the NZD 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

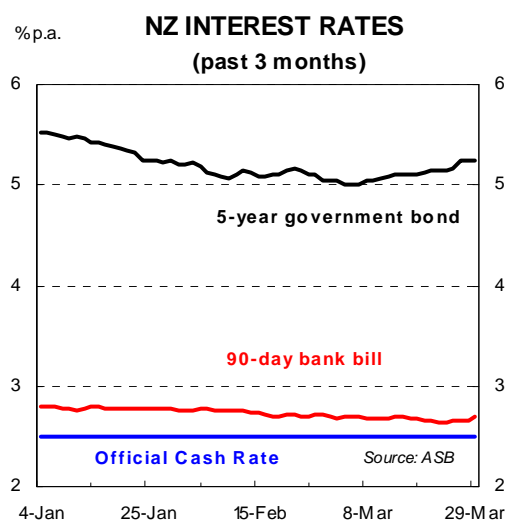
Wholesale interest rates	Current	Week ago	Month ago	6 mths ago	Year ago	ST Bias
Cash rate	2.50	2.50	2.50	2.50	3.00	FLAT
90-day bank bill	2.69	2.64	2.71	2.80	3.33	FLAT
2-year swap	4.32	4.22	4.18	4.27	3.89	FLAT
5-year swap	5.29	5.20	5.18	5.49	5.03	FLAT
5-year benchmark gov't stock	5.24	5.14	5.05	4.89	4.47	FLAT
NZSX 50	3245	3233	3154	3131	2653	FLAT

* Current is as at 10.45am 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).

- 90-day bank bills recovered lost ground over the week, climbing back to normal levels, particularly with quarter end approaching this week. Funding flows during the previous week had squeezed 90-day bank bills towards unusually low levels relative to the OCR (and OCR expectations).
- US Treasury yields spiked up over the week (dragging up NZ and Australian swap rates with it), mostly as the \$118 billion worth of Treasury bond auctions over the week were poorly received. The weaker appetite raises concerns on the ability for increased US debt issuance to be absorbed over the next few years.

Short-term outlook:

Key data	Date	Time (NZST)	Market expects
Feb Building Consents	30/3	10.45 am	-
Feb RBNZ Credit Aggregates	30/3	3.00 pm	-
Feb AU Retail Trade	31/3	1.30 pm	+0.3
Mar NBNZ Business Confidence	31/3	3.00 pm	-
MarQ NZIER Quarterly Survey	6/4	10.00 am	-
RBA Cash Rate Announcement	6/4	4.30 pm	4.00%



Comment: Local markets are likely to remain quiet following the on-expectation GDP result. The Quarterly Business Opinion Survey on Tuesday the 6th should be watched closely for signs of building inflation pressures.

Australian retail sales will receive a bit of attention heading into the RBA rate announcement the Tuesday after Easter. The market is 50/50 on a rate hike from the RBA next week, as participants are undecided if the RBA will next move in April or May. We expect the RBA will wait until May (following the Q1 CPI release).

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, 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. Implementation of the Emissions Trading Scheme, which the RBNZ has not explicitly included, will push inflation close to 3%.
- 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
February Building Consents – core mom	30/3	10.45am	+0.7%	-	-
February RBNZ Credit Aggregates- household yoy	30/3	3.00pm	+2.7%	-	-
March National Bank Business Outlook	31/3	3.00pm	50.1	-	-
Q4 NZIER Quarterly Business Opinion Survey	6/4	10.00 am	+23%	-	-

Tuesday 30 March

February Building Consents

Previous: ex-apartments +0.7%mom

Dwelling consent issuance continues to improve when compared to year-ago levels, but in the past couple of readings has slightly undershot the recovery we have been expecting.

Core consent issuance has recovered from the low of 745 at the start of 2009 but remains well short of the average of around 1900 per month over 2006-2007. Given the level of migration and home sales, we would expect core consent issuance to rise towards the 1800 per month mark over this year. However, for February we expect another modest print of around 1250 consents, which is a 36% increase on year ago levels but a 2.5% decline on January's seasonally adjusted figure. Apartment consents remain weak, and are expected to average around 80-100 units per month over the coming months.

Despite the very weak January non-residential figures, we continue to expect a fairly flat pattern for non-residential work over 2010 as business confidence recovers. Public project activity should remain robust this year, offsetting private business projects which will likely remain subdued as businesses continue to show some caution.

