

Business Weekly

Run of offshore events to dominate

ECONOMICS

This Week

Much of the week is going to be spent looking abroad, with Australia and the US under the microscope.

A pivotal event for NZ interest rates this week will be the RBA's rate decision. Opinions are divided on whether the RBA will cut rates again or stay on hold this Tuesday. Some recent Australian data have been resilient, suggesting the Australian economy held up well in the closing stages of 2008. However, economic fortunes in Australia's key Asian trading partners have been taking a sharp turn for the worst and export commodity prices have been knocked by weak demand. Rightly or wrongly, the local market's perceptions of RBNZ action will be influenced by what the RBA does. The NZ market is currently pricing around 80bp for Thursday 12th, but no action from the RBA risks seeing that pricing pared back. We remain of the view that the deterioration in global economic prospects, coupled with ongoing signs of concreting domestic demand, justify a 100bp OCR cut next week.

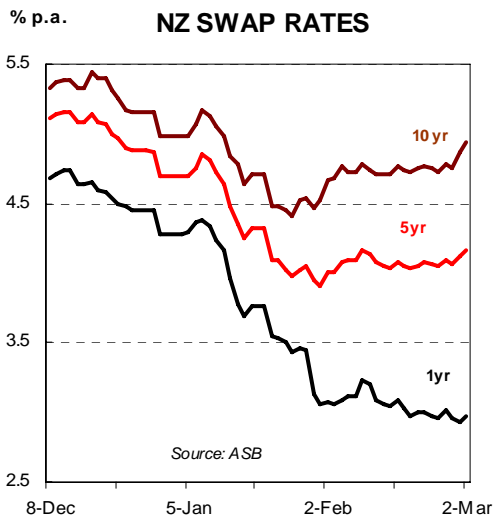
Australian Q4 GDP follows the RBA's decision. In Q3 the economy skirted contraction, growing 0.1%. Q4 activity was boosted by a cash handout and a healthy rise in capital expenditure, and GDP is expected to register a 0.4% qoq increase. Data in the early part of the week may mean some last-minute tweaks to expectations. Although Australia might have been in good shape in Q4, the same cannot be said for the US. Q4 GDP got revised from an annualised quarterly decline of 3.8% to 6.2% (equivalent to a 1.6% qoq drop – or 4 times NZ's Q3 decline). Data out over the course of this week are likely to suggest that the pace of decline intensified over Q1. Friday night's Non-farm Payrolls will get the lion's share of attention, with job losses expected to hit the 600,000 mark. The ISM business surveys will also continue to show a sizable contraction in activity. Looking at the wider world, 50bp cuts are expected all round from the Bank of England, Bank of Canada and the ECB.

Back home Friday's Government accounts for the 7 months to January will receive attention. They will undoubtedly again show the fiscal position is weak relative to where the Pre-election Update month-to-month forecasts (prepared prior to early October) suggest the accounts should be tracking. However, those forecasts are very out of date, and less clear is how weak the fiscal accounts are relative to the more recent December Update. Next Monday's Q4 Building Work data will indicate just how weak construction activity was late last year, with residential construction likely to record a contraction of at least 15%.

Click here for:

- [Foreign Exchange](#) • USD up despite weak US data. NZD drops below USD 0.50 again.
- [Interest Rates](#) • Curve steepening continues as 90-days fall and longer-end rates start to rise
- [Week Ahead](#) • This week quiet, more dismal construction figures due next Monday
- [Week in Review](#) • Confidence remains weak, building consents reach a new low
- [Global Calendars](#) • Central Banks: RBA, BoC, ECB and BoE all meet. Non-farm payrolls in the US.

