

## New Zealand economic update

### NBNZ business confidence survey

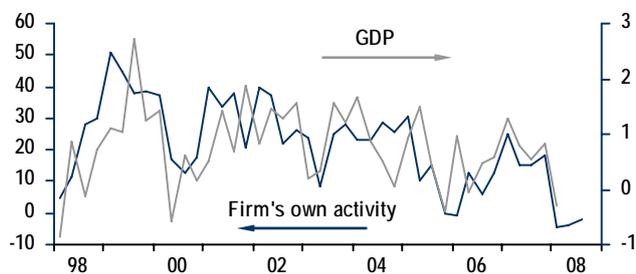
In the wake of the RBNZ's rate cut, the NBNZ business confidence survey improved significantly in August to -20.5 from -43.2 in July. The headline index suggests that a **net 20.5% of respondents expect business conditions to deteriorate in the coming year**; this is the most optimistic Kiwi firms have been since November 2007 even though conditions are still expected to deteriorate.

More importantly, marking the first positive reading since February, firms' own activity expectations jumped to +4.7 from -8.2. Only 16 negative readings in firms' own activity expectations have been recorded over the last 20 years - five of these were in 2008. Still, the recent weakness in firms' own activity expectations points to a contraction in economic growth, with our forecast calling for GDP growth of -0.5% in 2Q and -0.3% in 3Q.

New Zealand: NBNZ business outlook survey and GDP growth

Net balance, business activity, average over quarter

%q/q



Firms were still very pessimistic in commercial construction (-14%) and residential construction (-6%), reflecting the sharp deterioration in the housing sector. The survey showed that 26% of respondents expect exports will increase (owing to the depreciating NZD), 0.5% expect their investments will fall, and 16% expect profits to decline. Also, 36% of respondents expect that prices will rise and 77% expect the unemployment rate to edge higher in the coming year; both of these measures were down from the previous survey.

On interest rates, 63% of respondents expect that the OCR will fall over the coming year, compared to 42% previously. RBNZ Governor Alan Bollard cut the OCR 25bp from a record high 8.25% in July, and signaled that more rate cuts are likely. Our forecast calls for the RBNZ to cut interest rates by another 75bp this year, and by a further 125bp in 2009.

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