

Weaker economic backdrop will delay RBNZ rate hikes

- We now expect RBNZ to keep the OCR on hold until March 2013 (previously December 2012).
- Weaker employment picture, decline in NZ export commodity prices and high NZD weigh on outlook.
- Election results in Europe likely to reintroduce uncertainty into the markets over coming months.

Economic developments over the past few weeks have seen an accumulation of small negative surprises for the inflation outlook build up. Key negatives are: the continued decline in NZ export commodity prices (notably dairy prices); the elevated NZD; and the weaker unemployment result last Thursday. The combination of these has led us to reassess our view on the OCR, pushing the timing of the first increase out to March 2013 from December 2012. The underlying pace of economic recovery has been slower than expected. [The March quarter labour market result](#) highlights the disappointing progress, with the unemployment rate rising sharply to 6.7%. The most concerning aspect is the clear evidence of employment demand slowing outside of Canterbury, with a drop in nationwide employment excluding Canterbury over Q1 and sharp decline in hours worked over the past 6 months. In addition, the export outlook has deteriorated, with this sector providing less support to the recovery over 2012.

However, one positive development is further evidence the Canterbury recovery is now finally underway. A recent surge in job ads in Canterbury has translated into a rebound in employment in the region over Q1, following a year of steady declines as a result of the earthquakes. In addition, building consents have started to increase over the past few months, again another sign that construction intentions are starting to lift off low levels.

Over the coming months, the RBNZ has a tough task of balancing the weaker global growth outlook and weak NZ export sector against local housing market strength and the future inflationary impacts of the Canterbury rebuild. We believe, given the current inflation environment, the RBNZ can easily afford to leave to OCR on hold for slightly longer. However, we still see a rate cut from the RBNZ as unlikely. Ignoring the medium-term threats to inflation now could make reining in inflation pressures much more difficult in future. In addition, further decline in the NZD following last week's fall would also reduce the need for an OCR cut.

Elections in Europe over the weekend remind that the debt crisis is far from resolved. The French election result was largely expected, and is unlikely to have large market implications in the near term. However, the Greek election result has reintroduced uncertainty around Eurozone's political and financial stability. The main supporters of the IMF/EU bailout (the New Democracy and Pasok parties) appear to have failed to secure the 40% of votes needed to govern effectively. Furthermore, the fragmented vote, with strong support for extreme left and right of the political spectrum, indicates a successful coalition is unlikely to be formed and suggests another election could be required. This would spell another period of uncertainty for the markets and renewed speculation of a potential Greek exit from the Eurozone. A turbulent global economic back drop looks set to continue in the coming months.

Click here for:

[Foreign Exchange](#)

[Interest Rates](#)

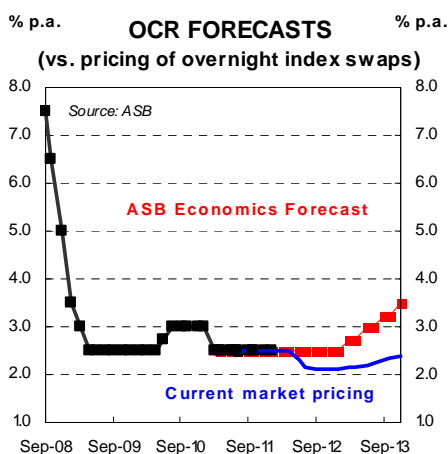
[Week Ahead](#)

[Week in Review](#)

[Global Calendars](#)

- NZD declines steadily over the week on fall in commodity prices and soft employment data.
- NZ interest rates drop sharply on growing speculation of an OCR cut over the coming year.
- Retail and housing market data expected to highlight gradual recovery in household sector.
- Employment growth outside of Christchurch subdued.
- Australian Federal Budget and employment data, and BoE rate announcement the highlight offshore.

Chart of the Week



NZ interest rate markets have implicitly priced in a rate cut by the RBNZ; there are 37 basis points of cuts priced in over the next 3 meetings. The RBA's 50 basis point rate cut last week may be fueling some of this pricing. The RBA's cut last week was unusually aggressive (for non-crisis times). In addition, the subdued inflation projection by the RBA also suggests there is scope for a further rate cut in the future.

Australia is New Zealand's largest trading partner, and the deterioration in its economic outlook does have implications for NZ. Nonetheless, it does not necessarily mean the RBNZ will follow suit and also cut rates.

A key difference is the RBA is cutting the cash rate from relatively neutral levels. In contrast, New Zealand's OCR remains at historic lows of 2.5% and is still seen as stimulatory (and is certainly providing stimulus to the NZ housing market). In addition, the RBNZ has to consider NZ-specific factors, such as the Canterbury rebuild.

Foreign Exchange Market

FX Rates	Current*	Week ago	Month ago	6 mths ago	Year ago	ST Bias	Support^	Resistance^
NZD/USD	0.7920	0.8220	0.8170	0.7954	0.7883	DOWN	0.7850	0.8100
NZD/AUD	0.7819	0.7865	0.7930	0.7669	0.7359	UP	0.7780	0.7940
NZD/JPY	63.21	65.90	67.22	62.12	63.47	DOWN	62.00	64.00
NZD/EUR	0.6098	0.6203	0.6210	0.5775	0.5413	DOWN	0.6000	0.6200
NZD/GBP	0.4910	0.5048	0.5138	0.4965	0.4806	DOWN	0.4820	0.5000
TWI	71.0	72.8	73.1	69.6	67.6	DOWN	70.0	72.0

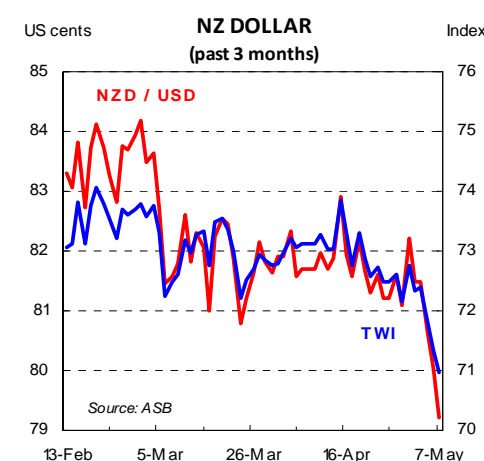
^Weekly support and resistance levels * Current is as at 11am Monday; week ago as at Monday 5pm.

