

Business Weekly

A backwards glance

This Week

This week will bring a number of key releases. The main domestic ones are unlikely to be pretty, but at least relate to where the economy has already been rather than where it is heading. US housing data will as ever be under the microscope for indications of how the market is faring, with stabilisation of the market seen as a necessary condition for eventual economic recovery.

Domestically the first release up is Q1 Westpac McDermott Miller consumer confidence, which the Roy Morgan survey suggests will record a decline. On Thursday the Q4 current account is likely to register a widening to 9% of GDP for the annual total, up from 8.6%. The deficit will be under the microscope from rating agencies.

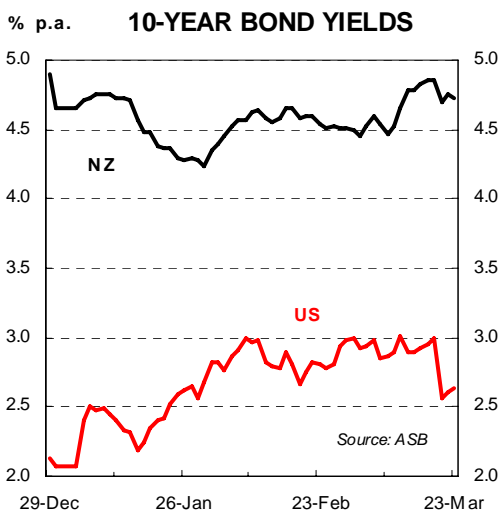
We estimate that New Zealand's Gross Domestic Product (GDP) contracted 1.1% over Q4, the fastest pace of decline since 1991. New Zealand has been in a mild recession since the start of 2008. However, in Q4 the economy took a turn for the worse, in the wake of the blow-up of the global credit crisis. We expect the weakness across New Zealand industries to be very broad based. Manufacturing, construction and transport sectors are likely to record the largest declines. Retail and wholesale trade are also likely to be a mild drag on GDP. There are some positives to bear in mind. The brunt of the deceleration might well have passed, concentrated over late 2008 through to early 2009. Furthermore, NZ is not seeing the disruption to exports and industrial production many countries are: thanks to its weighting towards food exports and tourism earnings the impact will be less abrupt. Falls in the exchange rate and interest rates will help buffer NZ, along with a fiscal boost. NZ won't escape global impacts, but is likely to bear up better than many other countries.

And last week also brought a positive in the migration figures, which lifted to a net annual inflow of 6.2k. There is a noticeable slowing of departures to Australia, in addition to continued slowing of departures to the UK, as people become increasingly aware that the grass may be greener in NZ during this global recession. The resultant slight lift in population growth will help provide some baseload demand in the retail and housing sectors, though will mean a larger pool of potential workers vying for jobs. The net inflow is also set to get boosted over the course of the year by returning ex-pats. On the tourism front stronger arrivals from Australia are at present helping offset weakness in arrivals from countries hard-hit by the impacts of the credit crisis.

Click here for:

- [Foreign Exchange](#) • USD weakens, causing the NZD to lift to US \$0.56.
- [Interest Rates](#) • Interest rates mixed, with local rates higher over the week.
- [Week Ahead](#) • GDP will be the data highlight. Q1 consumer confidence also due.
- [Week in Review](#) • A quiet local data week. FOMC announcement was the market mover.
- [Global Calendars](#) • US GDP and housing data due this week. UK GDP also released this week.

Chart of the week



- Markets were looking for the Fed to step up its easing of monetary policy at last week's FOMC meeting.
- The Fed has added an astounding array of planned asset purchases to its credit easing scheme, including \$300 billion of longer-term Treasuries and more than doubling its current planned purchases of mortgage backed securities (MBS) and agency debt.
- The Treasury purchases will take place over the next six months, while the \$1.25 trillion and \$200 billion targets for MBS and agency debt relate to the entire year. The fed funds rate was maintained at the 0-0.25% range and will likely stay there "for an extended period".
- The market reacted significantly to Fed's announcement - 10-year Treasury yields initially sunk almost 50bps and the USD depreciated heavily against the major crosses.

