

Business Weekly

Central banks take centre stage.

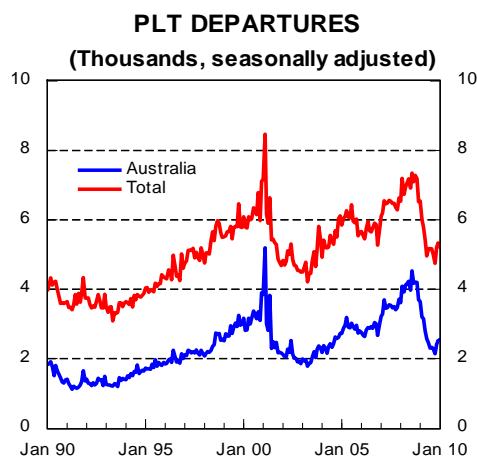
This Week

Global markets have recently been suffering under the weight of uncertainties surrounding Greece. The nation inches towards the 16 March deadline by which time concrete measures to address its ailing fiscal situation are to be demonstrated to European Finance Ministers. Greece has held centre stage, but there are concerns about weakness in other European countries – particularly Portugal, Italy, Ireland and Spain. In contrast with the gloomy mood in Eurozone, across the Tasman there were several catalysts last week which support our call for a 25 basis point increase at Tuesday's RBA Board meeting. Average weekly earnings in Australia grew by a bumper 6.0% over 2009, boosting household spending capacity. Construction work done figures showed strong levels of public sector activity driven by fiscal stimulus, as private sector construction weakened. Private sector weakness is likely to be short lived if CAPEX expectations figures are any guide. The RBA isn't the only Central Bank on the radar this week. The Bank of Canada (BoC), Bank of England (BoE) and European Central Bank (ECB) all meet. We expect no rate changes, but updates on the outlook from each will be closely scrutinised given present uncertainties. The Federal Reserve will provide a sweeping update on conditions in the US economy, with the release of the Beige Book. As the week draws to a close, attention will turn to the fortunes of the US labour market, with the key non-farm payrolls data for February due. On Friday in New Zealand the Q4 wholesale trade survey is released. On Monday next week more GDP components are released, with Q4 building work and manufacturing data due. Overseas trade indices are released on the 10th March completing the clues to the Q4 GDP puzzle. Traders will tell you that GDP is old news – we are nearly through Q1 when Q4 GDP figures are released on the 25th March. Their focus is on the RBNZ rate announcement next week. Like all the central banks bar the RBA, we expect the RBNZ to be on hold at their March meeting. The economic outlook continues to evolve broadly in line with the RBNZ's December forecasts. However, the upside risks to the outlook have softened since December. Labour market and inflation data was on the weak side of expectations, reducing the urgency to lift rates from emergency settings. Recent housing market data has also softened. In addition, there are increased concerns on the sustainability of the global recovery over 2010. China is looking to slow its own economy and the current situation in Europe has heightened concerns. However, last week local indicators of business confidence and inflation expectations printed on the high side of expectations. The recovery here remains on track, and the RBNZ cannot remain on the sidelines for too long. Importantly, we expect the "middle of 2010" rate rises from the RBNZ to come before those of the ECB, BoE, BoC and the Fed.

Click here for:

- [Foreign Exchange](#) • NZD mixed, looking strong against the GBP, weak against the AUD.
- [Interest Rates](#) • NZ markets continued to rally last week (rates lower).
- [Week Ahead](#) • Wholesale Trade Survey and Government Financial Statements due.
- [Week in Review](#) • Business Confidence, Inflation expectations and Credit Aggregates.
- [Global Calendars](#) • BoE, BoC, ECB and RBA rate decisions due. Fed's Beige Book released.

Chart of the week



- The trend in permanent and long-term departures from NZ is now turning, led by an increase in departures to Australia.
- The Australian economy has fared comparatively well during the global downturn, managing to avoid recession. Job growth has increased beyond expectations consistently for a number of months. In contrast, the NZ labour market remains weak.
- The relative strength of the Australian economy and labour market will become increasingly attractive to New Zealanders, and we expect the rate of permanent departures to steadily pick up over the year.
- An increase in departures to Australia will underpin a decline in net migration over 2010. Slower population growth will help to further ease housing demand.