Chart of the week



- The forces acting on swap rates are mixed at present:
- Very short term rates – such as the 1-year swap rate – are falling in anticipation of further cuts to the Official Cash Rate. Market pricing suggests the cash rate will fall by at least 1% over the coming months.
- Longer-term rates fell a long way in 2008 but have been rising of late. The 5-year rate has risen 0.25% from the low touched in late January, and the 10-year rate has risen around 0.5%.
- Long-term rates are rising as borrowers lock in the historically low long-term rates. The paying pressure from these borrowers causes upward pressure on the swap curve.
- Future movements in long-term swap rates will be influenced by the actions of borrowers, expectations of how low the OCR will get, and how long it will stay low.

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	0.4980	0.5120	0.5084	0.6957	0.8150	FLAT/DOWN	0.4850	0.5050
NZD/AUD	0.7799	0.7884	0.7896	0.8146	0.8610	FLAT/DOWN	0.7700	0.8000
NZD/JPY	48.64	47.56	45.42	75.51	85.38	FLAT/UP	47.50	49.50
NZD/EUR	0.3947	0.3965	0.3941	0.4752	0.5370	FLAT	0.3900	0.4000
NZD/GBP	0.3488	0.3525	0.3579	0.3856	0.4099	FLAT	0.3425	0.3525
TWI	51.4	51.9	51.4	65.2	73.2	FLAT	50.00	52.00

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

- **The NZD** was weak against the USD, dipping below USD 0.50 last Friday, and staying below the figure on Monday morning.
- **The JPY** has been strengthening through early 2009, but weakened last week against many currencies, including against the NZD. The market has re-rated the JPY lower because the poor state of the global economy has exposed the fragility of Japan's economic fundamentals. Japan's economy is performing much worse than anybody anticipated even though its banking sector has very little exposure to sub-prime debt. Countries that are heavily export dependent have been faring worse, with Japan's situation being repeated in other countries such as South Korea and Taiwan.
- We see upside risks for the **USD** this week. The European Central Bank, the Bank of England and the Bank of Canada are expected to cut their official interest rate this week. We expect the US non-farm payrolls report to show the economy has shed at least another 600,00 jobs. These sorts of trends normally lead to support for the USD as a 'safe-haven' flow.

Short-term outlook:

Key data	Date	Time (NZST)	Market expects
RBA Cash Rate Announcement	3/3	16.30	3.00%
NZ Govt Financial Statements	6/3	10.00	-
Building Work put in Place	9/3	10.45	-

Potential currency movers from the US this week: personal income & spending, inflation, ISM manufacturing survey (2nd), pending home sales, car sales (3rd), ISM services survey, Federal Reserve "Beige book" of business activity (4th), jobless claims, factory orders (5th), payrolls, consumer credit (6th). Speakers: Lacker (2nd), Bernanke, Lockhart (3rd-4th), Geithner, Kohn, Lockhart (5th), Dudley (6th).

Medium term outlook:

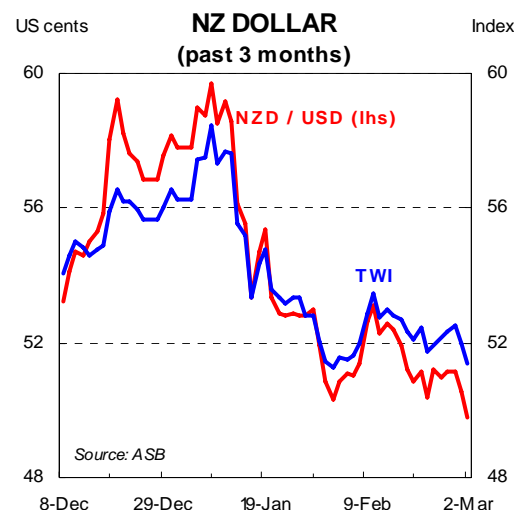
As a consequence of the financial market turmoil centred in the United States, USD weakness was expected in early 2009. However, weakness is being offset in part by concerns about other regions.