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	0.5602	0.5235	0.5036	0.6855	0.8010	DOWN	0.5500	0.5700
NZD/AUD	0.8118	0.7978	0.7874	0.8257	0.8753	DOWN	0.8000	0.8200
NZD/JPY	53.58	51.42	47.40	73.07	79.50	NEUTRAL	52.50	54.50
NZD/EUR	0.4125	0.4060	0.3991	0.4732	0.5139	NEUTRAL	0.4050	0.4200
NZD/GBP	0.3874	0.3731	0.3537	0.3749	0.4046	NEUTRAL	0.3750	0.3950
TWI	55.5	53.6	51.7	64.5	71.4	DOWN	53.00	56.00

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

- The NZD smashed through resistance levels last week and lifted on all the crosses, but particularly against the USD and JPY. The pressure will come on this week as GDP figures are released at the end of the week. A 1.1% quarterly contraction would on its own be enough to send the NZD down, but weakness elsewhere (US and UK GDP are also due) will provide an offset. The current account on Thursday will bring focus onto NZ's external liabilities and could be a catalyst for NZD weakness.
- The 3 US cents leap by the NZD last week was mainly a "soft US dollar story" rather than specific support for kiwi. We think the USD is going to recover most of last week's losses because we think the market has over-reacted to Federal Reserve's decision to buy US Treasuries.
- This week JPY is likely to be influenced by two opposing forces. The JPY is being re-rated lower against many currencies because the poor state of the global economy has exposed the fragile state of Japan's economic foundation. However, we expect the USD to unwind some of its previous weakness against many currencies, including JPY.
- We see upside risks to the USD this week. We think the USD is going to recover most of last week's losses because we think the market has over-reacted to Federal Reserve's decision to buy US Treasuries via its "quantitative easing" (QE) policy. Other major economies, such as Japan, the UK and the eurozone, have implemented QE and further extensions are likely.

Short-term outlook:

Key data	Date	Time (NZST)	Market expects
Q1 Consumer Confidence	25/3	2.00 pm	-
Q4 Current Account Deficit	26/3	10.45 am	-9%
Q4 GDP	27/3	10.45 am	-1.0%

Potential currency movers from the US this week: existing home sales (23rd), house prices (24th), durable goods orders, new home sales (25th), GDP, jobless claims (26th), personal income & spending, consumer confidence (27th). Speakers: Rosengren (23rd), Evans, Bernanke, Geithner, Bullard (24th), Pinalto, Yellen (25th), Lockhart, Geithner, Lacker, Stern (26th).

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.

It is likely there has been an over-reaction by both the bond and currency market to the announcement the Fed will begin buying \$300 billion of long-term US treasuries as part of its quantitative easing (or credit easing) policy.

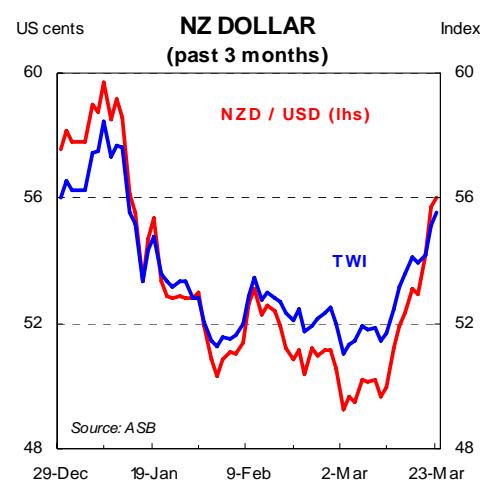
This would mean we are likely to see EUR, GBP, and JPY retrace some of last weeks large gains. We are also likely to see a pullback in the NZD/USD and to a lesser extent the NZD/AUD.

However, we are also comfortable with our current forecast that the NZD and AUD are finding a bottom and will begin a slow appreciation over the course of 2009, rather than revisit and break through the lows seen in early 2009.

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, and a rating downgrade is a key downside risk to our forecast.

RBNZ Governor, Allan Bollard, revealed to the New Zealand Parliamentary Finance and Expenditure Select Committee on 4 March, the RBNZ were in the process of reducing the RBNZ's foreign exchange reserves from \$5 billion down to a benchmark rate of \$1 billion. Bollard also went onto say that the RBNZ aimed to intervene both at the top and bottom of the cycle to try and stabilise the exchange rate.