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	0.7010	0.7027	0.7041	0.6827	0.5054	FLAT	0.685	0.7100
NZD/AUD	0.7805	0.7790	0.7891	0.8130	0.7833	FLAT	0.7700	0.7900
NZD/JPY	62.28	64.40	63.32	63.31	49.30	FLAT	61.00	65.00
NZD/EUR	0.5132	0.5148	0.5050	0.4776	0.3972	FLAT	0.5100	0.5200
NZD/GBP	0.4614	0.4536	0.4363	0.4202	0.3541	FLAT	0.4500	0.4650
TWI	64.8	65.1	64.7	63.3	52.0	FLAT	64.0	66.00

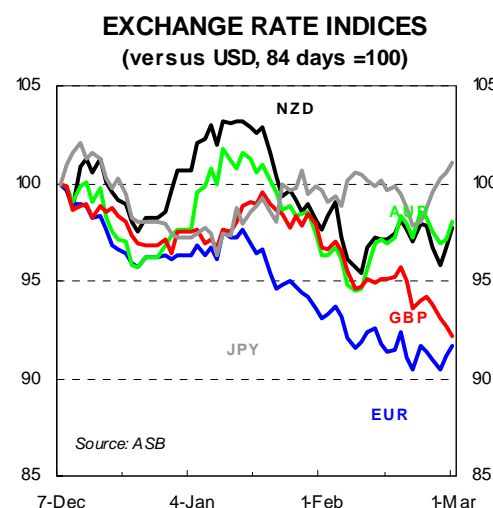
^Weekly support and resistance levels * Current is as at 11.30 am Monday; week ago as at Monday 5pm

- The NZ dollar was mixed last week. The kiwi is little changed on the USD compared to a week ago, having traded between 0.685 and 0.705 over the week. The NZD has lifted against the AUD, but got as low at 0.774 last week.
- It is likely to be a choppy week for the USD. Whilst the Fed Beige book will likely indicate economic conditions are improving, Fed members will be at pains to anchor interest rate expectations in their speeches. Continued concerns for the economic recovery and government debt position in Europe and anticipation ahead of the February non-farm payrolls report (markets are expecting a fall of 50k) should feed into USD support over the coming week.
- Elsewhere, developments in the Greek fiscal situation will impact the Euro, as well as risk appetites. Economic uncertainty, and concerns about the global recovery are currently negative for the NZD. Central Bank meetings in Europe, UK, Canada and Australia will all be influential. If the RBA holds this week, the NZD could recover some of the ground lost over February.

Short-term outlook:

Key data	Date	Time (NZST)	Market expects
Q4 Wholesale Trade Survey	5/3	10.45am	-
Q4 Economic Survey of Manufacturing	8/3	10.45am	-
Q4 Value of Building Work Put In Place	8/3	10.45am	-

Potential currency movers this week: US personal income and spending, consumption inflation, ISM manufacturing (1st); RBA Rate decision (2nd); US ADP employment, ISM non-manufacturing, Fed beige Book, Bank of Canada rate announcement (3rd); US factory orders, Pending home sales, Bank of England, ECB rate announcements (4th); US Non-farm payrolls (5th). Speakers: Lacker, Volcker (1st); Rosengren, Lockhart (3rd); Evans, Bullard (4th).



Medium-term outlook: [\[Last Quarterly Economic Forecasts\]](#)

- We have recently pulled back our NZD outlook, with the NZD now likely to remain relatively steady over the first half of 2010.
- Further upside to the Kiwi over the next few months is likely to be limited, as the USD has started to strengthen reflecting stronger economic data.
- Adding to the downside pressure has been China's recent attempt to combat inflation pressures. Attempts to slow China have raised concerns on the strength of the global recovery, and the cracks appearing in China's commercial property sector are of some concern.
- In addition, the pace of economic recovery in the Eurozone has slowed. Nervousness surrounding the sustainability government debt levels have put pressure on the euro, which has flowed through to weaken the antipodean currencies.
- We have also pushed back the timing of the first RBNZ OCR increase from April to June, and expect the pace of increase to be more gradual, reducing the scope for interest rate driven out-performance.

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	3.50	FLAT
90-day bank bill	2.72	2.71	2.76	2.78	3.19	FLAT
2-year swap	4.14	4.27	4.42	4.22	3.27	FLAT
5-year swap	5.14	5.26	5.34	5.47	4.12	FLAT
5-year benchmark gov't stock	5.02	5.17	5.21	4.94	3.91	UP
NZSX 50	3156	3130	3165	3098	2508	FLAT

* Current is as at 11.00 am Monday; week ago as at Monday 5pm. Please note that we have recently changed the NZ gov't 5-year benchmark bond to April 2015 maturity (from April 2013). This does cause some distortion in the comparison against the previous levels (i.e. month ago).

