

Business Weekly

Asian economies feel the strain.

This Week

It is going to be a pretty quiet week in NZ, which means a lot of attention being paid to news releases elsewhere in the world. Central bank meeting minutes will certainly spark some interest, with the RBA, Bank of England and Federal Reserve all providing the details behind their recent decisions. There is also a wide variety of US economic news as well on housing and manufacturing.

So far in 2009 there has been no shortage of weak global economic news. Increasingly the spotlight has been on Asia, where economic growth in some countries has been disrupted to a greater extent than in the countries most directly impacted by the credit crunch. South Korea registered a 5.6% quarterly decline in Q4 GDP, and a string of weak data in Japan led to growing concerns that the mild recession already there was deepening. GDP data for Q4, released today, confirmed a 3.3% quarterly decline. The 2009 forecasts in the Consensus economic survey of NZ's main trading partners are for a 0.9% decline, another substantial downward revision from -0.1% in January's survey. The pace of revision remains rapid and shows no sign yet of slowing down.

Last week's NZ data had a strong focus on households. Retail spending volumes over the December quarter declined 0.6%; volumes excluding the volatile automotive components were flat. Though the quarter's decline was smaller than the preceding quarters in 2008, in an absolute sense the outcome was weak given the background of lower petrol prices, tax cuts, and net impact of lower interest rates. Electronic card transactions over January suggest retail spending remains soft. On the housing front, REINZ data revealed that sales turnover – after adjusting for seasonal influences – dropped back from December's rebound. Turnover has essentially been going sideways since a big slump last Easter. There is little evidence so far that housing market weakness is intensifying. However, some people may be surprised that low interest rates aren't having much apparent effect: uncertainty and job security are other significant factors in play.

NZ is stuck in a bit of a paradox. In the long term global events mean we will have to start spending within our means, which implies more modest spending growth or taking action to boost productivity and, hence, income growth (or a combination of both sides of the spending/earning equation). However, sitting hard on our wallets in the here and now risks accentuating the slowdown that has already persisted for the past 12 months.

Click here for:

[Foreign Exchange](#)

- NZD mixed over the week.

[Interest Rates](#)

- Rates grind lower over the week.

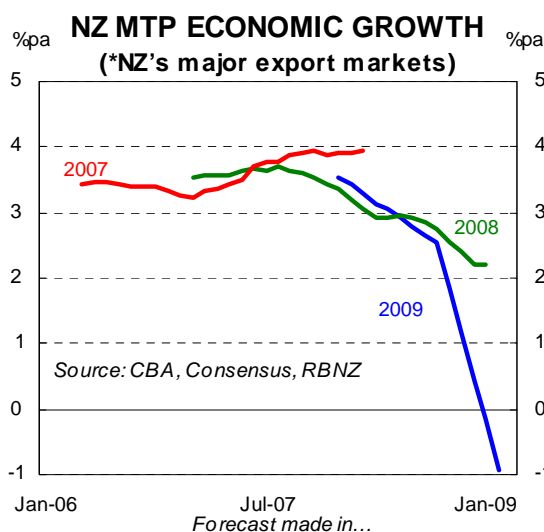
[Week in Review](#)

- Retail trade fails to lift on fourth quarter, despite some relief for households.

[Global Calendars](#)

- Focus on Central Bank minutes from RBA, FOMC, BoE, and US CPI data.

Chart of the week



- *Consensus Economics* surveys the average GDP forecast in each region around the world. We aggregate growth of New Zealand's top 12 major trading partners as indicator for demand for New Zealand's exports.
- The outlook for NZ trading partners has again been revised down substantially once more for 2009, to -0.9% from -0.1%.
- The 2010 outlook remains comparatively untouched, at 2.2% (previously 2.4%). Recent data would suggest the likelihood for further large cuts to these countries' outlooks.
- February's *Consensus Forecasts* pose slight downside risk to our own forecasts, although we have already cut back our export outlook very savagely. World growth over 2009 is expected to be significantly weaker than both the early 1990's recession and the Asian Crisis; it is likely that 2009 will shape up to be the weakest the global economy has been since the World War Two.

