

New Zealand economic update

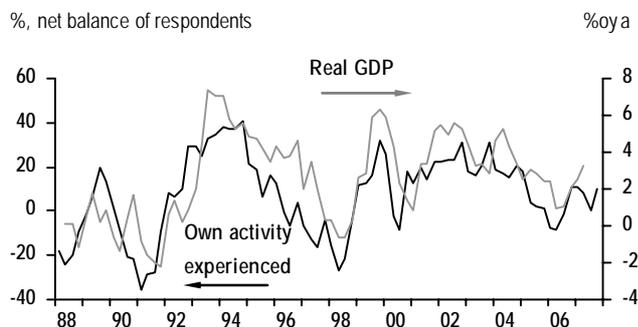
QSBO survey

Today's NZIER quarterly survey of business opinion (QSBO) will support the RBNZ's tightening bias, but will not be enough to push them into actually acting on that bias. Business confidence tracked sideways in actual terms over the fourth quarter, although improved slightly to -26% from -27% in 3Q. On a seasonally adjusted basis, however, companies expect business conditions to deteriorate over the next six months, with general confidence falling to -38% sa from -30% sa in 3Q and -29% sa in 2Q. More importantly, when looking at GDP growth over the fourth quarter and into the first quarter of 2008, firms own trading activity experienced increased (pointing to a solid 4Q GDP) and firms own activity expected decreased (pointing to a weak 1Q GDP). The "firms own activity experienced" indicator has the highest correlation to annual growth in GDP (chart).

That said, the key take-away point from the report was that capacity pressures worsened in 4Q, remaining at high levels, and inflationary pressures remain acute. The indicators of inflation—capacity utilization, difficulty finding labour, pricing and cost experiences/intentions—will have done little to relieve concerns at the RBNZ. Capacity utilisation rose slightly to 92.0% from 91.3% in 3Q; difficulty finding labour rose to 33% from 19% in September; pricing intentions tracked sideways from 34% in 3Q to 35% in 4Q; and cost pressures roses from 44% to 49% in 4Q. According to NZIER, "The price and cost related data in the current survey will give the Reserve Bank no grounds to feel comfortable about pricing intentions and inflationary expectations.

All-in-all, the report supports the RBNZ's tightening bias, and JPMorgan maintains its view that the RBNZ will keep rates on hold at an elevated 8.25% for the foreseeable future. There is little chance of a rate cut until early 2009.

New Zealand: firms own activity and GDP growth

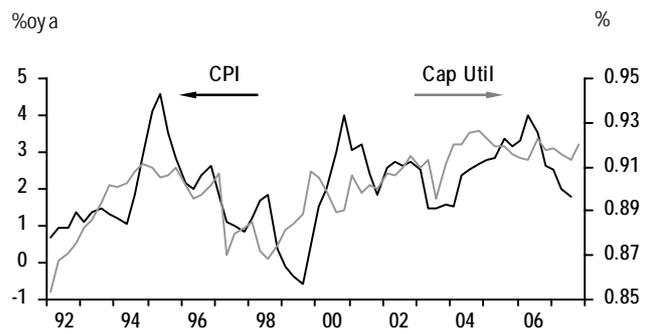


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Economic Research
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New Zealand CPI and Capacity Utilisation



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