- NZ interest rate markets continued to rally last week, with swap rates down 13 points across the curve. Adding to the downward pressure on interest rates was receiving interest from two large issuances of Uridashi and Eurokiwis.
- US markets had a mixed week, with 10 year yields ending the week 13 basis points lower despite the large \$126 billion worth of issuance of US Treasury debt. Demand at the Treasury auctions over the past week have been patchy, with weak market sentiment generally dominating. Bernanke's reiteration of his commitment to keep interest rates low for an extended period added to the downward pressure on interest rates.
- In contrast, Australian swap rates generally moved sideways over the past week, as the market awaits the RBA rate announcement on Tuesday. Markets are expect the RBA to increase its policy rate by 25 basis points, but are divided whether the move will be at this meeting or the next.

Short-term outlook:

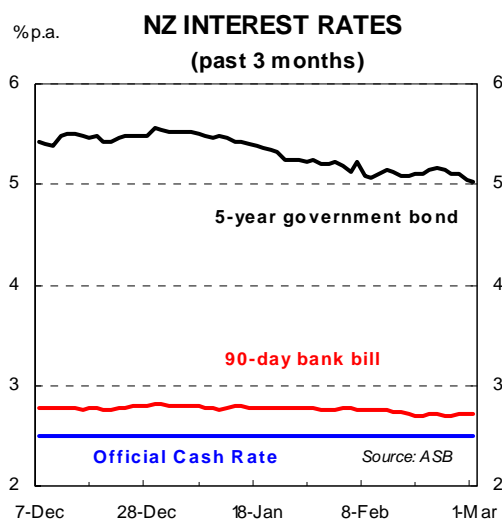
Key data	Date	Time (NZST)	Market expects
Q4 Wholesale Trade Survey	5/3	10.45am	-
February QV House Prices	8/3	0.00am	-
Q4 Economic Survey of Manufacturing	8/3	10.45am	-
Q4 Value of Building Work Put In Place	8/3	10.45am	-

Comment: Domestic markets are generally in a holding pattern ahead of the RBNZ March MPS next Thursday, with markets expecting a fairly similar statement to the OCR Review in January. Meanwhile, a slew of data released this week may shed insight into Q4 economic activity ahead of the GDP release later this month.

Offshore, the RBA rate announcement on Tuesday will be key for Australian markets, with interest rates likely to rally sharply if the RBA was to surprise with another pause in its tightening cycle. Other releases worth watching are Q4 Australian GDP, Fed Beige Book, BOE and ECB rate announcements.

Medium term outlook: [Last Quarterly Economic Forecasts](#)

- The RBNZ continued to hold the cash rate at 2.5% at the January *OCR Review*, and noted economic developments have generally turned out as it expected at the time of the December *Monetary Policy Statement*. As such, the Bank continues to expect to raise the OCR by around the middle of 2010. While acknowledging recent data have shown an improvement in household spending, the subdued nature of household credit growth is allaying fears that household debt levels will rise to unsustainably high levels.
- Furthermore, the reinstatement of the word "comfortable" in its assessment of inflation suggests the RBNZ is more relaxed about the inflation outlook following the subdued non-tradable inflation outturn in Q4. Nonetheless, we see inflation pressures building up in the non-tradable sector over the coming year, with our medium-term inflation outlook pushing closer to the top of the band. In particular, recent data have shown a rebound in capacity utilisation, the re-emergence of skills shortages and inflation expectations remain elevated.
- Recent softer data (unemployment and waning momentum in the housing market) have reduced some of the urgency to unwind stimulus. We now expect the RBNZ is likely to lift rates in June and we expect this tightening to occur at a slower pace, with OCR increases of 25bp instead of 50bp at the initial meetings.
- The relationship between the OCR and lending rates is likely to be a lot firmer than we previously assessed. We expect the large wedge that currently exists between the OCR and bank funding costs to largely remain, and as such now see an OCR of 5% (lower than our previous estimate of 5.5%) will be sufficient to remove the stimulus short-term rates provide. The likelihood of a relatively low OCR peak, coupled with uncertainty over the impact of OCR hikes, point to 25bp moves being most appropriate.