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	0.5190	0.5262	0.5469	0.7080	0.7846	FLAT	0.5150	0.5300
NZD/AUD	0.7973	0.7875	0.8118	0.8118	0.8689	FLAT	0.7850	0.8050
NZD/JPY	47.59	48.12	49.36	78.05	84.62	FLAT/DOWN	47.00	50.00
NZD/EUR	0.4065	0.4069	0.4131	0.4804	0.5361	FLAT/DOWN	0.4000	0.4200
NZD/GBP	0.3651	0.3570	0.3700	0.3790	0.3985	FLAT	0.3525	0.3625
TWI	52.7	52.9	54.4	66.0	72.3	FLAT	52.00	54.00

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

- **The NZD** was mixed, with little change against all the major crosses since last week. The NZD traded just shy of USD 0.545 on Tuesday 10th, but could not hold onto the gains, and spent the second half of the week trading around USD 0.52. We expect overseas developments to continue to guide the NZD/USD.
- We expect the economic data to indicate the global economy is still contracting, such as Japan's GDP report released today. The **JPY's** counter-cyclical behaviour means it can rise even when Japan's economy is in poor shape because Japanese investors tend to repatriate capital during periods of heightened risk aversion.
- **AUD:** There is an outside risk the RBA Governor indicates that current money market pricing is too aggressive therefore giving AUD a lift. Like the NZD, the AUD continues to be mainly influenced by offshore developments.
- The outlook for the world economy is bleak and US economic data is likely to get worse before it gets better. We expect the **USD** to retain support over the coming weeks, reflecting risk aversion and the countercyclical nature of the Greenback at present.

Short-term outlook:

Key data	Date	Time (NZST)	Market expects
RBA Minutes	17/2	1.30pm	-
FOMC Minutes	19/2	8.00 am	-

Potential currency movers from the US this week: empire manufacturing, TIC capital flows (17th), industrial production, minutes from Fed's previous interest rate meeting, building permits, housing starts (18th), jobless claims (19th), CPI (20th). Speakers: Bullard (17th), Bernanke, Evans, Pianalto (18th), Lockhart (19th).

Medium term outlook:

As a consequence of the financial market turmoil centred in the United States, USD weakness was expected in early 2009. However, weakness is being offset in part by concerns about other regions. International credit rating agencies have lowered the long-term foreign currency credit rating outlooks down from stable to negative for New Zealand and Ireland, and downgraded Spain and Greece's credit rating. They have also provided warnings on the ratings outlook for Portugal. We have revised down our forecasts for the EUR and the NZD. We have also lowered our GBP forecasts given the high risk (down) to the UK ratings outlook.

USD weakness in early 2009 was being reflected in EUR strength. The EUR is the single largest alternative to the USD as a reserve currency. The European Central Bank (ECB) has indicated that it is reluctant to reduce its official refinance rate to a level that reflects negative real official interest rates. Eurozone nominal and real interest rates are above not just those in the US, but above all major reserve currencies. Consequently, the EUR has appreciated vis-à-vis the GBP, CHF, and to a lesser extent, vis-à-vis the JPY (because repatriation flows still dominate the JPY's movement). Credit ratings concerns have provided an offset, and the Euro has depreciated over recent weeks. We currently expect the EUR to trade largely between 1.30 and 1.35 US this year.

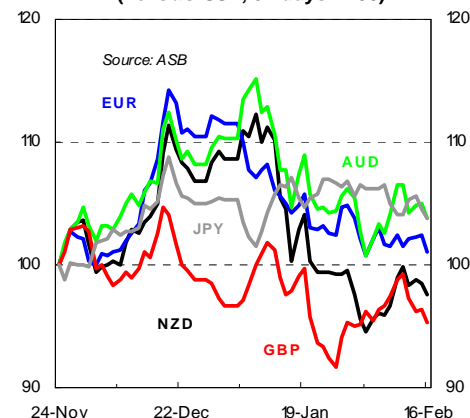
Impact on NZD & AUD

A weaker USD lifts all currencies vis-à-vis the USD. However, in the current environment, some currencies benefit more than others. The EUR is the currency that benefits the most in the current environment because it is the major alternative reserve currency to the USD. The NZD & AUD are not major reserve currencies. They therefore do not benefit to the same extent from reserve diversification adjustments as does the EUR. In fact, further weakness in NZD/EUR and AUD/EUR is consistent with the typical pattern of those cross exchange rates when global growth is being revised down.