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



Interest Rate Market

Wholesale interest rates	Current	Week ago	Month ago	6 mths ago	Year ago	ST Bias
Cash rate	3.00	3.00	3.50	7.50	8.25	FLAT
90-day bank bill	3.23	3.26	3.29	7.86	8.92	FLAT
2-year swap	3.51	3.55	3.33	7.01	8.24	UP
5-year swap	4.46	4.53	4.08	6.91	7.88	UP
11/11 gov't stock	3.93	3.98	3.93	5.78	6.55	UP
NZSX 50	2599	2535	2579	3256	3413	FLAT

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

- 90-day rates remained reasonably steady over the past week, following the 20 basis point lift after the previous week's OCR announcement. The RBNZ signalled that it is very close the end of their easing cycle, and we think they are reluctant to cut below 2.5%. We expect the next move by the RBNZ will be a 25bp cut in April (followed by another 25bp cut in June). The market currently has just over a 25bp cut fully priced in.
- Swap rates and yields on government bonds unwound some of the post-RBNZ increase over the past week (although remain around 25 basis points up on pre-OCR announcement levels). The small fall in yields on swaps and bonds over the past week followed the Federal Reserve's announcement it would be purchasing \$300 billion of US Treasuries, causing a fall in yields on longer-dated treasuries in the US.
- Despite this week's fall, we continue to expect swap rates will grind higher in response to demand to fix borrowings. The RBNZ sent a strong signal that it is very close to the end of the easing cycle which has promptly increased demand to fix mortgages at current low levels. This demand is placing pressure on the rate curve, particularly at the 2-5 year range.

Short-term outlook:

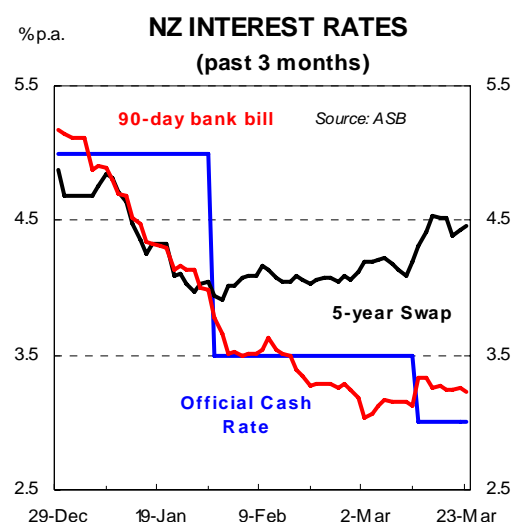
Key data	Date	Time (NZST)	Market expects
Q1 Consumer Confidence	25/3	2.00 pm	-
RBA Speech – Governor Stevens	25/3	8.30 pm	-
Q4 Current Account Deficit	26/3	10.45 am	-9%
Q4 GDP	27/3	10.45 am	-1.0%
Feb Building Consents	30/3	10.45 am	-

Comment: This Friday's Q4 GDP result will be the main focus of the market this week. In other countries Q4 GDP has disappointed on the downside. International developments continue to have a strong influence. Wednesday's speech by the RBA Gov'r is likely to be upbeat.

Medium term outlook:

- The RBNZ cut the OCR by 'only' 50 basis points at the March OCR review and Monetary Policy statement. The RBNZ has now cut 525 basis points off the OCR since July. The RBNZ sent a strong signal that it is slowing down the pace of rate cuts and is very reluctant to cut the OCR below 2.5%.
- In our view, the RBNZ's medium-term growth forecasts remain very optimistic, with the economy exiting the recession by mid-2009 (we think early 2010 more likely). However, the RBNZ acknowledged the risk that the recovery may occur later and be more protracted than it anticipates.
- The RBNZ appears to have put a lot of weight on monetary and fiscal stimulus. The RBNZ are hoping for tax cuts, lower interest rates and the lower exchange rate to support the economy throughout the latter part of 2009. In particular, the RBNZ has a comparatively shallow downturn in business investment and a very strong recovery in export volumes (particularly given the extent of weakness in trading partner demand).
- The RBNZ's forecasts suggest a 2.5% OCR trough and two 25bp cuts over the April and June meetings seems the more likely path the RBNZ will take. Continuing to cut but only moderately buys the RBNZ some time whilst it assesses whether the bad news in coming months is no worse than expected or looking comparatively grimmer. As we think the RBNZ will have to revise down future growth forecasts there remains a possibility of the cash rate still going to 2%.
- Key signals to watch over coming months will remain the world outlook in general relative to RBNZ expectations, more specifically the state of the US housing market, and domestic private sector demand.
- The RBNZ has made it pretty clear it is not currently entertaining the use of alternatives policy measure (such as Quantitative Easing undertaken by other central banks) and has also discounted the likelihood of NZ rates dropping near zero. RBNZ is expecting extended weakness in the NZD to do much of the work for the Bank.