The NZ dollar fell steadily over the past week, driven by a continued decline in global dairy prices and weaker than expected employment data. The RBA's surprise 50bp cut in the cash rate also placed downward pressure on the Antipodean currencies. Over the past week, the NZ dollar TWI has fallen from close to 73 at the beginning of the week to around 71 currently. To the extent the RBNZ had voiced concern about the high level of the NZ dollar, NZD weakness should be welcome for the central bank.

The US dollar recovered over the past week, as heightened concerns over political stability in various European economies, including Greece and France, boosted safe-haven demand for US dollar-denominated assets. While the US Non-Farm Payrolls data showed softer than expected employment growth over April, there were upward revisions to the February and March results. Overall, the recovery in the US labour market looks to be slowing.

We expect risk aversion and ongoing speculation of an OCR cut will continue to weigh on the NZ dollar this week.

Short-term outlook:



Key data

Key data	Date	Time (NZT)	Market
GE Industrial Production – March	8/5	10.00 pm	+0.3%
NZ Electronic Card Transactions (retail) - April	9/5	10.45 am	0.5%
AU Employment – April	10/5	1.30 pm	-2.5k
UK BoE Rate Announcement	10/5	11.00 pm	0.5%
NZ REINZ House Sales - April	11/5	-	-
NZ Retail Trade – Q1	14/5	10.45 am	-

Key events in markets this week: AU retail sales, AU building approvals, Spanish industrial output, German factory orders (7th); AU Budget, trade balance, German industrial production (8th); NZ card spending, German trade balance, US wholesale inventories (9th); AU employment, Chinese trade balance, French and Italian industrial production, French Budget balance, BoE rate announcement, UK industrial production, JP current account, US trade balance, US jobless claims (10th); Chinese CPI, industrial production, retail sales, investment, German CPI, UK producer prices, US producer prices, US consumer confidence (11th).

Fed Speakers: Lacker (7th & 8th), Pinalto (9th), Bernanke (10th). **ECB Speakers:** Regling (7th & 9-11th), Draghi (8th), Weidman (9th).

Medium-term outlook:

[Last Quarterly Economic Forecasts](#)

We reviewed our FX forecasts in February, and expect the NZD to appreciate over the coming year. Global growth forecasts are no longer being revised lower, as growth in Asia has held up and growth in the US has been better than expected. It is now possible the next revisions to global growth could be upwards, which would support the NZD. Growth is holding up well in Asia and Australia.

We expect NZ-US interest rate spreads to widen as the year progresses, pushing the NZD/USD towards 0.88. As the Eurozone debt crisis threat subsides and reconstruction activity begins to gear up, we expect the market to further reinstate pricing for increases in the RBNZ cash rate from late 2012. This has already been happening to some extent, with the market now pricing in a high chance of rate hike by year-end after pricing in some chance of a cut. Meanwhile, we expect US interest rates to remain low.

We expect the NZD to remain elevated against the EUR and GBP, both of which remain weighed down by the weak economic outlook in their respective countries. We expect a gradual increase in the NZD/AUD cross over 2012 and 2013, as the AU-NZ interest rate spread narrows over the coming year.

In the short term the risks are the NZD is not as strong as our June 2012 forecast of 0.85. Uncertainty in Europe have lifted in recent weeks, NZ commodity prices have softened, and speculation of an OCR cut (in response to a high NZD) has escalated.

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	2.50	FLAT
90-day bank bill	2.60	2.69	2.74	2.71	2.65	DOWN
2-year swap	2.53	2.82	3.05	3.12	3.40	DOWN
5-year swap	3.27	3.45	3.77	3.91	4.50	DOWN
5-year benchmark gov't stock	3.05	3.34	3.68	3.95	4.21	DOWN
NZSX 50	3544	3556	3468	3342	3506	DOWN

* Current is as at 11.00am Monday; week ago is as at Monday at 5pm. Please note there are currently no NZ gov't bonds on issue that are close to a 5-year maturity. As a result, we are currently using the Dec 2017 maturity, which is technically a 6-year maturity. Please be very careful with comparisons of gov't bond yields and swap rates.

NZ interest rates continued to drop sharply last week as markets took the possibility of an OCR cut more and more seriously. The RBA surprised markets by cutting its policy rate by 50 bps, and that was followed on Thursday by weak NZ employment data. The weaker than expected US employment figures, released on Friday night, impacted on US rates and has seen NZ rates continue to fall early this week. Markets are now pricing in 37 bps of cuts over the next three RBNZ meetings.

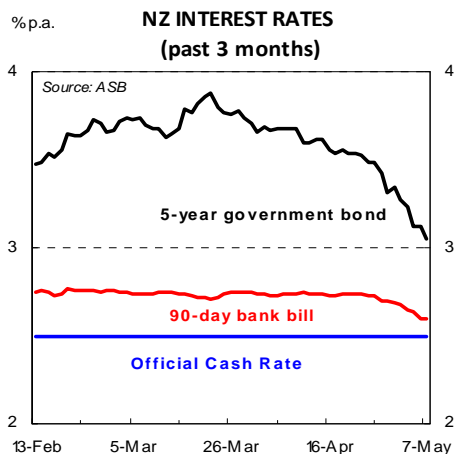
Short-term outlook:

Key data

Date

Time (NZT)

Market



AU Federal Government Budget – 2012/13

8/5

7.30 pm

-

NZ Electronic Card Transactions (retail) - April

9/5

10.45 am

0.5%

AU Employment - April

10/5

1.30 pm

-2.5k

NZ REINZ House Sales - April

11/5

-

-

NZ Retail Trade Survey – Q1

14/5

10.45 am

-

Comment: Most attention this week will be on events in Europe as markets try to assess the fallout from the French and Greek elections. Any signs that either country will look to renege on agreed austerity programmes may create some jitters.