NZD/USD and AUD/USD will lift as the USD depreciates. But both the Australian dollar and the New Zealand dollar will remain weak vis-à-vis the major cross rates while global growth remains weak. Ratings concerns add to the weight on the NZD right now. Until we get a pick-up in the global economy (mid-2009 at best), we are unlikely to see NZD/cross rate or AUD/cross rate strength. We expect the NZD to trade between US 0.50 and 0.57 in H1 2009.

[\[Last Quarterly Economic Forecasts\]](#)

EXCHANGE RATE INDICES
(versus USD, 84 days =100)



Interest Rate Market

Wholesale interest rates	Current	Week ago	Month ago	6 mths ago	Year ago	ST Bias
Cash rate	3.50	3.50	5.00	8.00	3.50	FLAT
90-day bank bill	3.42	3.54	4.32	8.15	3.42	DOWN
2-year swap	3.37	3.53	3.87	7.28	3.37	FLAT
5-year swap	4.06	4.16	4.32	7.03	4.06	FLAT
11/11 gov't stock	3.86	3.92	3.97	6.26	3.86	UP
NZSX 50	2733	2767	2752	3334	2733	FLAT

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

- Interest rates ground down over the past week, reversing out the previous weeks increase due to profit taking. Overall interest rates have remained relatively steady over early February.
- The market has pared back expectations on the RBNZ MPS decision, following the stronger than expected Q4 2008 employment result as well as a paring back in rate cut expectations in Australian following the RBA's Statement of Monetary Policy. Markets have priced in 66 basis points for March, while we continue to expect a 100 basis point cut. Certainly the large downward revision to trading partner growth in February's Consensus points to a larger rate cut.
- 10-year Government Bond yields have recovered from late January's decline and now remain reasonably stable just under 4.6%. Likewise, 5-year Government Bonds have stabilised for now with yields just shy of 4%.

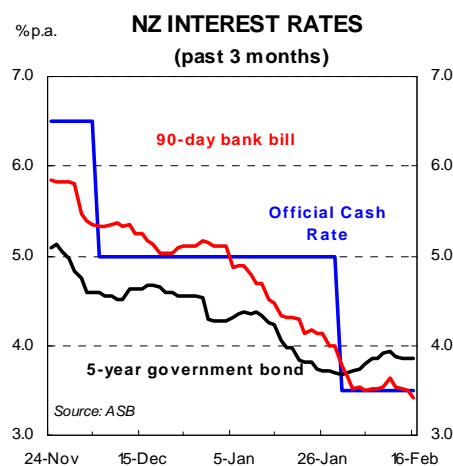
Short-term outlook:

Key data	Date	Time (NZST)	Market expects
RBA Minutes	17/2	1.30pm	-
FOMC Minutes	19/2	8.00 am	-

Comment: Quiet week ahead with no NZ data due out. Key events will be the minutes from various central banks providing more insights into recent monetary policy deliberations.

Medium term outlook:

- The RBNZ cut the OCR by 150bp at the January OCR review, and has now cut 475 basis points off the OCR since commencing the easing cycle in July. The cuts have been in response to ongoing global credit market dysfunction as credit markets remain tight, as well as the resulting deterioration in the global economic outlook, significantly lowering the outlook for exports and the terms of trade.
- We expect another 100bp cut in March, and the cash rate now going to 2.0%. More important are any alternative monetary policy measures the RBNZ may adopt should the effectiveness of the OCR begin to wane. At the January OCR review, the RBNZ emphasised that monetary policy remains effective at current levels, and that there are plenty of tools in the box.
- The global economic outlook continues to deteriorate significantly. In particular the outlook for China and Australia has now also weakened substantially. New Zealand's trading partner GDP is now expected to contract by almost 1%, and we expect further downward revisions to *Consensus* forecasts of global growth. Falling commodity prices will significantly lower NZ's terms of trade and exports are expected to contract.
- The RBNZ is now has confidence that annual inflation will be comfortably inside the target band of 1 to 3 percent over the medium term.
- Considerable support will be delivered to the NZ economy over 2009, in the form of lower interest rates, a lower NZ dollar, lower petrol prices and increased fiscal spending. However, limited supply of credit internationally is likely to continue to constrain growth. We expect the NZ economy to remain in recession over 2009.