NZ Data Preview: a look at the week ahead

Data	Date	Time (NZST)	Previous	Market expects	ASB expects
Q4 Wholesale Trade Survey qoq	5/3	10.45am	-0.8%	-	-
February QV House Prices yoy	8/3	0.00am	+4.4%	-	-
Q4 Economic Survey of Manufacturing qoq	8/3	10.45am	-1.4%	-	-
Q4 Value of Building Work Put in Place qoq	8/3	10.45am	-4.9%	-	+2.5%

Friday 5 March

Economic Survey of Manufacturing – Q4

Previous -0.8% qoq

The Economic Survey of Manufacturing is the key forecasting indicator for this component of GDP. We expect to see some stabilisation in the manufacturing sector in Q4. During the previous quarter, weak slaughter activity weighed down primary manufacturing. December quarter slaughter data was mixed, with a recovery in volumes but overall weight remaining weak. With dairy production likely to be subdued, we expect only a modest increase in primary manufacturing production. Meanwhile, improving confidence in the ex-primary manufacturing sector, underpinned by improving global demand and a very favourable cross rate against the AUD, points to some recovery in activity. There is some upside risk to our relatively cautious forecast for flat production.

Monday 8 March

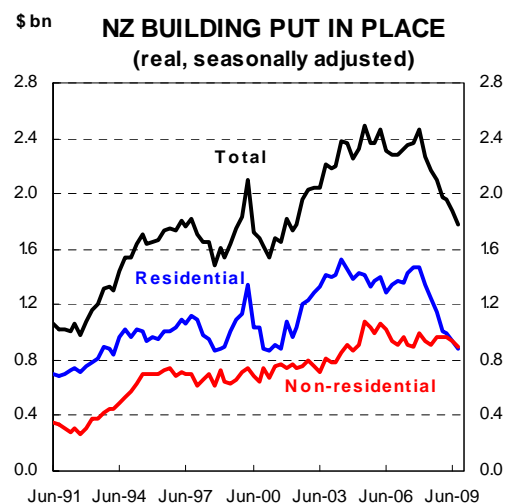
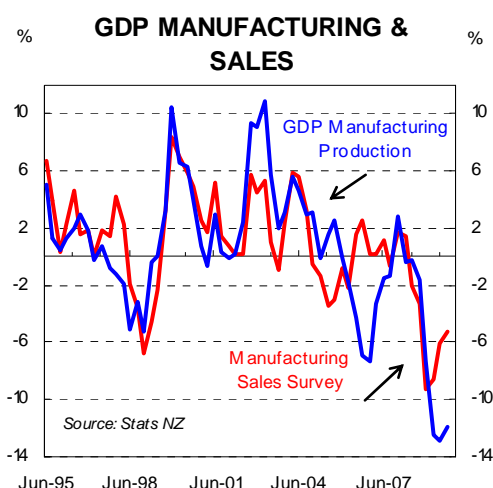
Value of Building Work Put in Place – Q4

Previous -4.9% qoq total. Forecast 2.5% qoq

We expect the real value of building work put in place to increase 2.5% over Q4. The building work put in place survey provides an excellent guide on the construction component of GDP. We expect residential work put in place to increase 2% over Q4, while non-residential work is forecast to rise 3%.

Dwelling consent issuance has picked up steadily over the second half of 2010, as housing demand recovered and confidence improved. We expect a small increase in construction over Q4 2009, with the recovery set to continue over the first half of 2010.

In non-residential activity, there tends to be a longer lag between consent issuance and construction activity. Looking back into the first half of 2009, a couple of large projects were consented in April and May, which are likely to be providing support to construction activity over the later part over 2009. We expect construction activity to remain relatively steady over the first half of 2010.



NZ Data Review: weekly recap

Q1 RBNZ inflation expectations survey

Inflation expectations remained at elevated levels in the March quarter, with the 2 year-ahead measure continuing to tick up to 2.7%, from 2.6% in the previous quarter. Given this series tends to be stable the continued increase does suggest a building up of underlying inflation pressures over the coming year.

Q4 data released recently - including weak non-tradable inflation and wage growth - indicate inflation pressures were subdued towards the end of last year reflecting the lingering effects of the recession. However, it looks like inflation pressures are beginning to build up again as excess capacity diminishes against a backdrop of recovery in demand. Overall, the continued tick-up in medium-term inflation expectations towards the top of the inflation band should be of some concern for the RBNZ.