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	3.50	8.00	8.25	FLAT
90-day bank bill	3.04	3.28	3.66	8.09	8.84	DOWN
2-year swap	3.31	3.32	3.29	7.37	8.44	UP
5-year swap	4.17	4.07	3.91	7.11	8.02	UP
11/11 gov't stock	3.89	3.90	3.70	6.03	6.88	UP
NZSX 50	2502	2538	2770	3358	3583	FLAT

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

- 90-day rates dropped over late last week and this morning. 90-day rates are likely to continue grinding lower over the next two weeks as the RBNZ's OCR announcement moves closer.
- The market is currently pricing in around 80bp for the March MPS decision, and a cash rate to end up at 2.25%. In contrast, we are expecting a 100bp rate cut and the cash rate to fall to 2.0%
- Longer end swap rates pushed higher over the past week, causing the curve to further steepen. The market has been influenced by global curve steepening, weighed down by strong supply, such as ample corporate bond issues.

Short-term outlook:

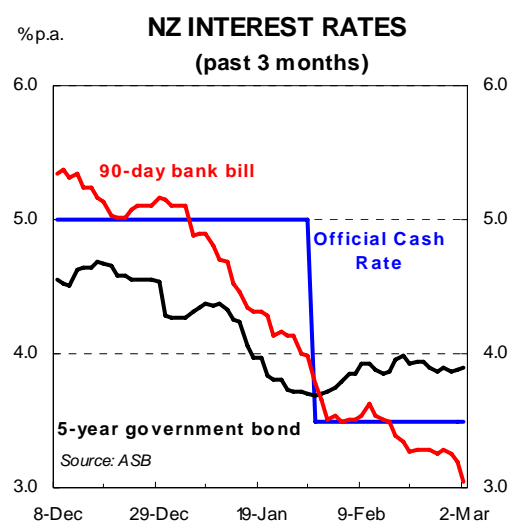
Key data	Date	Time (NZST)	Market expects
RBA Cash Rate Announcement	3/3	16.30	3.00%
NZ Govt Financial Statements	6/3	10.00	-
Building Work put in Place	9/3	10.45	-

Comment: Quiet week data wise, with the focus on the RBA cash rate announcement on Tuesday. If the RBA holds the cash rate rather than cuts, as some are speculating, then (rightly or wrongly) markets will interpret that as suggesting the RBNZ's cut the following week will be more modest than is currently priced in. On Friday markets are likely to be sensitive to the January update on the Government financial accounts given the credit rating threat issued by S&P. Next Monday building work put in place for Q4 is set to reveal further large declines in residential construction activity.

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
Q4 Wholesale Trade Survey	5/3	10.45 am	-1.0%	-	-
Jan Govt Financial Statements	6/3	10.00 am	-	-	-
Q4 Value of Building Work Put In Place	9/3	10.45 am	-2.1%	-	-8.9%
Jan REINZ House Sales	-	-	-	-	-

Monday 9 February

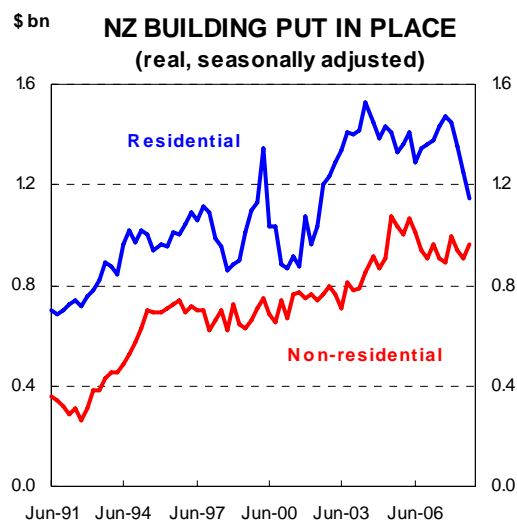
Q4 Value of Building Work Put in Place

Total Real Value ASB (f) -8.9%

We are expecting another step down in construction action over Q4, with the value of building work completed (adjusted for prices) forecast to decline of 8.9%.

Residential building consents fell over 20% over the final quarter of 2008, indicating a decline in construction of at least 15%. Residential construction has been in steady decline since December 2007, and the latest contraction will bring the level of activity down over 30%.