Tuesday 30 March

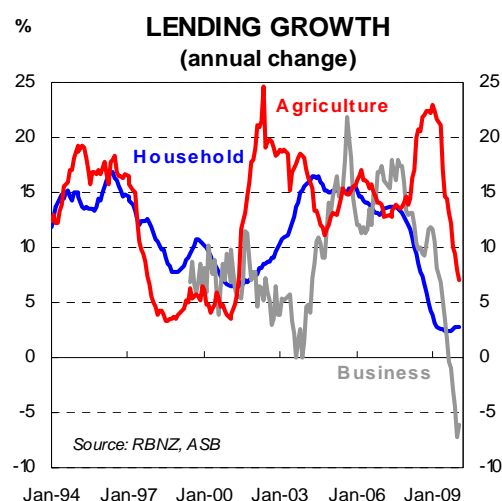
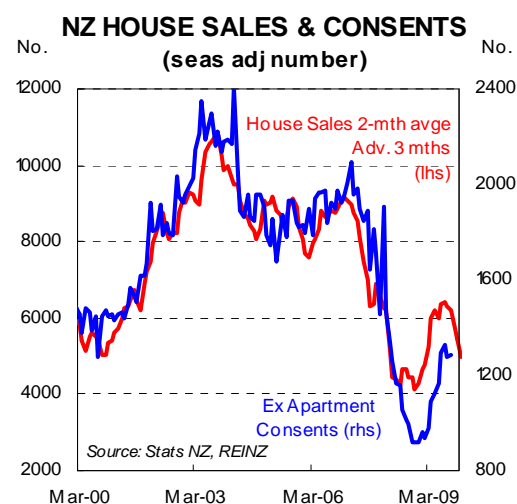
February Credit Growth

Previous: household growth +2.7% yoy

Credit growth remained very subdued in January, with household credit growth increasing just 0.2% for the month. Modest expansion in housing credit is offsetting the ongoing weakness in consumer credit. Although consumer confidence is improving, consumers remain reluctant to borrow to fund spending while unemployment is still rising and job security weighs over household decisions. The slow pace of household credit growth will be welcomed by the RBNZ.

Business credit remains very weak, down 6.2% on year-ago levels, consistent with the decline in business investment over the past year. Appetites for investment are slowly starting to pick up, and once businesses have seen a sustained recovery in activity and profits, a recovery in investment will follow.

Agricultural credit growth continues to ease from double digit rates of growth in 2009. Agricultural prospects are beginning to recover, with export commodity prices improving over recent months.



Wednesday 31 March

March National Bank Business Outlook

Previous: headline 50.1, own activity 41.9

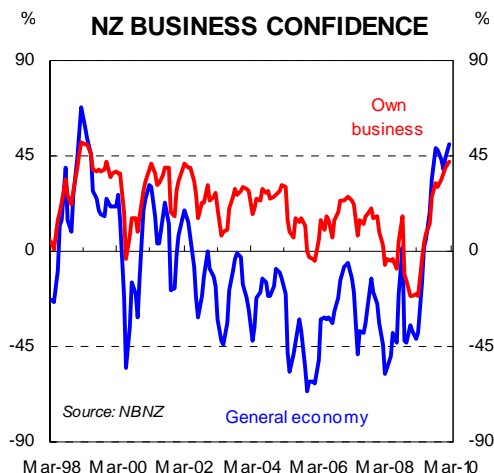
Q1 NZIER Quarterly Survey of Business Opinion

Previous: headline 30.7, own activity 10.7

Business confidence has generally improved over the past year, from precipitously low levels. Importantly, there has been an improvement in businesses' own activity expectations. This has encouraged businesses to expand their operations, and we saw this flow through to a recovery in business investment in Q4 as a result.

Given the recent improvement in the manufacturing sector on the back of demand from Australia and the favourable NZD/AUD, we expect business confidence to hold up around the high levels of recent months.

The NZIER quarterly survey will also shed useful insight into capacity pressures in the economy. While capacity utilisation has been volatile over the past few quarters, the underlying trend has been increasing, thus suggesting the potential for inflation pressures to build up over the coming year.



NZ Data Review: weekly recap

Q4 Balance of Payments

The current account deficit was much wider than expected in Q4, due to a weaker goods balance and a wider investment income deficit (as a result of an underlying improvement in profitability).

Stronger imports drove the weaker traded goods balance. The goods balance surpluses recorded over 2009 were due to a sharp fall in import demand during the recession. As domestic demand has started to improve, this surplus is now starting to narrow and is likely to return to deficit over 2010.

Some of the reasons for the widening reflected some positive developments in the economy, just as some of the reasons for the recent narrowing reflected poor economic health. Imports were strong, a reflection of recovering domestic demand. Underlying profitability in foreign-owned corporates has been improving, even after accounting for the normalisation in banking sector profits in the wake of the structured tax cases. Less positively, exports were weaker than a year earlier.