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



NZ Data Preview: a look at the week ahead

Data	Date	Time (NZST)	Previous	Market expects	ASB expects
Q1 Consumer Confidence (net balance)	25/3	2.00 pm	101.3	-	-
Q4 Current Account Deficit (% of GDP)	26/3	10.45 am	-8.6%	-9%	-9%
Q4 GDP	27/3	10.45 am	-0.4%	-1.0%	-1.1%
Feb Merchandise Trade	27/3	10.45 am	-186 m	+25 m	+150 m
Feb Building Consents (mom)	30/3	10.45 am	-13.2%	-	-
Feb Credit Aggregates (household yoy)	30/3	3.00 pm	+3.8%	-	-

Wednesday 25 March

Westpac McDermott Miller Consumer Confidence.

Previous 101.3

Consumer confidence made a surprisingly solid recovery in Q3, rising from a 17-year low. The recovery was short lived, and fell in Q4.

The fortnightly Roy Morgan Survey has historically provided a reasonable guide to the higher profile quarterly Westpac survey, and is pointing to deteriorating confidence in 2009. Behind the recovery in optimism in 2008 was the decline in petrol prices during late July and August, tax cuts in October, and the outlook for lower borrowing costs as the RBNZ slashed the cash rate and mortgages fell. Households should feel more positive on their financial outlook based on the relief on these fronts, but providing significant offsets are falling house prices and job insecurity in the face of the recession and global turmoil.

We expect that the current economic downturn weighed on consumer confidence in Q1 2009, given the weaker economic backdrop. The pick-up in petrol prices won't help either. A decline in headline confidence to below 100 is likely.

Thursday 26 March

Q4 Current Account.

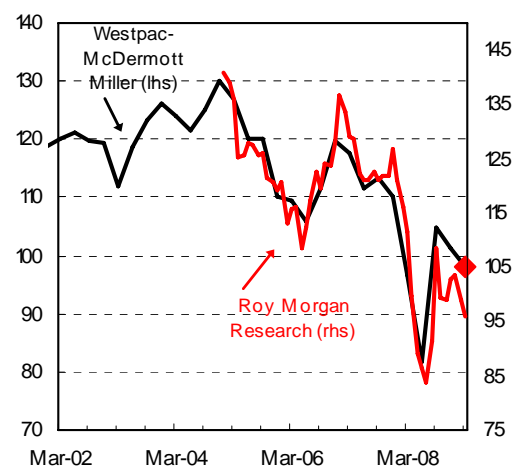
ASB(f) -\$3.93mn (qtr), -9% of GDP (annual total)

After narrowing steadily through to March 2008, the annual current account deficit has begun to widen once more. We expect the annual deficit to print at around 9% of GDP, up from 8.6% in Q3. For Q4 itself we expect an unadjusted deficit of \$3.93mn.

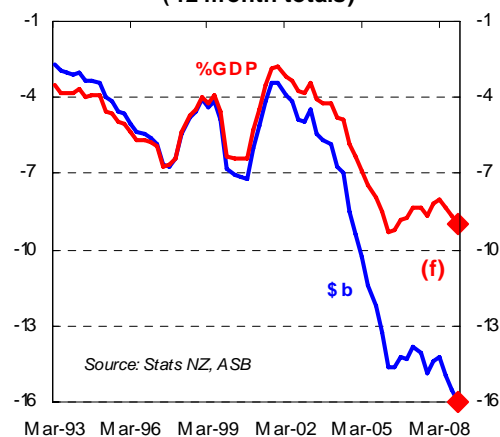
A larger goods trade deficit is likely compared to a year ago as the terms of trade declined. Services trade was affected by a tapering off in tourism earnings. In contrast, the investment income deficit should be constrained by reduced profit and debt-servicing outflows, notwithstanding weaker earnings inflows.

Into early 2009 there is a risk the current account deficit continues to widen as the terms of trade decline further. However, we expect the deficit to begin shrinking once more later in the year as domestic demand and profitability rein in outflows.

NZ CONSUMER CONFIDENCE SURVEYS



CURRENT ACCOUNT BALANCE (12 month totals)



Friday 26 March

February Merchandise Trade Balance.