In contrast, non-residential construction has held up comparatively well. Consent issuance also remains relatively robust, although has started to ease slightly over Q4 pointing to a mild 2% decline. Looking ahead over 2009, we expect to see non-residential construction come under more pressure.



Next Week

January REINZ House Sales

Previous Prices -4.4% yoy, T/over – 28.5% yoy.

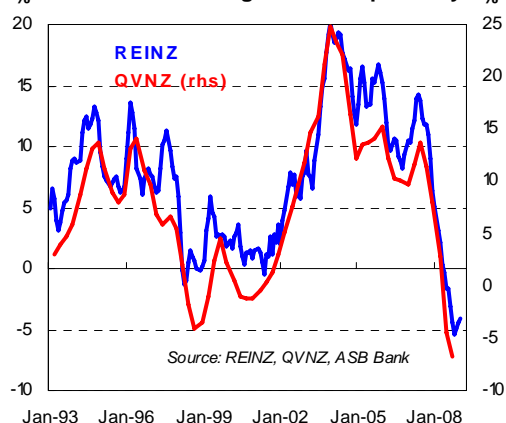
Housing turnover has been sitting at low levels for the past six months or so, and expect this weakness to continue into February.

Prices are declining nationwide, and we expect the rate of annual decline to continue to pick up over the coming months. Agent data shows listings are significantly up on year-ago levels, yet monthly turnover is down by between 20-50%. It is a buyer's market, and we expect price declines to reflect these conditions. We are expecting REINZ data to show annual price declines in the 5-10% range.

Meanwhile QVNZ house prices (due out Monday next week) showed national annual prices declined 8.3% in the year to January. We expect further declines in February.

NZ ANNUAL HOUSE PRICE GROWTH

REINZ 3mth average & QVNZ quarterly

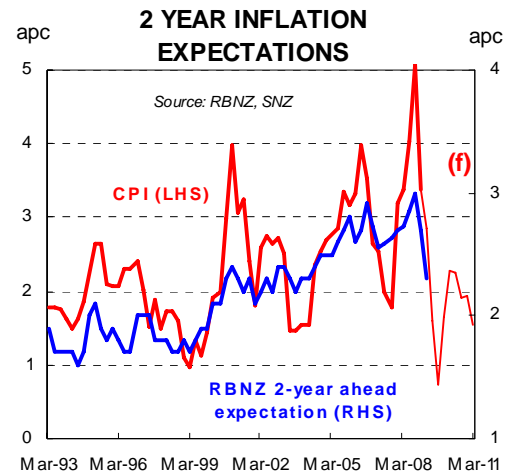


NZ Data Review: weekly recap

Q1 Inflation Expectations

2-year-ahead inflation expectations fell to 2.3% from 2.7% in Q4. A decline was largely expected given the dramatic fall in petrol prices over the final quarter of last year. In addition, rapidly weakening growth prospects and the associated easing in capacity pressures will also assist a faster unwinding of inflation pressures than previously expected. Indeed, surveyed expectations for growth have been slashed with 2-year ahead GDP forecasts cut from 1.5% annual average growth, to just 0.1%. The consensus has quickly moved to acknowledge that the credit crisis will induce a much deeper and more drawn out recession than previously thought.

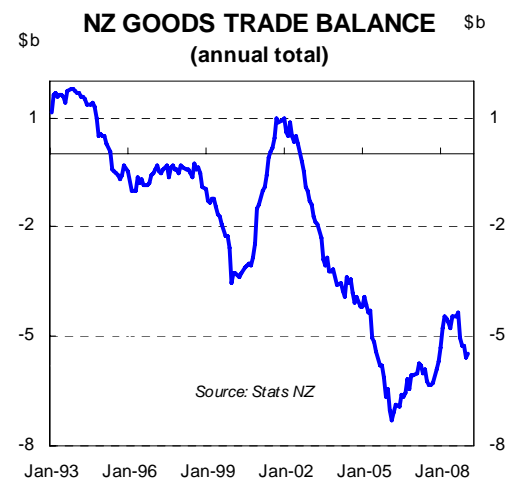
Today's decline in inflation expectations was widely anticipated and, according to our inflation forecasts, we see scope for further decline in expectations, with 2 year-ahead inflation expectations likely to settle around 2%.