January RBNZ Credit Aggregates

Credit growth remained very subdued in January, with household credit growth increasing just 0.2% for the month. The soft recovery in the housing market is underpinning modest expansion in housing credit, which is offsetting the ongoing weakness in consumer credit. Although consumer confidence is improving, consumers remain reluctant to borrow to fund spending while unemployment is still rising and job security weighs over household decisions.

Business credit remains very weak, down 6.2% on year-ago levels, consistent with the decline in business investment over the past year. The upbeat February business confidence survey supports the view NZ firms believe the economy is past the worst, with activity set to improve over 2010. Appetites for investment are slowly starting to pick up, and once businesses have seen a sustained recovery in activity and profits a recovery in investment will be soon to follow.

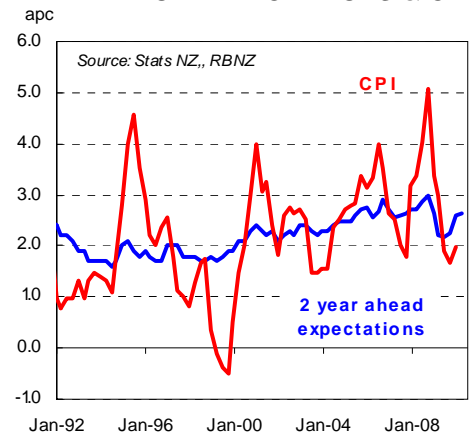
Agricultural credit growth continues to slow, at 7.1% growth on year-ago levels easing from double digit rates of growth just a few months ago. Agricultural prospects are beginning to recover, with export commodity prices improving over recent months.

February National Bank Business Outlook

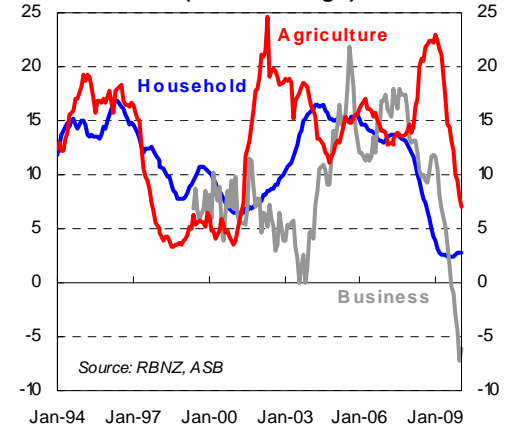
Both headline business confidence and own activity expectations increased in February, further confirmation that the recovery in economic activity was underway. Encouragingly, the improvement in headline business confidence was across most sectors (although sentiment in the retail sector declined). Furthermore, there was a continued improvement in business profitability, largely driven by the construction and manufacturing sector. These two sectors bore the brunt of the recession, and there are signs these sectors are now finally on the mend. The continued improvement in export intentions is positive for the recovery of ex-primary manufacturing, while the improvement in construction activity has seen increased scope for the sector to pass on rising costs.

The robust own activity reading is consistent with above-trend growth in early 2010.

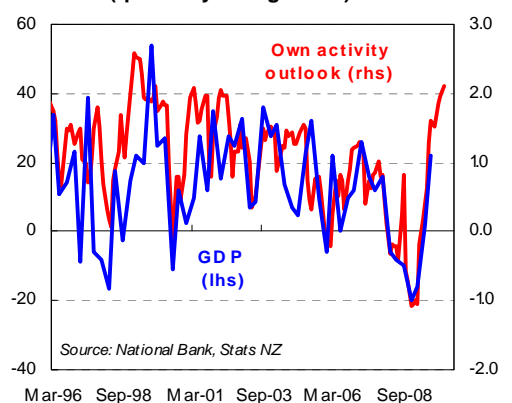
INFLATION EXPECTATIONS & CPI



LENDING GROWTH
(annual change)



GDP & OWN ACTIVITY
(quarterly GDP growth)



January Trade Balance

The trade balance posted a surprisingly robust surplus of \$270m in January, much stronger than the \$100m deficit market expectation. Relative to expectations exports were significantly stronger, while imports were slightly weaker. The almost \$400m surprise saw the annual balance improve to a deficit of just \$178m. This represents a dramatic turnaround in NZ's trade position over the past year, underscored by solid agricultural export performance and weak import demand.