ASB (f): \$150 million. Last: -\$187 million.

We expect a trade surplus of \$150 million in January. Exports are expected to pick up in February, recovering from seasonal weakness in January. However, the underlying trend is for weakening export volumes (manufactures in particular).

Meat export prices are likely to remain supported. However, volumes are expected to weaken, reflecting low lamb slaughter.

Export values will remain propped up by the depreciating New Zealand dollar. The Kiwi averaged around 51c over February, 5 cents lower than in January and down 35% on year-ago levels.

Ex-oil imports were surprisingly weak over January, with large declines in autos partly behind the drop. We are assuming a bit of a recovery, but the trend in import volumes is for further weakening as the domestic economy slows. At the same time the sharp depreciation in the NZ dollar will put considerable pressure on import prices, offsetting the weakness in volumes. Oil imports have the potential to increase as prices have lifted off December lows.

Friday 26 March

Q4 GDP

ASB (f): -1.1% qoq. Last -0.4 qoq.

We expect Q4 GDP to contract 1.1%, bringing annual average growth down to just 0.2%. The weakness in Q4 is reasonably broad based with large declines in the goods-producing industries along with very weak growth in services industries.

The largest drag on GDP is likely to come from manufacturing, construction and transport services. Retail and wholesale are also expected to be a mild drag on GDP. Agriculture is set to make a mild positive contribution, due to an increase in slaughter over Q4 and further recovery in dairy production.

The overall weakness in Q4 occurred against a backdrop of frozen international credit markets, which severely disrupted international trade. New Zealand has been in recession all of 2008, and is likely to remain in recession throughout 2009.

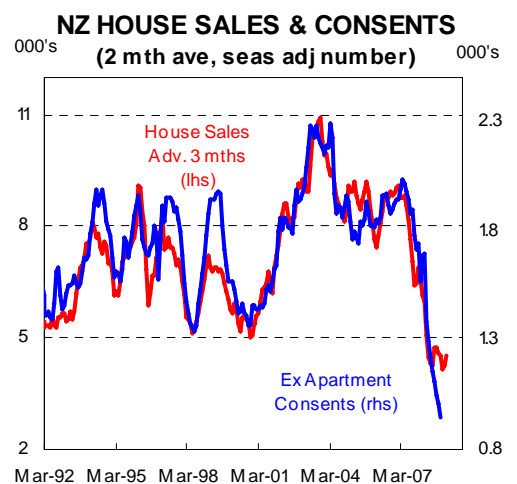
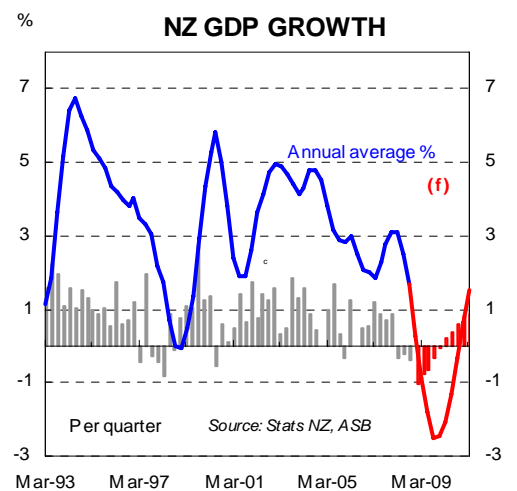
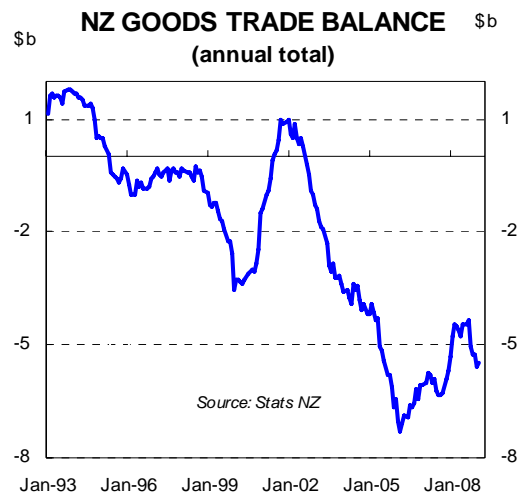
Monday 30 March

February Building Consents

Previous -13.2% mom -52% yoy

Building consent issuance fell further in January and is now at very weak levels. Contributing to January's weakness was a decline in apartment consent issuance. Although the trend in apartment consent issuance continues to decline, a "law of averages" rebound in this category could boost February's headline figure.