January Merchandise Trade

The monthly trade balance came in slightly better than expected, and drove a small improvement in the annual trade balance, to \$5.48 billion from \$5.6 billion in December. The monthly result was due to a sharper decline in imports than the market consensus was expecting. Exports came in around expectations, showing some signs of easing in the weakening global environment. In particular, aluminum and manufactured exports appear to have eased over recent months. Meat exports remain above year-ago levels due to strong slaughter rates and favorable prices. Dairy exports also remain strong, although are likely to weaken with anecdotes of inventories accumulating.

In the current environment, global imbalances and external vulnerabilities are under more scrutiny. The better than expected result leaves New Zealand at a better starting point than expected, however going forward exports are going to remain very closely watched for signs of further weakness.

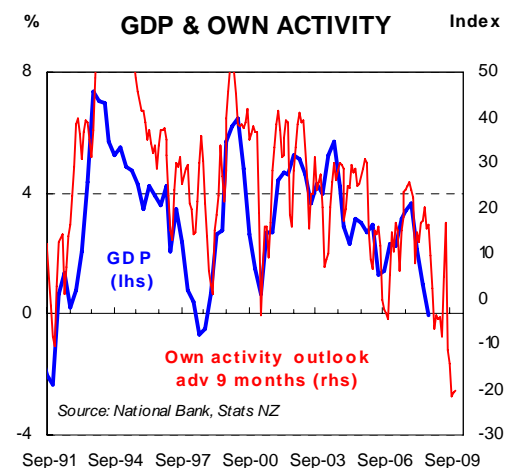


February NBNZ Business Outlook

Business confidence remained unequivocally weak in February. General pessimism spread with net 41.2% of businesses surveyed expecting the economic outlook to deteriorate over the next 12 months. Looking at own business expectations, net 20.1% expect to see a decline in activity - remaining in recession territory.

On the employment front, net 29% of firms are looking to reduce staff levels. The worst-hit sectors are retail, construction and manufacturing. In these sectors at least net 40% are expecting to reduce staff levels.

Profit outlook remains dire, with net 41.3% expecting to see a decline in profits. It is unsurprising then to see investment intentions continue to be scaled back, with net 15.4% expecting to cut levels of investment.



January Credit Aggregates

Household credit only increased by 0.1% (seasonally adjusted) in January, led by the ongoing slowdown in mortgage lending. Housing related credit growth continues to slow, only up 4% on year-ago levels. The slowdown in housing credit growth is to be expected, as house sales and house prices decline. In addition to slowing housing credit, additional squeeze appears to be coming from consumer credit, which showed a much larger than usual decline in January and is now only up 0.7% on year-ago levels.

Business credit growth remains robust, growing at a 12% annual rate. There continues to be switch in lending away from the non-bank sector towards banks. As lending is not split by purpose it is impossible to know if the robust credit growth reflects increased use of overdrafts or to fund investment.

Agricultural lending growth remains very strong on an annual basis, up 22.9% reflecting the strong increase in lending over the first half of 2008 in particular. Going forward lending to this sector is likely to slow as agricultural prospects have weakened.

January Building Consents

The issuance of dwelling consents was weak across the board by number. The decline in ex-apartment consents over the month is the largest since a period of huge volatility around Easter last year. A dip in apartment consents to 67 (from 126) contributed to the weak picture. Prior to seasonal adjustment the raw 812 consents for the month is the lowest monthly total since records began in 1965. January is typically one of the quietest months for consent issuance, but the historic low gives some perspective to the decline in consents. Issuance is now significantly undershooting the level of house sales turnover.

