

Business Weekly

Smorgasbord of second-tier data

This Week

It is a week of numerous data releases, though none locally that normally rank in the top tier. Nevertheless, nearly all will get watched for any early indications that tentacles of the global credit crunch are gaining a local grip. The jobs summit on Friday will receive attention and, one hopes, produce a number of useful ideas. The RBNZ Governor will be one of those delivering an address.

The NBNZ business outlook survey on Thursday is the first proper read on business sentiment in 2009, surveyed 2 months after both the previous NBNZ survey and the NZIER's Q4 survey. The key results in both those surveys were record lows in businesses' views of their own trading outlook. There has been more time for a sober assessment of businesses' state of affairs and perhaps a better understanding of global developments. There have been some positives, such as January's sharp OCR decline and (for exporters) the low NZ dollar. Nevertheless, sentiment is likely to remain very weak and continuing to imply that the economy will remain in an entrenched recession.

One potential positive for NZ over the next couple of years could be a boost from migration flows. Through to the end of 2008 the net inflow was still very muted, with ever larger outflows of New Zealanders heading over to Australia. However, we would expect NZ to start seeing stronger net inflows as the year progresses. The global jobs market has taken a dramatic turn for the worse, and over time fewer NZers are likely to head off on their OE and increasing numbers will be coming back home. To date there are only muted signs of shifts (such as fewer departures to the UK), but shifts will happen once prospective emigrants realise that it is far better to stay in a job in NZ than head offshore to compete amongst growing ranks of unemployed for shrinking numbers of opportunities.

A stronger net migrant inflow would help over time to boost domestic demand. One area that gets impacted by sharper population growth is housing through the fundamental requirement for more residences. In the short term, however, we expect housing construction to remain weak. Building consents fell substantially over 2008. House sales have already stabilised, in part probably due to the ongoing declines in mortgage rates since April (and particularly over the past few months). Uncertainty remains a key factor in current decisions, so the first few months of 2009 may be too early to see an end to the downtrend. Friday's release of January consents will give an update.

Other releases to keep a weather eye on are NZ lending figures from the RBNZ and trade figures. The US will see a range of housing data that give some indication of how this vital market is faring.

Click here for:

[Foreign Exchange](#)

- NZD knocked by euro dip and debt/deficit focus

[Interest Rates](#)

- Fairly quiet week, rates have remained reasonably steady over February

[Week Ahead](#)

- Watch out for business confidence, inflation expectations and trade balance

[Global Calendars](#)

- Plethora of US housing data and manufacturing indices; Bernanke speaking

Chart of the week



- The euro has weakened this year as increased focus has come on perceived vulnerabilities of some member countries.
- Rating agencies have put the more indebted countries on negative credit watch and even delivered a couple of ratings downgrades.
- Renewed pressure on the euro last week followed concerns that the poor financial state of Central/Eastern European countries has increased the vulnerability of Western European banks that have lent extensively to those countries (Austrian banks have lent the equivalent of 80% of Austria's GDP).
- However, Germany has indicated preparedness to provide financial help to other eurozone countries if necessary, giving the euro some support.

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	0.5096	0.5191	0.5286	0.7045	0.8013	FLAT	0.5000	0.5200
NZD/AUD	0.7897	0.7949	0.8087	0.8165	0.8711	FLAT/DOWN	0.7800	0.8000
NZD/JPY	47.64	47.53	47.03	77.56	86.09	FLAT	46.50	48.50
NZD/EUR	0.3975	0.4060	0.4083	0.4787	0.5412	FLAT	0.3900	0.4050
NZD/GBP	0.3536	0.3645	0.3831	0.3824	0.4075	FLAT/UP	0.35	0.3650
TWI	51.9	52.7	53.3	65.9	73.3	FLAT	51.00	53.00