Excluding the volatile apartment component, core consents issuance declined a further 8% in January and is now down over 50% on year-ago levels. Consent issuance is at historic lows and undershooting the level of house sales turnover. While the fundamentals for housing construction remain weak, lower interest rates and rising net migration inflows should help prevent building activity from falling much further.



Monday 30 March

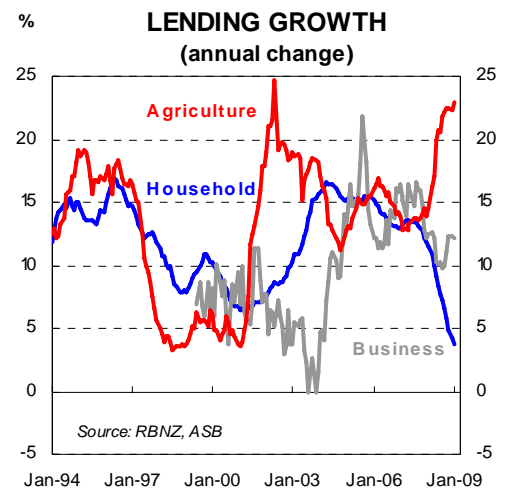
February Credit Aggregates

Previous +0.1% mom +3.8% yoy (Household)

Household credit only increased by 0.1% (seasonally adjusted) in January, due to the ongoing slowdown in mortgage lending as house sales and house prices decline. As the Reserve Bank has pointed out, a slowdown in credit growth is desirable in order to reduce New Zealand's external vulnerabilities. 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.

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.

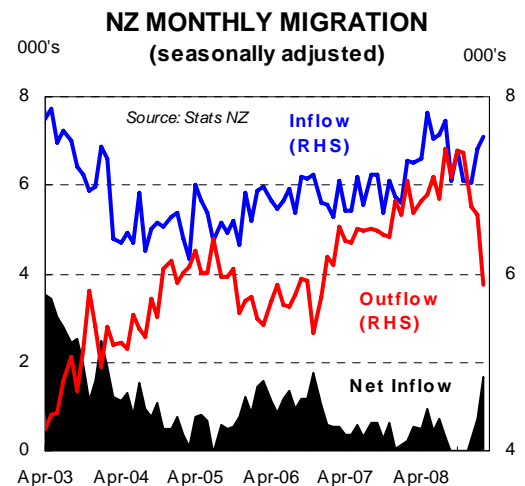


NZ Data Review: weekly recap

February International Travel and Migration

Net migration picked up strongly in February, with almost 1700 new permanent migrants, bringing the annual inflow up to 6,160 (the strongest pace of net inflow since November 2007). While growth in arrivals remained firm, up almost 2% in February, it was the sharp 12% drop in departures which really boosted the net inflow, in particular, fewer departures to Australia. Australia's jobless rate is now the highest in 4 years at 5.2% and employment opportunities are waning, particularly in mining sector which has been hard hit by the collapse in commodity prices over the past 6 months.

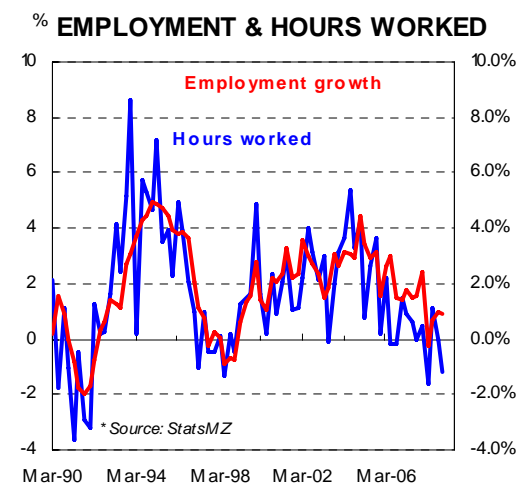
Visitor arrivals are down almost 5% on year-ago levels (adjusting for the leap year). Arrivals from Australia remain firm, up 2.5% on year-ago levels. However, this is being offset by falling tourist arrivals from long haul destinations such as Asia, US and Europe.