[\[Last Quarterly Economic Forecasts\]](#)

NZ Data Review: weekly recap

January REINZ House Sales

Seasonally-adjusted sales declined 9.4% over January, unwinding much of December's jump to sit near the average for the second half of 2008. The unadjusted January sales total, of 3706, is the lowest of any month since REINZ began publishing data.

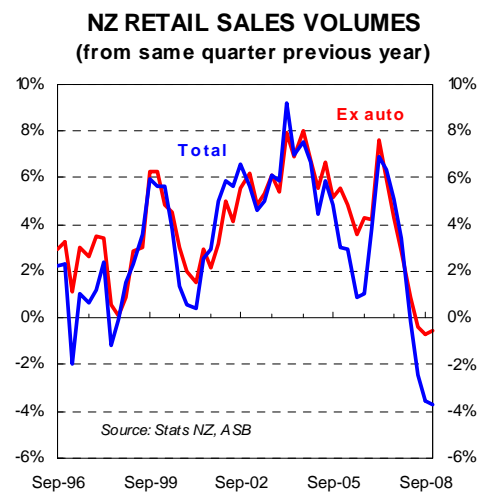
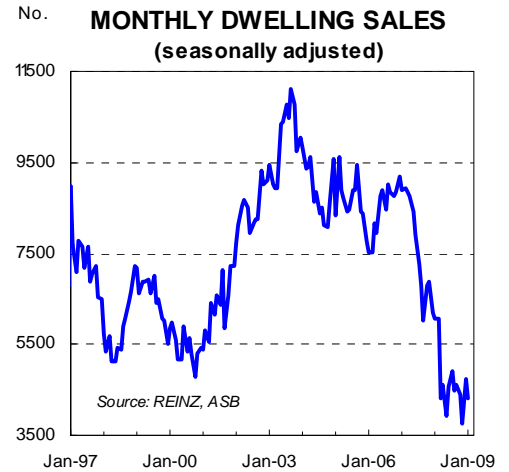
Prices continue to decline gradually and are now nearly 8% off their late 2007 peak. The rate of annual decline in the REINZ measure has stabilised between 4% and 5% in recent months. However, the lagging, but more accurate measure of general house prices published by QV, showed an annual decline of 8.3% for the 3 months to January.

Low interest rates are not having much impact (yet) in reviving the housing market, and we continue to expect that the impact will be modest. Job security will be a growing concern for prospective buyers, and deposit criteria have raised the bar as well.

Q4 Retail Trade Survey

Retail sales volumes contracted 0.6% over Q4, very close to market expectations (though a tad softer than we have anticipated). The figures represented an improvement relative to the sharper declines seen earlier in 2008, though were still very muted given the extra spending power people had late in the year. Lower petrol prices (in particular), tax cuts, and the prospect of lower debt-servicing costs still failed to increase the level of spending. Households have continued to cut back most noticeably on buying cars, for which volumes fell 4.9% over the quarter.

Lower petrol prices saw a \$151 million drop in spending on fuel, however very little of this cash gain was recycled into other spending. December month core retail value spend fell -0.6%, coming after 0.1% in November, points to a quiet Christmas spend-up. Half of the core retail categories registered sales falls. Weighty supermarket spending was down 1.1%.