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

- **The NZD** weakened against the USD last week though recovered some ground this morning. The leg down was driven partly by the weaker euro as the spotlight came on banking exposures to Central/Eastern Europe. Release of NZ Crown Accounts for the 6 months ending December also weighed on the NZD. They showed the year-to-date performance was running substantially behind the dated Pre-election forecasts (and also likely weaker than the December Update forecasts). Although the results shouldn't have been dramatic news if the fine print was read, markets are nevertheless sensitive to growing deficits.
- Although the euro has rebounded the NZD has not tracked up to the same extent. Debt was a likely factor here too: Queensland's state credit rating was downgraded on Friday, crimping the AUD's rebound.
- We see downside to the USD against the majors this week. Federal Reserve chair Bernanke is likely to highlight the bevy of problems in the US economy in his semi-annual report to Congress. And continued squabbling in Congress over the bank bail-out plan will only serve to remind markets that recovery is some time off. The local focus on dealing with the recession and another business confidence result risk the NZD losing ground against the AUD this week.

Short-term outlook:

Key data	Date	Time (NZST)	Market expects
Q1 Inflation Expectations	25/2	3.00 pm	-
Jan Merchandise Trade Balance	26/2	10.45 am	-\$390
Jan RBNZ Credit Aggregates	26/2	3.00 pm	-
Feb NBNZ Business Confidence	26/2	3.00 pm	-
Jan Building Consents	27/2	10.45 am	-
Jan Net Migration	27/2	10.45 am	-

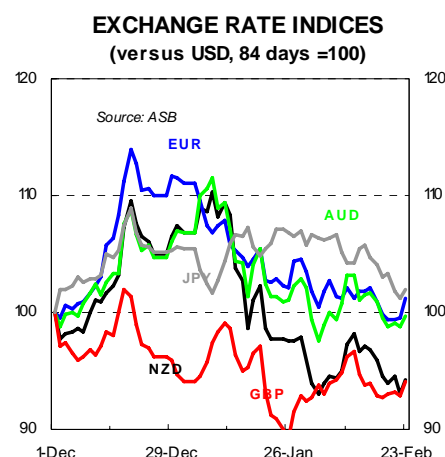
Potential currency movers from the US this week: Potential currency movers from the US this week: house prices, consumer confidence (24th), existing home sales (25th), durable goods orders, jobless claims, new home sales (26th), GDP, consumer confidence (27th). Speakers: Lockhart, Fisher (23rd), Bernanke, Fisher (24th), Bernanke (25th).

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. Western European banks' exposures to Central and Eastern Europe are also in the spotlight. 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.

NZD/USD and AUD/USD will lift as the USD eventually 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.

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



Interest Rate Market

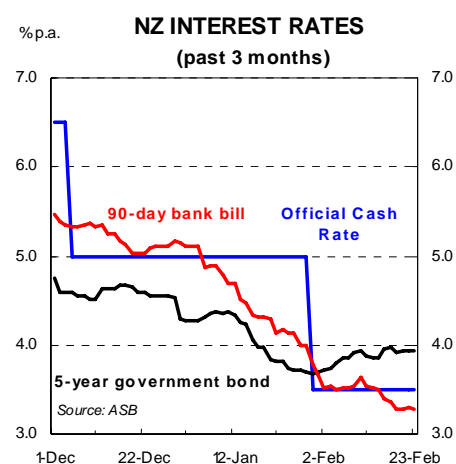
Wholesale interest rates	Current	Week ago	Month ago	6 mths ago	Year ago	ST Bias
Cash rate	3.50	3.50	5.00	8.00	8.25	FLAT
90-day bank bill	3.28	3.39	4.13	8.15	8.85	FLAT
2-year swap	3.30	3.38	3.56	7.34	8.60	FLAT
5-year swap	4.05	4.09	4.03	7.07	8.16	FLAT
11/11 gov't stock	3.93	3.96	3.74	6.18	6.93	FLAT
NZSX 50	2555	2680	2707	3330	3569	FLAT/DOWN

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

- Overall a very quiet week in interest rate markets. 90-day bank bills edged lower over the first half of the week to settle at 3.28%.
- Swaps rallied over the first part of the week, pushing rates lower, but sold off over the latter half of the week, with interest rates winding up slightly lower than on last Monday. Swap rates have remained relatively steady over February.
- Market expectations for the RBNZ also remain steady, with 75 basis points fully priced in. We continue to see risk that the RBNZ will cut by 100 basis points as the global economic backdrop continues to deteriorate.