Revision to Q4 HLFS Hours Worked

Statistics New Zealand announced a revision to their estimate of Household Labour Force Survey Q4 hours worked. Hours worked only declined by 0.5%, compared to the previously published estimate of -1.9% (seasonally adjusted). Compared to a year ago, hours worked are down only 1.2% compared to the previously published -2.8%.

Recall that the Q4 employment figures were better than expected, with the number employed increasing +0.9% (compared to widely held expectations of a decline). The updated hours worked figures are more consistent with this employment result. The revision also suggests that there has not been a significant reduction in average hours worked. We had previously interpreted the fall in hours worked as employers choosing to significantly reduce hours rather than lay off staff. The new figures suggest that this was not the case, and that the labour market was in a relatively strong position in Q4.



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
	21.30	AU	Wayne Swan address					
Tue 24 Mar	11.30	AU	Assistant RBA Governor Lowe speech in Sydney					
Wed 25 Mar	12.50	JP	Merchandise trade balance total	Feb	¥bn	957.0	~	~
	12.50	JP	Merch. trade bal. (seas adj)	Feb	¥bn	365.0	~	~
	20.30	AU	RBA Governor Stevens speech in Melbourne					
Thu 26 Mar	10.45	NZ	Current account balance	QIV	\$bn	-6.0	~	~
	11.10	AU	RBA Head of Economics Richards Gives Speech in Sydney					
	12.50	JP	Corporate service price	Feb	y%ch	-2.2	~	~
	13.30	AU	Reserve Bank Releases Financial Stability Review					
Fri 27 Mar	10.45	NZ	GDP	QIV	q%ch	-0.4	~	~
					y%ch	-0.1	~	~
	10.45	NZ	Trade balance	Feb	\$mn	-187.0	~	~
	12.30	JP	Tokyo CPI	Mar	y%ch	0.5	~	~
	12.30	JP	National CPI	Mar	y%ch	0.0	~	~
	12.50	JP	Large retailers' sales	Feb	%	-5.5	~	~
	12.50	JP	Retail trade	Feb	m%ch	-0.1	~	~
					y%ch	-2.4	~	~
	15.00	CH	Industrial profits	Feb	ytd y%ch	4.9	~	~

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
Sun 22 Mar	23.30	EZ	ECB's Trichet Speaks at Conference in Mexico City					
Mon 23 Mar	~	EZ	EU Hosts Conference on Investing in Ukraine					
	12.30	CA	Leading indicators	Feb	m%ch	-0.8	-0.9	~
	14.00	US	Existing home sales	Feb	mn	4.5	4.5	~
	18.00	EZ	EU Parliament Committee Votes on Rules for Credit Rating Firms					
Tue 24 Mar	08.30	GE	PMI manufacturing	Mar	Index	32.1	~	~
	08.30	GE	PMI services	Mar	Index	41.3	~	~
	09.30	UK	CPI	Feb	m%ch	-0.7	~	~
					y%ch	3.0	~	~
	09.30	UK	RPI	Feb	m%ch	-1.3	~	~
					y%ch	0.1	~	~
	14.00	US	House price index	Jan	m%ch	0.1	~	~
	14.00	US	Richmond Fed manuf. index	Mar	Index	-51.0	~	~
Wed 25 Mar	04.01	GE	Import price index	Feb	~	~	~	~
	09.00	GE	IFO – business climate	Mar	~	82.6	~	~
	12.30	US	Durable goods orders	Feb	%	-5.2	-2.0	~
	14.00	US	New home sales	Feb	m%ch	-10.2	-2.9	~
Thu 26 Mar	07.10	GE	GfK consumer confidence survey	Apr	~	2.6	~	~
	09.30	UK	Retail sales	Feb	m%ch	0.7	~	~
					y%ch	3.6	~	~
	12.30	US	GDP (annualised)	QIV	q%ch	-6.2	-6.6	~
	12.30	US	Initial jobless and continuing claims					
Fri 27 Mar	~	GE	CPI	Mar	~	~	~	~
	09.30	UK	GDP	QIV	q%ch	-1.5	~	~
					y%ch	-1.9	~	~
	12.30	US	PCE core	Feb	m%ch	0.1	0.1	~
					y%ch	1.6	1.6	~
	12.30	US	Personal spending	Feb	%	0.6	0.3	~
	14.00	US	Uni of Michigan confidence	Mar	~	56.6	56.0	~

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