Here in NZ, the highlight will be Q1 retail sales data (next Monday), following two very strong quarters of spending growth. The Australian federal budget is expected to maintain a small surplus, with the Government happy for now to let monetary policy support the economy.

Medium-term outlook:

[Last Quarterly Economic Forecasts](#)

The RBNZ left the OCR unchanged at 2.5% at the April OCR review, as widely expected. Overall, though, the RBNZ remains dovish and reinforces that the RBNZ is in no hurry to lift interest rates. In particular, the high NZ dollar continues to attract much of the focus.

The RBNZ feels the recent strength in the NZD is not consistent with NZ's economic fundamentals, particularly given the decline in NZ export commodity prices over 2012. At the April OCR Review, the RBNZ reiterated it would consider cutting the OCR should the NZD remain strong without anything else changing.

Beyond the NZD, the RBNZ continued to weigh the downside risks from the global growth outlook. Political uncertainty in Europe is a reminder that the European debt crisis is far from over.

Meanwhile, at home the RBNZ has noted the recent improvement in the domestic economy, although so far remains unfazed by the acceleration in house price inflation. The RBNZ notes the recovery in building activity appears to be underway as forecast.

We have pushed out the timing of when we expect the first OCR increase to March 2013 (previously December 2012). The key reasons for the forecast's shift are: the recent sustained falls in NZ commodity prices (particularly dairy); the softer than expected HLFIS survey; the likelihood of another "zero" Budget; and the evident sensitivity the RBNZ has with the NZD. We continue to expect the RBNZ to increase the OCR at each Monetary Policy Statement (every 3 months). This profile is more aggressive than the RBNZ's expectation. However, we continue to expect medium-term inflation pressures will be slightly stronger than the RBNZ does, and continue to forecast an eventual 4% OCR peak (with the RBNZ forecasts implying a peak of 3.25% - 3.5%).

Market pricing currently implies an OCR cut is a certainty. However, given the medium-term inflation risks from the strengthening housing market, we expect the RBNZ will stay on the sidelines.

Data Preview: a look at the week ahead

Data	Date	Time (NZT)	Previous	Market expects	ASB expects
AU Trade Balance – March	8/5	1.30 pm	-A\$0.5bn	-A\$1.4bn	-A\$2.0bn
AU Federal Government Budget – 2012/13	8/5	7.30 pm	-	-	-
GE Industrial Production – March	8/5	10.00 pm	-1.3%	+0.3%	-
NZ Electronic Card Transactions (retail) - April	9/5	10.45 am	+0.3%	+0.5%	+0.4%
AU Employment – April	10/5	1.30 pm	+44k	-2.5k	+5.0k
UK Industrial Production – March	10/5	8.30 pm	+0.4%	-0.3%	-
UK BoE Rate Announcement	10/5	11.00 pm	0.5%	0.5%	0.5%
US Trade Balance – March	10/5	12.30 am*	-US\$46bn	-US\$49.9bn	-
NZ REINZ House Sales – April, mom	11/5	-	-2.6%	-	-
US University of Michigan Consumer Confidence	11/5	1.55 am*	76.4	76.4	-
NZ Retail Trade – Q1 volumes	14/5	10.45 am	+2.2%	-	+0.4%

* Next calendar day NZT

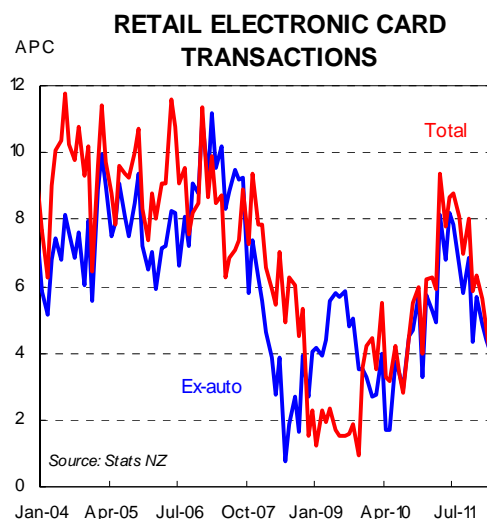
New Zealand Data Previews

Wednesday 9 May

NZ Electronic Card Transactions, Apr

- Total Retail Spending, m%ch, (f) +0.4, (0.3 prev)
- Core Retail Spending, m%ch, (f) +0.1, (0.5 prev)

Retail card spending grew modestly over March, in line with expectations. The breakdown by sector showed that spending in a couple of the more volatile areas rebounded from weak February results. Hospitality spending (down 2.7% in February) rose by 2.1%, while apparel spending (down 2.0% in February) jumped by 2.6%. The largest spending component, consumables, rose by 0.5%, continuing the recent trend of steady growth. Meanwhile spending on durables fell 0.6%. This may represent some payback following steady growth in spending on durables over H2 2011, but we expect increasing housing market activity will support sales of durable goods over 2012. Beyond the core retail sectors, vehicle spending increased by 1.8% in March, although this is a minor component. Price increases continued over April, which should boost spending in this area. Otherwise, spending growth is likely to remain very moderate.