Short-term outlook:

Key data	Date	Time (NZST)	Market expects
Q1 Inflation Expectations	25/2	3.00 pm	-
Jan Merchandise Trade Balance	26/2	10.45 am	-\$390
Jan RBNZ Credit Aggregates	26/2	3.00 pm	-
Feb NBNZ Business Confidence	26/2	3.00 pm	-
Jan Building Consents	27/2	10.45 am	-
Jan Net Migration	27/2	10.45 am	-



Comment: Strong flow of NZ data over the second half of the week, but most are second tier and are unlikely to have much impact on interest rate markets. The market consensus on the trade balance is already on the slightly pessimistic side, so it will take a truly abysmal result to see much reaction from the market. The biggest mover of next week's data is likely to be February Business Confidence, given its reliable guide on GDP growth.

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 Preview: a look at the week ahead

Data	Date	Time (NZST)	Previous	Market expects	ASB expects
Q1 RBNZ Inflation Expectations (2yr ahead)	25/2	3.00 pm	2.7%	-	-
Jan Merchandise Trade Balance	26/2	10.45 am	-\$346m	-\$390m	-\$300m
Feb NBNZ Business Outlook Survey (General)	26/2	3.00 pm	Net -35%	-	-
Feb RBNZ Credit Aggregates (mom)	26/2	3.00 pm	0.2%	-	-
Jan Building Consents (mom)	27/2	10.45 am	-5.9%	-	-
Jan Net Migration (annual)	27/2	10.45 am	3,814	-	-

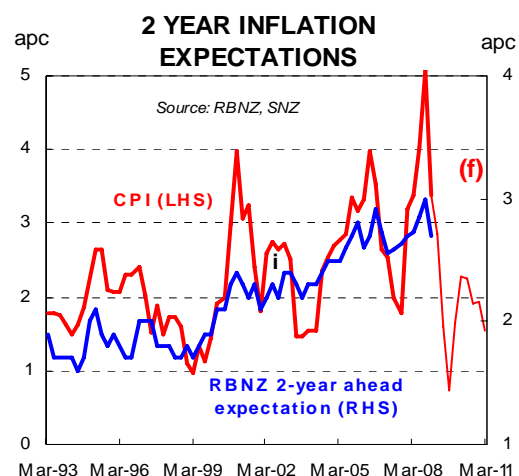
Q1 RBNZ Inflation Expectations Survey

Previous 2.7% (2-year ahead expectations)

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

Q4 Inflation expectations started to fall back in line with receding headline inflation and the drop in petrol prices from last year's peak.

Our inflation forecasts would suggest 1- and 2-year ahead inflation expectations have plenty of scope to fall in the latest survey. However, inflation expectations could be sticky in the short term given that petrol prices have in short order lifted back to \$1.70 a litre from a little over \$1.30 earlier this year.



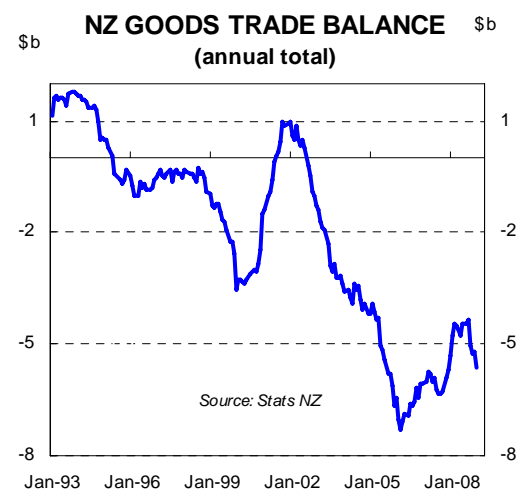
January Merchandise Trade Balance

ASB (f): -\$300 million

We expect a trade deficit of \$300 million in January.