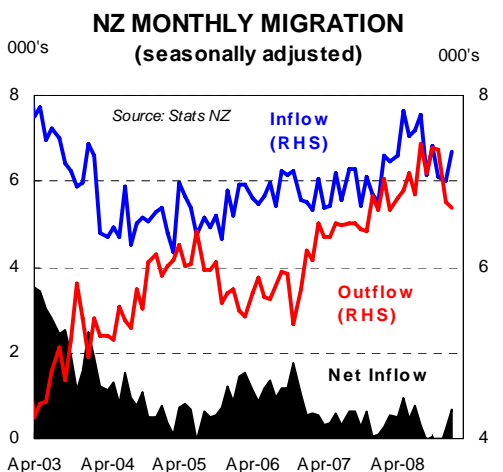
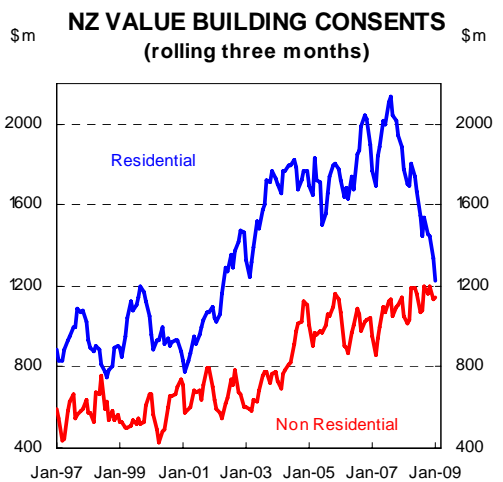
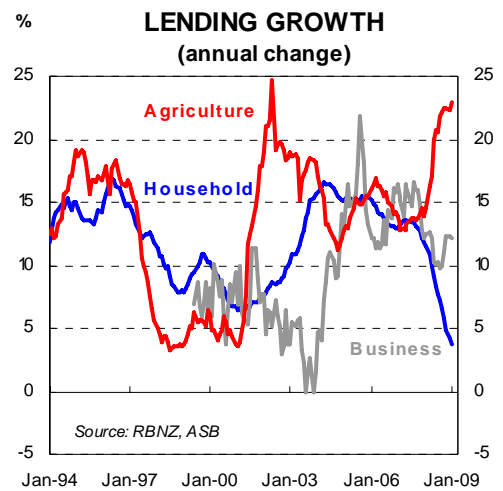
The value of non-residential consents has started to soften slightly in recent months, though has continued to hold up well in comparison to housing. However, given the slowing economy there is a strong risk that private sector non-residential construction slows, including possible deferment of consented projects. Consent issuance was down 1% by value in the 3 months to January relative to the 3 months to October.

January International Travel and Migration

Net migration picked up in January, with 660 net new migrants, bringing the annual rate of net migration back up to 4,500. The increase in net migration was aided by a rise in the number of new arrivals as well as a fall in the number of departures. Arrivals picked up 5% in January and are up almost 9% on year-ago levels. Departures fell 1% in January and are fairly flat compared to year-ago levels.

Departures to the UK are down 11% on year-ago levels and are likely to weaken further as the financial crisis has hit the UK economy harder than at home. Likewise departures to the US are also down significantly, almost 30% below year-ago levels.

Short-term visitor arrivals fell sharply, down 3% in January and 4% below year-ago levels. Visitors from the US have fallen dramatically, down almost 20% on year-ago levels. There was also a dramatic fall in visitors from Japan, Korea and Taiwan while tourists from UK are also started to decline. The size of the decline in visitor numbers from long haul destinations, (which tend to stay longer and spend more), is likely to be having a severe impact on tourism revenues.