Q4 Gross Domestic Product

The 0.8% increase in economic activity in Q4 was encouraging in that growth was across the core components of GDP. In particular, the inventory rebuilding process and business investment hit a strong pace earlier than we had expected. This suggests businesses are confident in the recovery and are increasingly preparing for the future.

The recovery became more broad-based, with manufacturing, retailing and wholesale trade leading the pick-up. Dairy production appears to have had good quarter, recording stronger growth than we had expected. The services sector was slightly more sluggish, particularly with weakness in education and very weak growth in the finance and business services category.

From an expenditure perspective, there was a very strong contribution to growth from stock rebuilding, primarily due to a recovery in manufacturing stocks. This suggests there may be less scope than previously expected for stock building to contribute to growth in the first half of 2010.

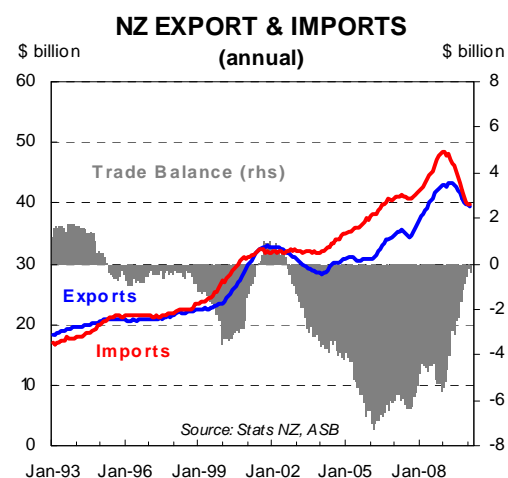
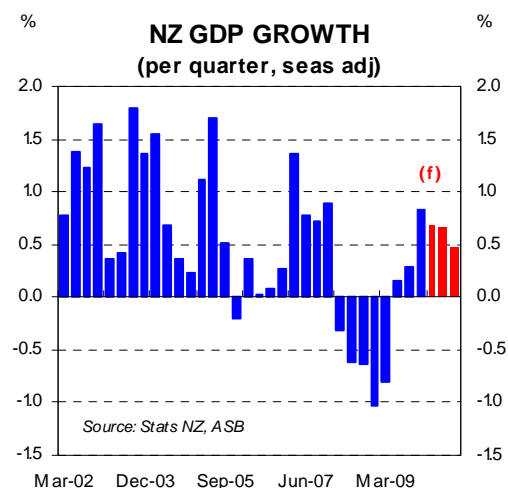
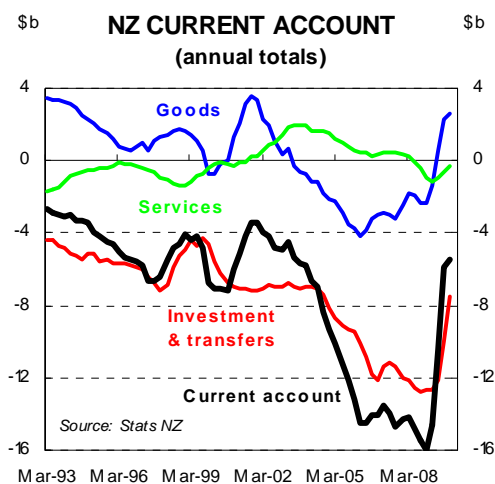
Overall, the Q4 outturn suggests that the improvement in business sentiment is being translated into action.

February Merchandise Trade Balance

The annual deficit widened to \$347 million, reflecting the recovery in import demand. We expect the annual deficit will continue to widen as the economic recovery – particularly in consumer spending and investment – lifts imports over 2010.

The underlying trend in other exports is starting to recover. Behind this, we surmise that exports to Australia are a key driver behind the improvement (up 7% on year-ago levels). The low NZD/AUD remains very favourable to exporters, and business surveys point to a firm lift in manufacturers' export intentions.

Trade surpluses recorded over 2009, led by a decline in import demand, contributed to an improvement in the current account and added positively to GDP growth. However, as the economic recovery gathers momentum, import demand will begin to increase and unwind these improvements. Indeed, the Q4 national accounts showed import volumes were surprisingly robust (given the early stage of recovery), led by increase consumption and capital goods. We expect these trends to continue into 2010.