Exports: The positive benefit of the lower exchange rate is being offset by lower international prices and falling volumes. Meat exports are likely to remain supported but we expect the remainder of exports will weaken. Oil production continues to decline and aluminium production has been running below capacity. Anecdotally dairy exports have underperformed production as stocks have increased, and manufactured exports are likely to be affected by the financial crisis fall out.

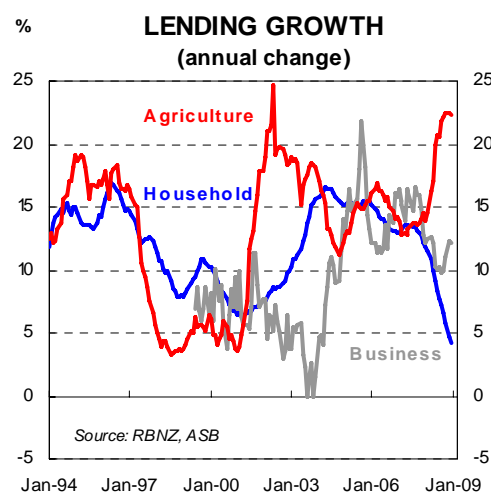
Imports: The lower exchange rate is also boosting values of imports, offsetting the effect of waning demand. Imports of intermediate goods of intermediate goods such as iron, plastics and fertilizer has been very strong, but are expected to decline as international prices declines and domestic demand eases for these products.



January RBNZ Credit Aggregates

Previous: 0.2% (mom) 4.2% yoy

Credit growth statistics, published by the RBNZ, are gaining slightly more attention since the credit crisis intensified in October. Although credit growth is slowing, it does remain positive. The RBNZ noted at the January OCR that an easing in demand for credit is favourable in terms of reducing external vulnerabilities. Housing credit continues to soften in line with the weaker housing market and falling house prices. Credit growth to businesses remains firm at a 12% annual rate, with some switch in composition towards bank lending, away from non-bank lending. Agricultural credit growth is up a very robust 22% on year-ago levels, although is now likely to be losing momentum with weakened prospects for the agricultural sector.



February NBNZ Business Confidence

Previous: - 35 business confidence, -21.5 Own Activity.

Business confidence has lifted off 2008's lows, but still remained very weak late in the year, driven by concerns about the economic impact from the global credit crisis. General business confidence remained at very weak levels while own activity outlook deteriorated further in December. The weakness in business confidence is broad based, with everything from profitability, investment and employment intentions remaining very weak. October and early November were times of heightened uncertainty and December's survey showed a slight pick up in sentiment as businesses digested the implications of the Reserve Bank's aggressive Official Cash Rate cuts. We expect more of the same in early 2009 - overall confidence will remain at weak levels, consistent with the recession continuing into 2009. Note this is the first NBNZ survey for 2009 – the survey is not conducted in January.

January Building Consents

Previous: -5.9% mom, -41% yoy

The fundamentals for housing construction remain weak, with low net migration inflows and falling house prices, and building consent issuance is likely to remain at very low levels. Consent issuance is now down about 40% on year-ago levels. However, falling interest rates are likely to provide a floor to consent issuance, as already seen in house sales turnover, and we expect the decline in consent issuance will soon bottom out. Nonetheless, ongoing economic uncertainty, rising unemployment and higher deposit requirements will continue to weigh on housing demand.