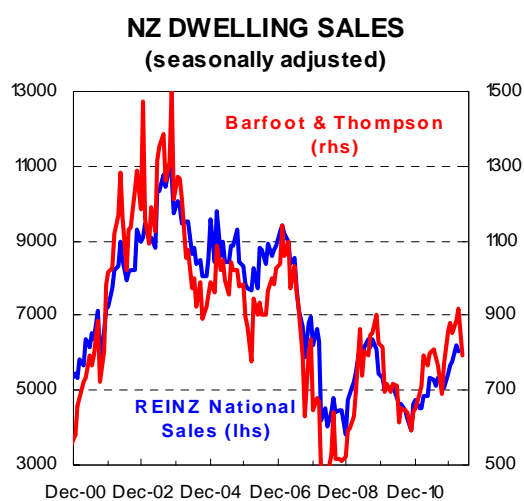
Friday 11 May

NZ REINZ House Sales, Apr

- House sales (seasonally-adjusted) (-2.6% prev)

House sales have steadily improved over recent months, albeit from very low levels, with low interest rates helping stimulate demand. Nonetheless, the overall level of demand remains relatively subdued, and we expect the combination of weak population growth and a sluggish labour market recovery will limit the pickup in housing turnover. Auckland agent house sales figures point to a decline in activity in April.

Despite relatively low levels of demand, the housing market is very tight owing to extremely low supply. Housing shortages remain most acute in Canterbury and Auckland, and as a result house prices are rising in these regions. We expect REINZ figures to show evidence of a tight housing market in April.



Monday 14 May

NZ Retail Trade Survey, Q1

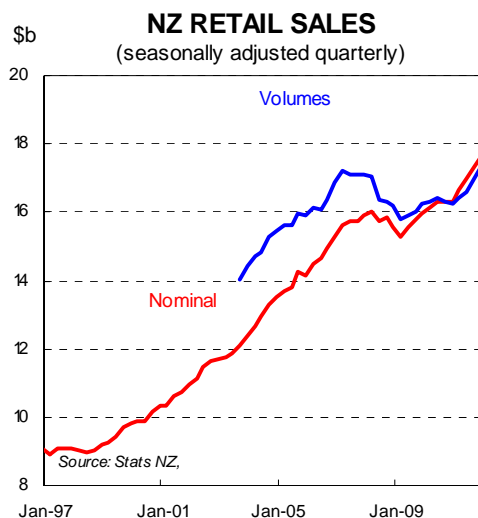
- Total retail spending, volume, q%ch, (f) +0.4 (2.2 prev)
- Ex-auto retail spending, volume, q%ch, (f) +0.4 (2.9 prev)

Retail spending increased by 2.2% over Q4 2011, well ahead of expectations. In fact, the measure of ex-auto sales volumes saw the largest quarterly increase since the series began in 1995.

The Rugby World Cup, which finished in October, again played a part with sales volumes stronger in Auckland and Wellington, which hosted knock-out stage games. Sales in the Waikato region were also up an incredible 9.6% over the previous quarter.

The strong overall result was driven by large increases in several separate sectors, generally driven by one-off factors. Areas of particular strength included electronic goods, specialised food, department store sales and fuel sales.

Q1 sales are unlikely to be as strong as in the last two quarters, which were influenced by the Rugby World Cup. We expect sales to increase only modestly – economic fundamentals suggest a slow but steady recovery in household demand is likely to be the story over 2012.

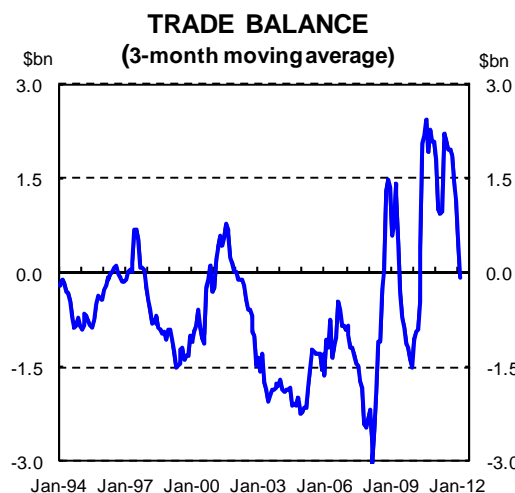


International Data Previews

Tuesday 8 May

AU Trade Balance, Mar, \$bn, (f) -2.0, (-0.5 prev)

The second consecutive trade deficit in February was unexpected by the market but seemed to reflect specific events in the month, rather than indicate a new trend. Strikes at BHP coal mines in Queensland disrupted output and export volumes in February. As well, widespread rainfall in Eastern Australia affected the transportation of coal to port facilities. Based on a continuation of these risks, we expect the March trade balance to stay in deficit at \$2.0bn. Risks to the trade balance remain to the downside in the near term. However, over the second half of the year, we expect the trade balance to move back into surplus on the back of continued demand for key bulk commodity exports.

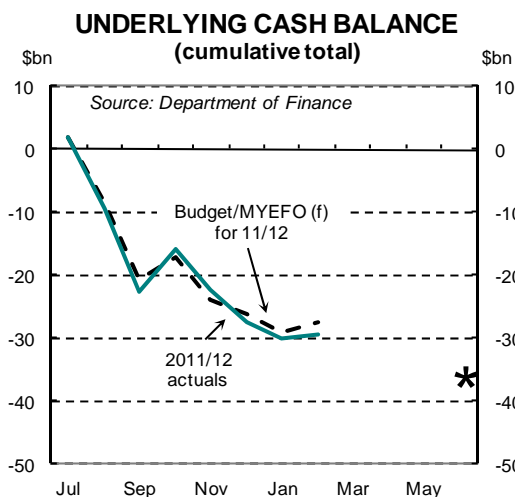


Tuesday 8 May

AU Federal Government Budget 2012/13

We expect to see a small surplus maintained in the 2012/13 Federal Budget. This means that there will be limited scope for new spending initiatives. We expect savings to be skewed towards non-core constituents (e.g. superannuation tax concession cut, means-testing aged care contributions). Any new spending measures will have a health and aged care focus.

