

New Zealand economic update

NBNZ business confidence survey

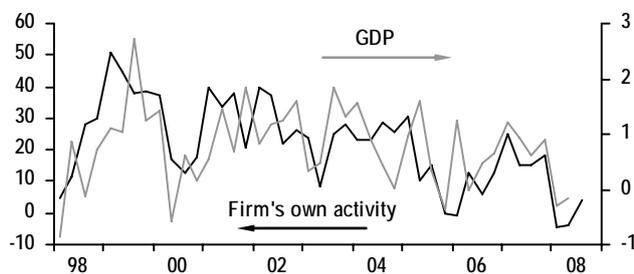
The NBNZ business confidence survey improved significantly in September, rising to +1.6 from -20.5 in August and -43.2 in July. The headline reading suggests that a **net 1.6% of respondents expect business conditions to improve in the coming year**. This is the first time the headline reading has been positive since May 2002.

Marking the second positive reading since February, firms' own activity expectations jumped to +16.7 in September from +4.7 in August. Remember, though, of the 16 negative readings in firms' own activity expectations recorded over the last 20 years, five of these have been recorded in 2008. Thus, despite the marked improvement in firms' own activity expectations in September, the weakness in this series in recent months continues to point to negative GDP growth in coming quarters (see chart).

New Zealand: NBNZ business outlook survey and GDP growth

Net balance, business activity, average over quarter

%q/q



Confidence improved across most components of the survey. The survey showed that 29% of respondents expect exports will increase (owing to the depreciating NZD), 2% expect their investments will rise (turning marginally positive), and 8% expect their profits will decline. Reflecting the sharp deterioration in the housing sector, those in residential construction were still very pessimistic (-5%), although confidence did improve significantly in the commercial construction sector (+5%). Also, 35% of respondents expect that prices will rise and 69% expect the unemployment rate to edge higher in the coming year, both measures fell only slightly from the previous survey.

On interest rates, 63% of respondents expect that the OCR will fall over the coming year, the same level as in the previous month. Our forecast calls for another 50bp cut to the OCR in October given that recent RBNZ commentary suggests that the bank will lend significant weight to the downside risks for New Zealand's economy associated with the deteriorating global economic

outlook. In our view, the RBNZ is frontloading policy rate decisions after suggesting in the statement accompanying its decision to cut the OCR earlier this month that it has “brought forward some of the projected interest rate reduction”. We now expect a December 2008 rate of 6.75% and a June 2009 rate of 6.0%.

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