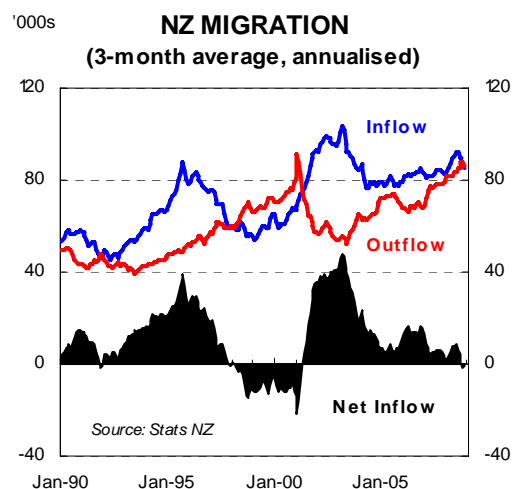
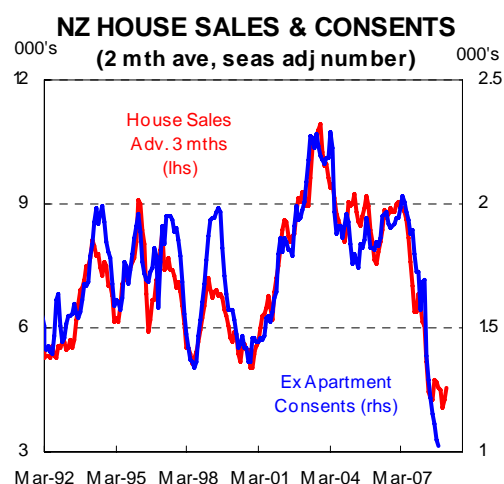
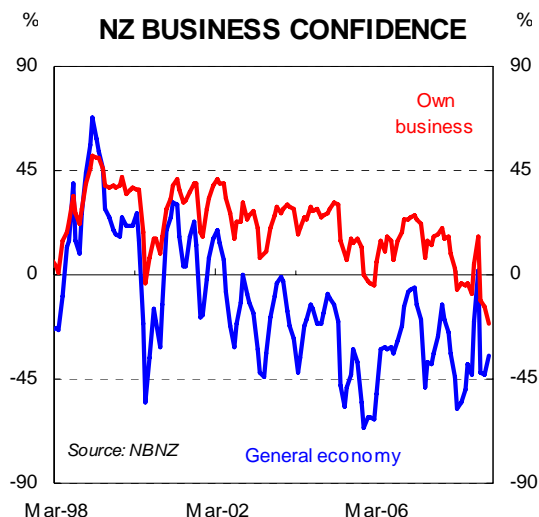
January External Migration

Previous: 3,814 annual net migration.

Over the past few months net migration has slowed slightly, as the number of departures remains strong (particularly to Australia) and the number of arrivals has slowed.

With the world economy now deteriorating rapidly, we expect this trend to start to reverse. The very weak labour market in the UK may deter departures, and possibly even send ex-pats back to NZ. Likewise, slowing job growth in Australia will start to curb the net outflow across the Tasman. A boost to net migration will provide some underlying support to NZ's flagging housing construction sector.

Overseas short-term visitor arrivals are also expected to slow over the next year, as weakening world growth reduces demand for international travel.



