

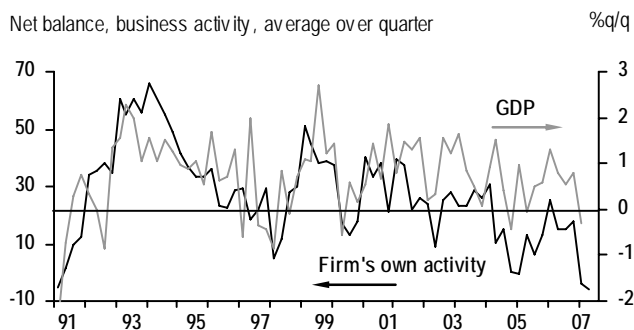
New Zealand economic update

NBNZ business confidence survey

The NBNZ business confidence survey improved unexpectedly in June, rising to -38.7 from -49.7 in May. The headline index suggests that a net 38.7% of respondents expect business conditions to deteriorate over the coming year.

Importantly, firms' own activity expectations also improved in June, rising to -4.0 from -4.4; this marks only the fourth negative reading since 2006. Only 15 negative readings in firms' own activity expectations have been recorded over the last 20 years and, of these, according to the NBNZ, five "were right at the start of the survey in 1988, as the 1987 crash washed through."

New Zealand: NBNZ business outlook survey and GDP growth



Pessimism continues in commercial construction (-14%) and residential construction (-21%); this reflects the sharp deterioration in the housing sector in recent months. The survey showed that 41% of respondents expect that prices will rise in the coming year, up from 36% in the last survey, and that 35% expect that interest rates will fall, up from 24%. The survey also indicated that 15% of respondents expect that exports will rise (probably owing to the weaker NZD), 3% expect their investments will fall, 19% expect that profits will decline, and a significant 75% expect that the unemployment rate will head higher.

Despite the improvement in the headline confidence reading, firms' activity expectations remain weak as corporate profitability continues to suffer amid record high interest rates and tighter credit conditions. The economy continues to shed momentum and, on our forecast, is probably in the midst of a recession. Monetary easing may help support economic growth in 2H, however, with our forecast calling for the RBNZ to start cutting interest rates in September.

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