The pick-up in dairy prices observed in spot markets over the second half of 2009 are now likely to be flowing through to dairy export receipts. In addition, volumes appear to be holding up relatively well despite anecdotes of poor weather-related production conditions reported throughout the season.

Imports remain very subdued across the board, and was particularly weighed down by weak capital imports (down 25.6% on year-ago levels).

Over 2010, we expect the narrowing trend in the trade deficit to begin to reverse. Nonetheless, this improvement creates a solid starting point, which should flow through to a smaller current account deficit in 2010.

January Building Consents

Dwelling consent issuance continues to improve when compared to year-ago levels, but in the past couple of readings has slightly undershot the recovery we have been expecting.

Core consent issuance (i.e. ex-apartments) rose 0.7% over the month, to a seasonally-adjusted 1282 units. Core consent issuance has recovered from the low of 745 at the start of 2009 but remains well short of the average of around 1900 per month over 2006-2007. Core consents have averaged 1293 over the past three months. Given the level of migration and home sales, we would expect core consent issuance to rise towards the 1800 per month mark.

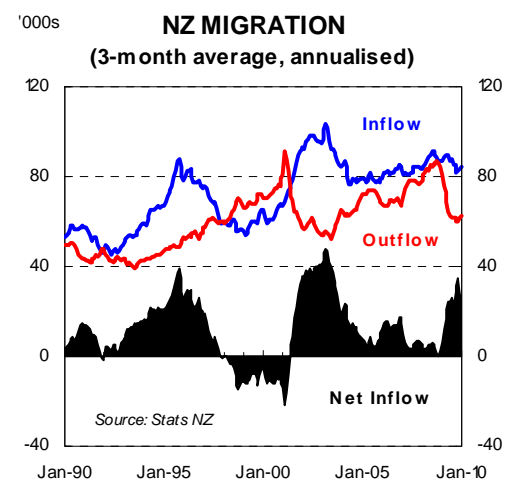
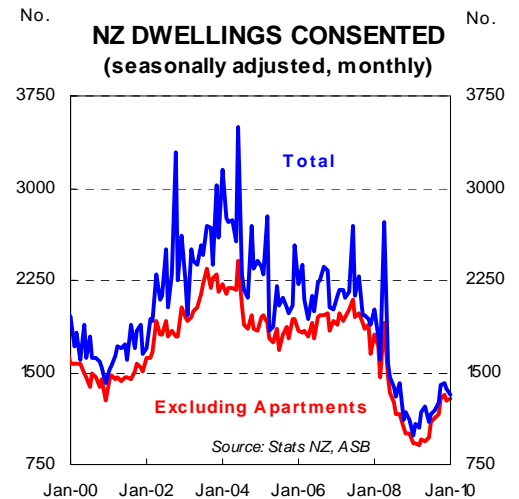
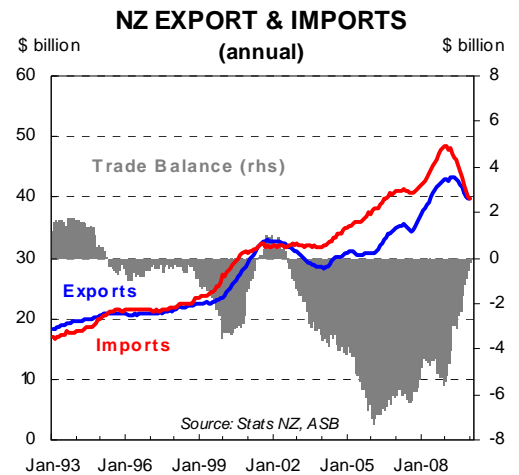
Despite the very weak January non-residential figures, we continue to expect a fairly flat pattern for non-residential work over 2010 as business confidence recovers. Public project activity should remain robust this year, offsetting private business projects which will likely remain subdued as businesses continue to show some caution.

We expect overall building activity will pick up over 2010, having been in retreat for much of the preceding 2 years as housing construction shrank.

January International Travel and Migration

Monthly permanent and long-term net migration remained firm with a 1,950 increase in January. The trend in departures now appears to be turning, led by an increase in departures to Australia (more in chart of the week on the front page).