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 29 Mar	12.50	JP	Retail Trade	Feb	m%ch	2.0	~	~		
					y%ch	2.3	~	~		
Tue 30 Mar	10.45	NZ	Building Permits	Feb	m%ch	-2.8	~	-2.5		
			12.30	JP	Overall Household spending	Feb	y%ch	1.7	~	~
					Jobless rate	Feb	%	4.9	~	~
					Job-to-applicant ratio	Feb	%	0.5	~	~
					12.50	JP	Industrial production	Feb	m%ch	2.7
y%ch	18.5	~	~							
Wed 31 Mar	13.30	AU	Building approvals	Feb	m%ch	-7.0	~	4.0		
					y%ch	47.6	~	40.7		
	13.30	AU	Retail trade	Feb	m%ch	1.2	0.3	0.3		
			Private sector credit	Feb	m%ch	0.4	~	0.2		
			RBA Deputy Governor Debelle speaks							
	15.00	NZ	NBNZ Business Confidence	Mar	Index	50.1	~	~		
	18.00	JP	Housing starts	Feb	y%ch	-8.1	~	~		
			Small business confidence	Mar	Index	42.3	~	~		
			Annualized housing starts	Feb	¥mn	0.9	~	~		
			Construction Orders	Feb	y%ch	15.7	~	~		
18.00			JP	Construction Orders	Feb	y%ch	15.7	~	~	
Thu 01 Apr	12.30	AU	AiG Performance of Manufacturing Index	Mar	Index	53.8	~	~		
			12.50	JP	Tankan large manufacturers index	QIV	Index	-24.0	-13.0	~
	12.50	JP	Tankan Non-Manufacturing Outlook	QIV	Index	-19.0	-14.0	~		
	12.50	JP	Tankan large all indust. Capex	QIV	Index	-13.8	-0.4	~		
	13.00	AU	TD Securities inflation	Mar	m%ch	0.1	~	~		
					y%ch	1.9	~	~		
	13.30	AU	Trade balance	Feb	\$mn	-1,176	~	-1,800		
	14.00	CH	PMI manufacturing	Mar	Index	52.0	55.0	~		
	15.30	CH	HSBC manufacturing PMI	Mar	Index	55.8	~	~		
	18.00	AU	RBA Commodity index SDR	Mar	y%ch	23.3	~	~		
18.00	JP	Vehicle Sales	Mar	y%ch	35.1	~	~			

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 29 Mar	~	GE	CPI - EU Harmonised	Mar	m%ch	0.4	~	~
	09.30	UK	Net consumer credit	Feb	£bn	0.5	~	~
	09.30	UK	Net lending sec. on dwellings	Feb	£bn	1.5	~	~
	09.30	UK	Mortgage Approvals	Feb	'000	48.2	~	~
	10.00	EZ	Confidence indicators	Mar	~	~	~	~
	13.30	US	Personal income	Feb	m%ch	0.1	0.1	~
	13.30	US	Personal spending	Feb	m%ch	0.5	0.3	~
	13.30	US	PCE core	Feb	m%ch	0.0	0.1	~
Tue 30 Mar	15.30	US	Dallas Fed manufacturing activity	Feb	m%ch	-0.1	~	~
	09.30	UK	GDP	QIV	q%ch	0.3	~	~
					y%ch	-3.3	~	~
Wed 31 Mar	14.00	US	S&P/CS composite-20	Jan	y%ch	-3.1	~	~
	15.00	US	Consumer confidence	Mar	Index	46.0	50.0	~
	00.01	UK	GfK consumer confidence survey	Mar	Index	-14.0	~	~
	08.55	GE	Unemployment Rate	Mar	%	8.2	~	~
	10.00	EZ	Unemployment rate	Feb	%	9.9	~	~
	10.00	EZ	CPI Estimate	Mar	y%ch	9.9	~	~
Thu 01 Apr	13.15	US	ADP employment change	Mar	'000	-20.0	-40.0	~
	13.30	CA	GDP	Jan	m%ch	0.6	0.4	~
	14.45	US	Chicago purchasing manager	Mar	Index	62.6	61.0	~
	15.00	US	Factory orders	Feb	m%ch	1.7	0.5	~
	15.00	US	NAPM-Milwaukee	Mar	Index	56.0	~	~
	09.30	UK	PMI Manufacturing	Mar	Index	56.6	~	~
	13.30	US	Initial jobless and continuing claims	Mar	~	~	~	~
Fri 02 Apr	15.00	US	ISM manufacturing	Mar	Index	56.5	57.0	~
	15.00	US	ISM prices paid	Mar	Index	67.0	67.0	~
	15.00	US	Construction spending	Mar	m%ch	-0.6	-1.0	~
	22.00	US	Domestic Vehicle Sales	Mar	mn	7.9	8.2	~
	13.30	US	Change in Nonfarm Payrolls	Mar	'000	-36.0	192	~
	13.30	US	Unemployment Rate	Mar	%	9.7	9.7	~

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