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 2 Mar	15.30	CH	CLSA manufacturing PMI	Feb	Index	42.2	~	~
	14.30	JP	Labor cash earnings	Jan	y%ch	-0.8	~	~
	18.00	JP	Vehicle sales	Feb	y%ch	-27.9	~	~
Tue 3 Mar	13.30	AU	Current account balance	QIV	\$mn	-9,736	~	-6,500
	13.30	AU	Retail sales	Jan	m%ch	3.8	~	1.3
	16.30	AU	RBA cash target	Mar	%	3.25	2.75	3.25
Wed 4 Mar	11.30	AU	CBA/AiGroup PSI	Feb	Index	41.0	~	~
	12.20	AU	Assistant RBA Governor Edey give speech in Sydney					
	13.30	AU	GDP	QIV	q%ch	0.1	-0.1	0.4
					y%ch	1.9	0.9	1.9
14.00	CH	PMI manufacturing	Feb	Index	45.3	~	~	
Thu 5 Mar	12.50	JN	Capital spending	QIV	%	-13.0	~	~
	13.30	AU	Trade balance	Jan	\$mn	589	~	2,200
	13.30	AU	Building approvals	Jan	m%ch	-2.9	~	7.5
Fri 6 Mar	10.00	NZ	Crown Accounts (7 months to January 2009)	Jan	~	~	~	~
	11.30	AU	AiGroup PCI	Feb	Index	34.1	~	~
Sun 8 Mar	~	NZ	QV House prices	Feb	~	~	~	~

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 2 Mar	00.01	UK	Hometrack housing survey	Feb	m%ch	-1.0	~	~
					y%ch	-9.4	~	~
	08.55	GE	PMI manufacturing	Feb	Index	32.2	~	~
	09.00	EZ	PMI manufacturing	Feb	Index	33.6	~	~
	09.30	UK	PMI manufacturing	Feb	Index	35.8	~	~
	10.00	EZ	CPI estimate	Feb	y%ch	1.1	~	~
	13.30	CA	GDP annualised	QIV	q%ch	1.3	-3.2	~
	13.30	US	Personal income	Jan	%	-0.2	-0.3	~
	13.30	US	Personal spending	Jan	%	-1.0	0.3	~
	13.30	US	PCE deflator	Jan	y%ch	0.6	~	~
	13.30	US	PCE core	Jan	m%ch	0.0	0.1	~
					y%ch	1.6	1.6	~
					Index	35.6	34.0	~

Date	time	Econ Event	Period	Unit	Last	Market	CBA
Tue 3 Mar	09.30	UK PMI construction	Feb	Index	34.5	~	~
	10.00	EZ PPI	Jan	m%ch	-1.3	~	~
				y%ch	1.8	~	~
	14.00	CA Bank of Canada rate	Mar	%	1.00	0.75	0.5
	15.00	US Pending home sales	Jan	m%ch	6.3	-3.0	~
Wed 4 Mar	08.55	GE PMI services	Feb	Index	41.6	~	~
	09.00	EZ PMI composite	Feb	Index	36.2	~	~
	10.00	EZ Retail sales	Jan	m%ch	0.0	~	~
				y%ch	-1.6	~	~
	12.30	US Challenger job cuts	Feb	y%ch	222.4	~	~
	13.15	US ADP employment change	Feb	'000	-522.0	-613.0	~
	15.00	US ISM non-manufacturing	Feb	Index	42.9	41.3	~
	19.00	US Fed's Beige book	Mar	~	~	~	~
	Thu 5 Mar	10.00	EZ GDP	QIV	q%ch	-1.5	~
y%ch					-1.2	~	~
12.00		UK BoE announces rates	Mar	%	1.0	0.5	0.5
12.30		EZ ECB announces interest rates	Mar	%	2.0	1.5	1.5
13.30		US Building permits	Jan	m%ch	-3.9	~	~
15.00		CA Ivey PMI	Feb	Index	36.1	37.5	~
Fri 6 Mar	15.00	US Factory orders	Jan	%	-3.9	-2.1	~
	09.30	UK PPI input	Jan	~	~	~	~
	13.30	US Change in non-farm payrolls	Feb	'000	-598.0	-615.0	~
	13.30	US Unemployment rate	Feb	%	7.6	7.9	~
	20.00	US Consumer credit	Jan	\$bn	-6.6	-4.0	~

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