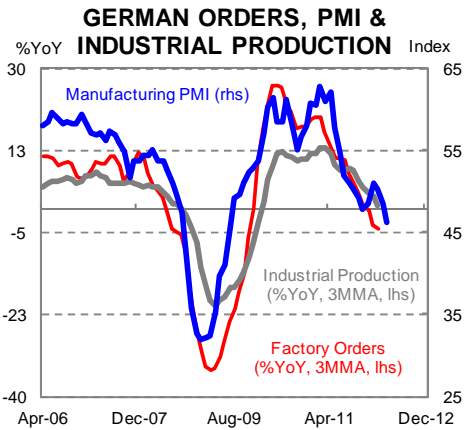
The argument about whether there should be a surplus in the near term depends on the prospect of cyclical conditions in the year ahead. The current economic conditions, characterising an economy running at trend and an unemployment rate around 5-5½%, the expectation would be for a Budget to be roughly balanced. However, downside risks to the economy still persist and should a “GFC Mark II” arise, our expectation is that the Budget should be allowed to shift into deficit to support the economy.



Tuesday 8 May

GE Industrial Production, Mar, m%ch, (-1.3 prev)

German industrial output declined more than expected in February, falling 1.3% (MoM). Declines in construction output (-17.1% MoM), a function of the colder weather, was the driving factor in the falls. While a modest rebound in German industrial output is likely in March, further declines on an annual basis appear likely. Over coming months, a sustained rise in German industrial production may be hard pressed to occur. German factory orders have generally remained weak over early 2012, while the manufacturing PMI is back at mid 2009 levels. However, interestingly this contrasts with the manufacturing sub index of the German IFO index which has shown resilience over recent months.

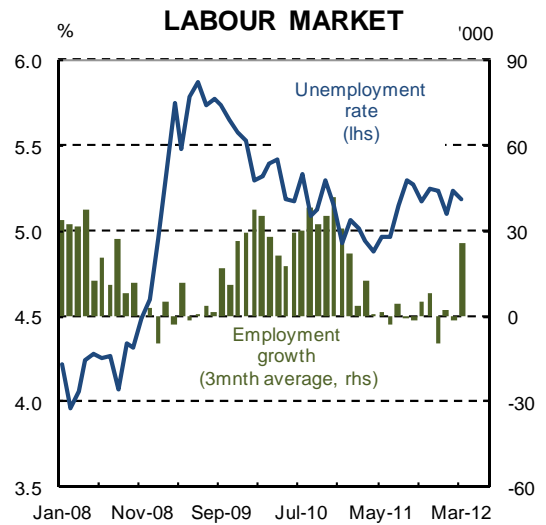


Thursday 10 May

AU Labour Force, Apr

- Employment, '000, (f) 5.0, (44.0 prev)
- Unemployment Rate, %, (f) 5.2, (5.2 prev)
- Participation Rate, %, (f) 65.4, (65.4 prev)

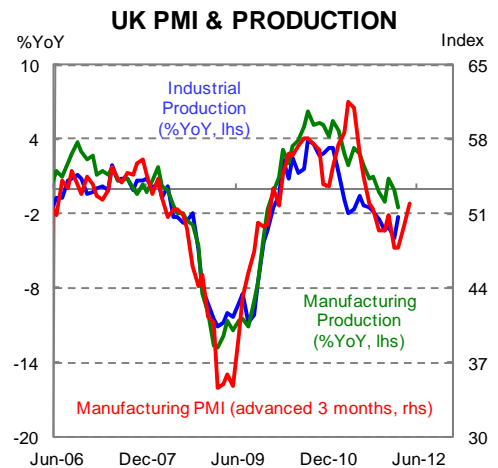
Employment growth was strong in March, rising by 44,000, with the unemployment rate remaining unchanged at 5.2%. The participation rate also rose slightly to 65.4%. However the result follows a 15,400 drop in February employment. The volatility of the series means that month-by-month comparisons may not accurately reflect the state of the labour market. We expect the jobs market to deteriorate gradually over the next six months. Our jobs "model" shows monthly employment growth of 7,000. However, there are approximately 15,000 new additions to the labour force each month. As a result, we expect the unemployment rate to head towards 5.5% over the second half of the year. In April, we are expecting modest employment growth of 5,000, with the unemployment rate steady at 5.2%.



Thursday 10 May

UK Industrial Production, Mar, m/y%ch, (0.4/-2.3 prev)

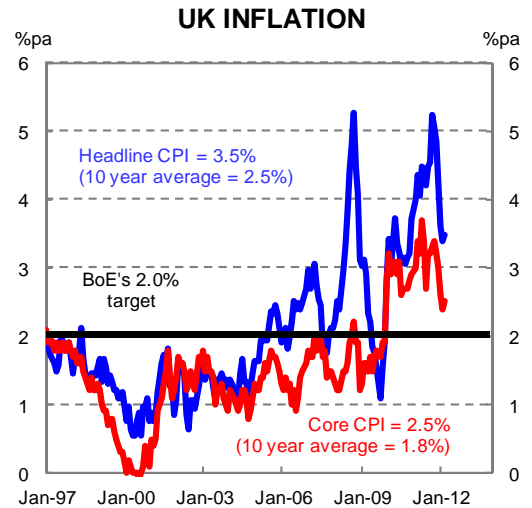
On an annual basis, UK industrial production has fallen since February 2011. This trend is likely to have continued in March. The monthly industrial production data are also likely to be weak, with a fall not unexpected. UK manufacturing production continues to be a point of weakness, having falling by 1% (MoM) in February. Within manufacturing, the declines were broad based as nine of the sub sectors declined in February. We are unlikely to have seen a significant turnaround in the annual trend in UK manufacturing production in March, but we may see some payback in the monthly data. The UK manufacturing PMI has pointed to expansion since January, and signals modest improvement in UK manufacturing over the coming months. However a significant reversal of the annual trend is unlikely in the near term.