Meanwhile, short-term visitor arrivals fell 2.4% in January with the overall trend being relatively steady despite the global recession. In particular, short-term arrivals from Australia remain very strong underpinned by monetary and fiscal stimulus across the Tasman as well as a very favourable cross rate (which has evidently boosted the average spend of the Australia tourist as well). Meanwhile, visitor arrivals from Asia are now starting to recover, with a relatively broad-based increase in visitors (i.e Japan, Korea, China and other Asia all now picking up on a trend basis). The ex-Japan Asia economies have recovered firmly over the second half of 2009 and ongoing improvement is likely to promote further leisure travel from this region.



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 1 Mar	13.30	AU	Company profits	QIV	q%ch	-2.1	~	2.0
	13.30	AU	Inventories	QIV	q%ch	0.8	0.5	0.7
	13.30	AU	Current account balance	QIV	\$bn	-16.2	-17.2	-16.9
	14.00	CH	PMI Manufacturing	Feb	Index	55.8	~	~
	18.00	JN	Vehicle sales	Feb	y%ch	36.8	~	~
Tue 2 Mar	13.30	AU	Building approvals	Jan	m%ch	2.2	1.0	3.0
	13.30	AU	Retail sales	Jan	m%ch	-0.7	0.5	0.8
	16.30	AU	RBA Cash target	Mar	%	3.75	4.00	4.00
Wed 3 Mar	11.30	AU	CBA-Ai-Group Performance of Services Index	Feb	Index	47.4	~	~
	13.30	AU	Gross domestic product	QIV	q%ch	0.2	0.9	0.8
Thur 4 Mar	12.50	JN	Capital spending	QIV	y%ch	-24.8	~	~
	13.30	AU	Trade balance	Jan	\$bn	-2.3	~	-1.2
Fri 5 Mar	10.45	NZ	Wholesale Trade Survey	QIV	~	~	~	~

Calendar – North America & Europe

Please note all days and times are UK time, not local release day/times

Date	UK			Period	Unit	Last	Forecast	
	Time	Econ	Event				Market	CBA
Mon 1 Mar	08.55	GE	PMI manufacturing	Feb	Index	57.1	~	~
	09.00	EC	PMI manufacturing	Feb	Index	54.1	~	~
	09.30	UK	Net consumer credit	Jan	£bn	0.1	~	~
	09.30	UK	PMI manufacturing	Feb	Index	56.7	~	~
	13.30	US	Personal spending	Jan	m%ch	0.4	~	~
	13.30	CA	GDP	QIV	q%ch	0.4		
	15.00	US	ISM Manufacturing	Feb	Index	58.4	~	~
	15.00	US	Construction spending	Jan	m%ch	-1.2	~	~
Tue 2 Mar	09.30	UK	PMI construction	Feb	Index	48.6	~	~
Tue 2 Mar	10.00	EC	CPI	Feb	y%ch	1.0	~	~
	10.00	EC	PPI	Jan	y%ch	-2.9	~	~
	14.00	CA	Bank of Canada announces rates	Mar	~	0.25	~	0.25
	22.00	US	Motor vehicle sales	Feb	Mn	10.8	~	~
Wed 3 Mar	08.55	GE	PMI services	Feb	Index	51.7	~	~
	09.00	EC	PMI services	Feb	Index	52.0	~	~
	09.30	UK	PMI services	Feb	Index	54.5		
	10.00	EC	Retail sales	Jan	m%ch	0.0	~	~
	13.15	US	ADP employment change	Feb	'000	-22	~	~
	15.00	US	ISM non-manufacturing	Feb	Index	50.5	~	~
	19.00	US	Fed Beige Book	~	~	~	~	~
Thur 4 Mar	10.00	EC	GDP	QIV	q%ch	0.1	~	~
	12.00	UK	BoE announces rates	Mar	%	0.50	~	0.50
	12.45	EC	ECB announces rates	Mar	%	1.00	~	1.00
	13.30	US	Non-farm productivity	QIV	q%ch	6.2	~	~
	13.30	US	Unit labour costs	QIV	q%chsar	-4.4	~	~
	13.30	CA	Building permits	Jan	m%ch	2.4	~	~
	15.00	US	Factory orders	Jan	m%ch	1.0	~	~
	15.00	US	Pending home sales	Jan	m%ch	1.0	~	~
	15.00	CA	Ivey PMI	Feb	Index	50.8	~	~
Fri 5 Mar	09.30	UK	PPI (output)	Feb	y%ch	3.8	~	~
	11.00	GE	Factory orders	Jan	m%ch	-2.3	~	~

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