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	
	NZST						Market	ASB/CBA
Mon 23 Feb	15.00	NZ	Credit card spending	Jan	y%ch	-3.9	~	~
Tue 24 Feb	12.50	JP	BoJ monetary policy meeting minutes for January					
	12.50	JP	Corporate service price	Jan	y%ch	-2.5	~	~
Web 25 Feb	12.50	JP	Merchandise trade balance	Jan	¥bn	320.7	~	~
	13.00	AU	DEWR skilled vacancies	Feb	m%ch	-7.7	~	~
	13.30	AU	Wage cost index	QIV	q%ch	0.9	~	1.0
					y%ch	4.1	~	4.4
	13.30	AU	Construction work done	QIV	q%chg	4.4	~	-0.9
15.00	NZ	RBNZ inflation expectation	QI	%	2.7	~	~	
Thu 26 Feb	10.45	NZ	Trade balance	Jan	\$mn	-347.0	~	-300
	13.30	AU	Private capital expenditure	QIV	q%chg	0.6	~	2.0
	13.30	AU	Average Weekly Earnings	QIV	q%ch	1.6	~	1.1
y%ch					4.7	~	4.8	
15.00	NZ	NBNZ business confidence	Feb	Index	~	~	~	
Fri 27 Feb	10.45	NZ	Visitor arrivals	Jan	m%chg	3.9	~	~
	10.45	NZ	Building permits	Jan	m%chg	-6.0	~	~
	12.15	JP	Manufacturing PMI	Feb	Index	29.6	~	~
	12.15	JP	Jobless rate	Jan	%	4.4	~	~
	12.30	JP	Household spending	Jan	y%ch	-4.6	~	~
	12.30	JP	Consumer Price Index	Feb	y%ch	0.4	~	~
	12.50	JP	Industrial production	Jan	m%ch	-9.8	~	~
					y%ch	-20.8	~	~
	12.50	JP	Retail trade	Jan	m%ch	-1.9	~	~
					y%ch	-2.7	~	~
	13.30	AU	Private sector credit	Jan	m%ch	-0.3	~	0.5
	17.00	JP	Vehicle production	Jan	y%ch	-25.2	~	~
18.00	JP	Housing starts	Jan	y%ch	-5.8	~	~	
18.00	JP	Construction orders	Jan	m%ch	-27.3	~	~	

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
Mon 23 Feb	09.30	UK	Total business investment	QIV	q%ch	-1.3	~	~
					y%ch	-0.1	~	~
	13.30	CA	Retail sales	Dec	m%ch	-2.4	-2.4	~
Tue 24 Feb	09.00	EZ	ECB current account	Dec	€bn	-16.0	~	~
	09.00	EZ	IFO bus. climate/expectations	Feb	Index	83.0/79.4	~	~
	14.00	US	CaseShiller home price index	Dec	Index	154.6	~	~
	15.00	US	Consumer confidence	Feb	Index	37.7	36.0	~
	15.00	US	OFHEO House price index	QIV	q%ch	-1.8	~	~
	15.00	US	Richmond Fed manuf. index	Feb	Index	-49.0	~	~
	15.00	US	Bernanke report on economy and Fed policy					
	07.00	GE	GDP	QIV	q%chg	-0.5	~	~
	09.30	UK	GDP	QIV	q%ch	-1.5	~	~
					y%ch	-1.8	~	~
	10.00	EZ	Industrial new orders	Dec	m%ch	-4.5	~	~
					y%ch	-26.2	~	~
	15.00	US	Existing home sales	Jan	m%ch	6.5	2.2	~
Thu 26 Feb	~	GE	CPI – EU harmonised	Feb	m%ch	-0.6	~	~
					y%ch	0.9	~	~
	07.00	GE	ILO unemployment rate	Jan	%	7.2	~	~
	07.10	GE	GfK Cons .conf. survey	Mar	Index	2.2	~	~
	10.00	EZ	Business climate indicator	Feb	Index	-3.2	~	~
	10.00	EZ	Consumer confidence	Feb	Index	-31.0	~	~
	13.30	US	Durable goods orders	Jan	%	-2.6	-2.3	~
	13.30	US	New home sales	Jan	'000	331	330	~
					m%ch	-14.7	-0.3	~
Fri 27 Feb	00.01	UK	GfK consumer conf. survey	Feb	Index	-37.0	~	~
	10.00	EZ	CPI	Jan	m%ch	-0.1	~	~
					y%ch	1.6	~	~
	10.00	EZ	Unemployment rate	Jan	%	8.0	~	~
	13.30	CA	Current account (BOP)	QIV	\$bn	5.6	~	~
	13.30	US	GDP annualised	QIV	q%ch	-3.8	-5.3	~
	13.30	US	Chicago purchasing manager	Feb	Index	33.3	34.0	~
	15.00	US	Uni of Michigan confidence	Feb	Index	56.2	56.0	~
	15.00	US	NAPM-Milwaukee	Feb	Index	33.0	~	~
Sat 28 Feb	03.05	GE	Retail sales	Jan	m%ch	0.1	~	~
					y%ch	-0.3	~	~

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