Thursday 10 May

UK BoE Meeting, May, £bn/%, (f) 325/0.5 (325/0.5 prev)

We are not expecting the Bank of England (BoE) Monetary Policy Committee (MPC) to change policy in May. In fact, we expect the BoE to remain on the sidelines over the coming quarters. In April, the MPC moved to a more “neutral” policy setting. The voting composition of the MPC has shifted, with Adam Posen having dropped his call for more asset purchases. Furthermore, the remaining member of the MPC calling for further stimulus now views the decision as being “finely balanced”. While the outlook for the UK economy remains weak, the focus of the MPC now appears to be on the stubbornly high UK inflation. The BoE’s new economic projections are released on 16 May. In April, the MPC implied that a lift in their near-term inflation forecasts was likely (we are also expecting the BoE to cut its 2012 growth forecasts). How fast the BoE projects UK inflation will fall below its 2% target will be pivotal in assessing the outlook for UK monetary policy.

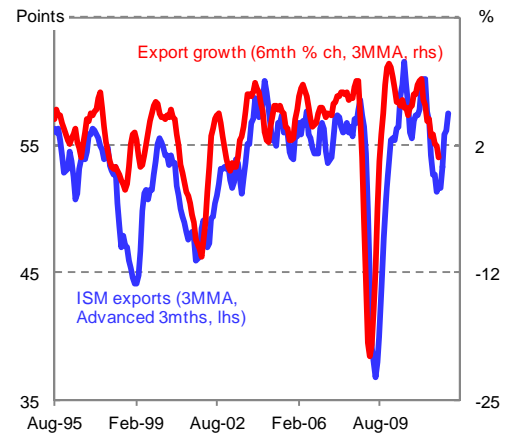


Thursday 10 May

US Trade Balance, Mar, US\$bn, (-46.0 prev)

Reflecting the slowing global economy at the end of 2011 and into early 2012, growth in US exports has slowed appreciably. However, the ISM exports orders index suggests US exports are likely to recover in coming months. Therefore, while the US trade deficit may deteriorate in March, it is likely to narrow in coming months. Also assisting the shrinkage of the US trade deficit is the recent decline in global oil prices.

US EXPORT & ISM EXPORTS INDEX

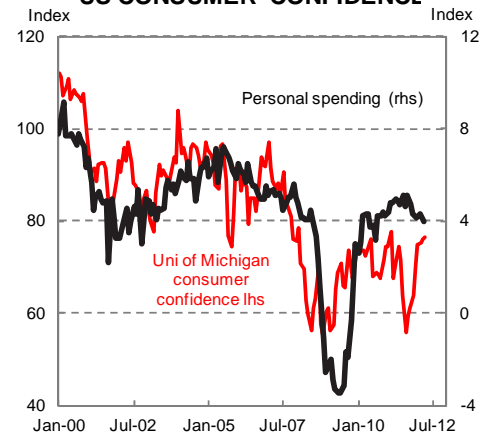


Friday 11 May

US Uni of Mich Confidence, May P, Index, (76.4 prev)

In the past year, personal spending has been resilient to the large fall in consumer confidence. Nevertheless, consumer confidence remains well below long-run average levels. And growth in (nominal) consumer spending is below average. We expect consumer confidence to dip a little reflecting the softness in the US labour market such as the run-up in jobless claims. The dip in confidence is likely to be exacerbated by petrol prices at over \$4 per gallon. However, petrol prices are likely to ease over the month reflecting the fall in oil prices.

US CONSUMER CONFIDENCE



Data Recap: weekly recap

NZ LCI & QES

Labour Cost Index (LCI) private sector ordinary time wages increased 0.5% qoq, in line with our expectations. This brought annual labour cost growth to 2.1% for the year to March 2012. Once again, ordinary time public sector labour cost growth was more muted, increasing 0.4% for the quarter. This reflects the continued restraint in central government spending growth.

Signs of strong wage pressures in the construction sector in Christchurch continued over Q1, with the proportion of jobs receiving wage increases in the construction industry remaining significantly higher in Christchurch than the rest of NZ. However, looking at wage growth by industry on a nationwide basis, construction sector wages only increased 0.4% nationwide over the quarter. This suggests the emerging capacity pressures in the Christchurch construction industry have yet to flow through to the rest of NZ.

Employment indicators were weaker than expected in the Q1 Quarterly Employment Survey. The weakness was evident across the range of measures, with filled jobs remaining flat, full-time equivalent employees rising just 0.1% and hours paid falling 0.5%.

NZ Household Labour Force Survey

Although employment growth held up close to market expectations, an outsized increase in the participation rate saw the unemployment rate rise sharply to 6.7% (from a previously revised 6.4%). Because of recent volatility, the trend estimate of the unemployment rate provides a better picture of underlying labour market conditions, and is currently sitting at 6.6%. Over the past two quarters, volatility in the participation rate (which happens from time to time) has translated into volatility in the unemployment rate. Looking through this, it appears the unemployment remains largely unchanged from levels that have prevailed over the past year. This highlights the subdued pace of recovery in the labour market.