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
Mon 16 Feb	17.30	AU	RBA International Head Chris Ryan gives speech in Sydney					
	17.30	JP	Industrial production	Dec	m%ch	-9.6	~	~
					y%ch	-20.6	~	~
	17.30	JP	Capacity utilisation	Dec	m%ch	-9.4	~	~
Tue 17 Feb	13.30	AU	RBA's Board February minutes					
	19.00	JP	Machine tool orders	Jan	y%ch	-84.4	~	~
Web 18 Feb	11.20	AU	Assistant RBA Governor Edey gives speech					
	12.30	AU	Westpac leading index	Dec	m%ch	-1.0	~	~
	13.30	AU	Wage cost index	QIV	q%ch	0.9	~	1.0
					y%ch	4.1	~	4.0
	13.30	AU	Preliminary BoP imports	Jan	m%ch	-2.0	~	~
	13.30	AU	Retail Trade Indicators	QIV	q%ch	0.1	~	0.6
	17.00	JP	BoJ monetary policy meeting	~	~	~	~	~
	18.00	JP	Leading index CI	Dec	Index	79.8	~	~
	18.00	JP	Coincident index CI	Dec	Index	92.3	~	~
	Thu 19 Feb	~	JP	BoJ target rate	Feb	%	0.1	0.1
10.45		NZ	Credit card spending	Jan	y%ch	-3.9	~	~
13.30		AU	RBA Bulletin	Jan	~	~	~	~
13.30		AU	New motor vehicle sales	Jan	m%ch	1.8	~	~
					y%ch	-15.7	~	~
21.30	AU	Julia Gillard address	~	~	~	~	~	
Fri 20 Feb	11.00	AU	Reserve Bank Governor's Semi-Annual Parliament Testimony					
	12.50	JP	All industry activity index	Dec	m%ch	-2.3	~	~

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
Tue 17 Feb	09.30	UK	CPI	Jan	m%ch	-0.4	-1.1	~
					y%ch	3.1	2.6	~
	09.30	UK	DCLG house prices	Dec	y%ch	-8.6	~	~
	10.00	EZ	Trade balance	Dec	€bn	-4.9	~	~
	10.00	EZ	ZEW survey (econ sentiment)	Feb	Index	-30.8	~	~
	10.00	GE	ZEW survey (econ sentiment)	Feb	Index	-31.0	-25.0	~

Date	time	Econ Event	Period	Unit	Last	Market	CBA
	10.00	GE ZEW (current situation)	Feb	Index	-77.1	-80.0	~
	13.30	US Empire manufacturing	Feb	Index	-22.2	-23.0	~
	14.00	US Net long-term TIC flows	Dec	\$bn	-21.7	~	~
	14.00	US Total net TIC flows	Dec	\$bn	56.8	~	~
	18.00	US NAHB housing market index	Feb	Index	8.0	8.0	~
Web 18 Feb	09.30	UK Bank of England minutes	~	~	~	~	~
	10.00	EZ Construction output	Dec	m%ch y%ch	-1.1 -4.7	~ ~	~ ~
	13.30	CA Wholesale sales	Dec	m%ch	-1.6	-1.5	~
	13.30	US Housing starts	Jan	'000	550.0	530.0	~
	13.30	US Building permits	Jan	'000	547.0	525.0	~
	14.15	US Industrial production	Jan	%	-2.0	-1.3	~
	14.15	US Capacity utilisation	Jan	%	73.6	72.4	~
	19.00	US Minutes of 28 Jan FOMC meeting					
Thu 19 Feb	13.30	CA Leading indicators	Jan	m%ch	-0.6	-0.6	~
	13.30	US Producer price index	Jan	m%ch y%ch	-1.9 -0.9	0.2 ~	~ ~
	13.30	US Initial jobless and continuing claims					
	15.00	US Leading indicators	Jan	%	0.3	0.1	~
	15.00	US Philadelphia Fed	Feb	Index	-24.3	-25.1	~
Fri 20 Feb	08.30	GE PMI manufacturing	Feb	Index	32.0	32.5	~
	08.30	GE PMI services	Feb	Index	45.2	45.0	~
	09.00	EZ PMI composite	Feb	Index	38.3	~	~
	09.30	UK Retail sales	Jan	m%ch y%ch	1.6 4.0	0.2 2.5	~ ~
	12.00	CA CPI	Jan	m%ch y%ch	-0.7 1.2	-0.3 1.1	~ ~
	13.30	US CPI	Jan	m%ch y%ch	-0.7 0.1	0.3 -0.1	~ ~

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