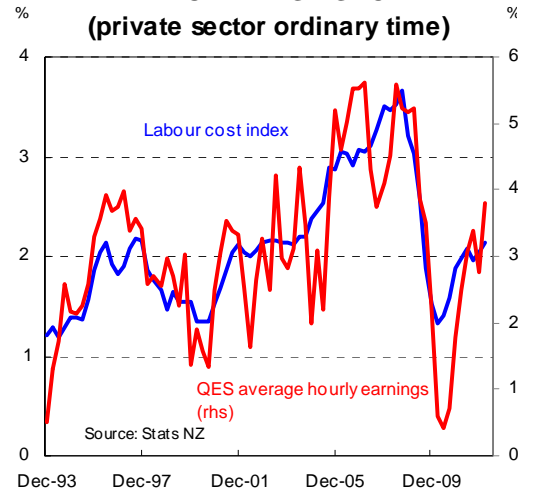
Looking closer at the detail within the report, there are encouraging signs the Canterbury region is starting to recover with employment lifting almost 5% over the quarter. Over the past year, employment in Canterbury has fallen 1.8% as a result of the February 2011 earthquake and resulting CBD closure. Looking at the remainder of the country, it appears the labour market recovery is starting to lose momentum. Employment fell 0.3% over the quarter outside of Canterbury. In addition, ex-Canterbury hours worked have fallen sharply over the past two quarters (declines of 1.3% and 1.2% consecutively).

RBA Rate Announcement

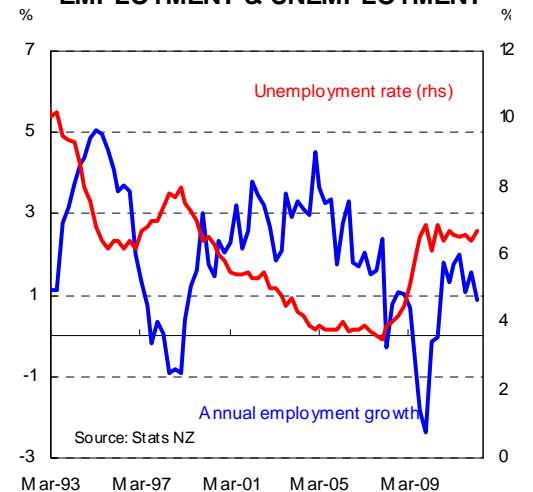
The RBA's capacity to surprise continues with a larger than expected 50bps rate cut resulting from today's Board meeting. The cash rate now stands at 3%, the lowest since early 2010 and some 100bps below the most recent peak of 4.25%.

The larger than expected move appears designed to ensure that a significant reduction in lending rates follows and to provide a positive "shock" to consumer and business confidence. The size of the cut should take discussion of a follow up move in June off the table. But comments that inflation "will probably be lower than earlier expected" implies inflation forecasts towards the bottom end of the RBA's 2-3% target range. This sort of forecast is code for an easing bias.

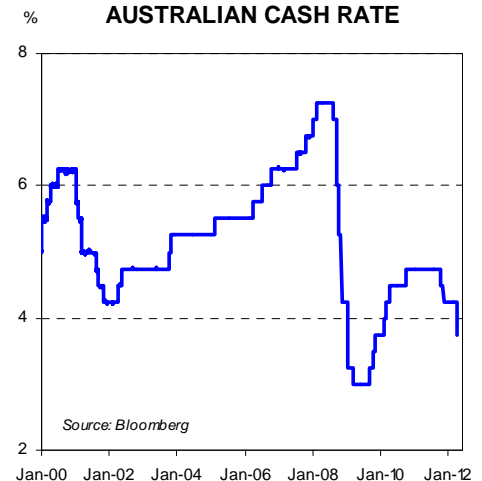
NZ ANNUAL WAGE GROWTH (private sector ordinary time)



EMPLOYMENT & UNEMPLOYMENT



AUSTRALIAN CASH RATE



AU House Prices

Recent declines in Australian house prices continued in the March quarter. The ABS measure of established capital city dwellings fell 1.1, to be 4.5% lower over the year. As always, the picture across the nation was mixed. It comes as no real surprise that house prices were much more resilient in the mining rich states of Western Australia (WA), Northern Territory (NT), and Queensland (Qld).

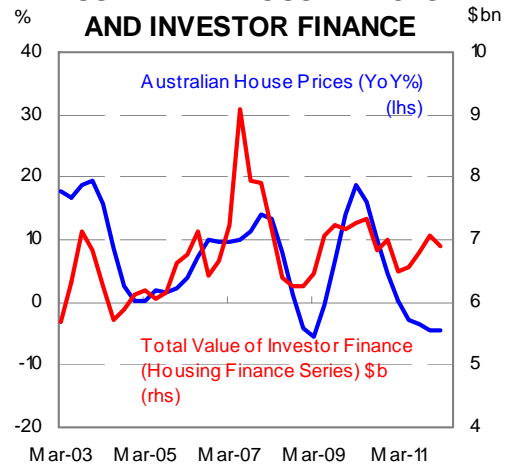
Australian house prices have continued to decline whilst other prices, and income levels, have continued to rise. House prices have failed to keep up with inflation over the course of the past year. The CPI rose by a 1.6% over the year to Q1 2012. In real, or inflation-adjusted, terms, the ABS measure of house prices fell 6.1% over the year to Q1 2012. Declines in real house prices in Australia are a relatively common occurrence, with the current decline the third since 2003. The "correction" of Australian house prices relative to incomes and rent also continued in Q1. Rents rose 4.4% according to the CPI measure over the year to Q1 2012.

US Non-Farm Payrolls

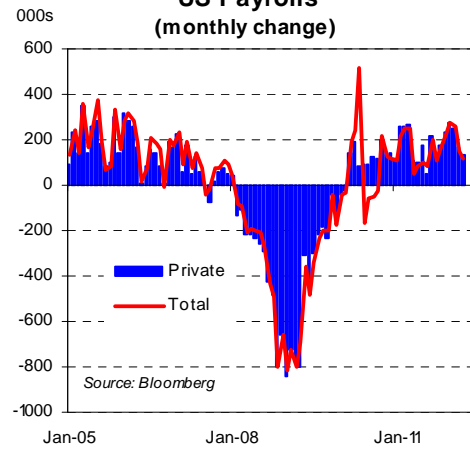
US Non-Farm Payrolls (employment) rose by 115,000 in April, short of expectations for a gain of 170,000. However, mitigating some of the initial disappointment was an upward revision to February and March jobs of 53,000. The unemployment rate fell from 8.2% to a 3.5 year low of 8.1%, although due to lower participation. Earning growth was weak, with hours worked rising just 0.1% while average wages were flat.

After posting some strong numbers in early 2012, job growth in the US has clearly slowed over March and April, with non-farm payrolls, initial jobless claims and the ADP employment data all deteriorating. The labour market recovery remains a moderate one for now, but a further slowdown in job growth would be worrying.

AUSTRALIAN HOUSE PRICES AND INVESTOR FINANCE



US Payrolls (monthly change)



Global Data Calendars

Calendar - Australasia, Japan and China

Date	Time (NZT)	Eco	Event	Period	Unit	Last	Forecast	
							Market	ASB
Tue 8 May	13:30	AU	Trade balance	Mar	\$bn	-0.5	-1.4	-2.0
	19:30	AU	Federal Budget 2012-13					
Wed 9 May	10:45	NZ	NZ card spending - retail	Apr	m%ch	+0.3	+0.5%	+0.4%
	17:00	JN	Leading index CI	Mar	Index	96.3	96.9	~
	17:00	JN	Coincident index CI	Mar	Index	95.0	96.2	~
Thu 10 May	~	CH	Trade balance (USD)	Apr	USD	5.4	9.9	~
	10:30	NZ	Business NZ PMI	Apr	Index	54.5	~	~
	11:50	JN	Current account total	Mar	¥bn	1,177.8	1,449.0	~
	11:50	JN	Adjusted current account total	Mar	¥bn	854.1	650.0	~
	12:00	NZ	QV house prices	Apr	y%ch	3.0	~	~
	13:30	AU	Employment change	Apr	000	44.0	-2.5	5.0
	13:30	AU	Unemployment rate	Apr	%	5.2	5.3	5.2
Fri 11 May	13:30	AU	Participation rate	Apr	%	65.4	65.4	65.4
	10:45	NZ	Food prices	Apr	m%ch	-1.0	~	~
	13:30	CH	CPI	Apr	y%ch	3.6	3.4	~
	13:30	CH	Producer price index	Apr	y%ch	-0.3	-0.5	~
	17:30	CH	Industrial production	Apr	y%ch	11.9	12.1	~
	17:30	CH	Retail sales	Apr	y%ch	15.2	15.1	~

Calendar – North America & Europe

Please note all days and times are UK time. Add 11 hours for NZ times.

Date	Time (UK)	Eco	Event	Period	Unit	Last	Forecast		
							Market	ASB	
Mon 7 May	05:05	SZ	CPI	Apr	y%ch	-1.0	-0.9	~	
	11:00	GE	Factory orders	Mar	m%ch	0.3	0.5	~	
	13:30	CA	Building permits	Mar	m%ch	7.5	~	~	
	20:00	US	Consumer credit	Mar	\$bn	8.7	10.0		
	22:30	CA	Bank of Canada's Murray speaks to B.C. Mortgage						
Tue 8 May	00:15	US	Fed's Lacker speaks in Greensboro, North Carolina						
	11:00	GE	Industrial production	Mar	m%ch	-1.3	0.3	~	
	12:30	EC	ECB's Benoit Coeure speaks at IMF/SNB						
Wed 9 May	13:15	CA	Housing starts	Apr	000	215.2	205.0	~	
	07:00	GE	Trade balance	Mar	€bn	14.7	13.9	~	
Thu 10 May	15:00	US	Wholesale inventories	Mar	%	0.9	0.6		
	09:00	EC	ECB publishes May monthly report						
Thu 10 May	09:30	UK	Industrial production	Mar	m%ch	0.4	-0.3	~	
	09:30	UK	Manufacturing production	Mar	m%ch	-1.0	0.5	~	
	2:00	UK	BOE asset purchase target	May	£bn	325.0	325.0	325.0	
	12:00	UK	BOE announces rates	May	%	0.5	0.5	0.5	
	13:30	CA	New housing price index	Mar	m%ch	0.3	0.1	~	
	13:30	CA	International merchandise trade	Mar	C\$bn	0.3	0.7	~	
	13:30	US	Trade balance	Mar	\$bn	-46.0	-49.9		
	13:30	US	Initial jobless and continuing claims	May	~	~	~	~	
	14:30	US	Fed's Bernanke to speak on Bank Capital in Chicago						
	15:00	UK	NIESR GDP estimate	Apr	q%saa	0.1	~	~	
	18:20	US	Fed's Kocherlakota speaks on Monetary Policy in						
	19:00	US	Monthly Budget Statement	Apr	\$bn	~	\$30.0		
	Fri 11 May	07:00	GE	CPI	Apr	y%ch	2.0	2.0	~
		09:30	UK	PPI input	Apr	y%ch	5.8	2.1	~
09:30		UK	PPI output	Apr	y%ch	3.6	2.9	~	
09:30		UK	PPI output core	Apr	y%ch	2.5	2.5	~	
10:00		EC	European Commission releases economic growth						
13:30		US	PPI	Apr	y%ch	2.8	2.4	~	
13:30		CA	Unemployment rate	Apr	%	7.2	7.3	~	
13:30		US	PPI ex food & energy	Apr	y%ch	2.9	2.8	~	
13:30		CA	Net change in employment	Apr	000	82.3	12.5	~	
14:55		US	University of Michigan confidence	May	Index	76.4	76.4	~	

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