

Australia & New Zealand Economics Weekly

RBA to leave cash at 3%

Week commencing 4 May 2009

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The RBA board meets

Cash to stay at 3%

After a dramatic sequence of sharp cuts from September last year to February this year, the Reserve Bank of Australia paused in March and cut by only 25 basis points in April. These recent moves suggest to us that the Bank thinks that at 3% the cash rate is now about where it ought to be. We think so too. In pondering the cash rate level Tuesday, the RBA board will likely be persuaded by both international and local developments since the April decision to leave the cash rate unchanged. The downturn in China has been arrested. In a number of other major economies, including the US and Japan, the rate of deterioration is slowing. The global financial crisis itself is fading, with the US dollar Libor to cash spread falling back to the pre-Lehman level and corporate bond issuance now beginning to move down from blue chip to lesser rated corporations. The global recession is of course seeing rising delinquencies and stress on banks, but not a dislocation of the kind apparent in the fourth quarter of last year. The Australian numbers have been mixed, but they are not consistent with a continuing deep decline in activity. Employment fell in March and probably fell in April (we see the numbers Thursday) but it is not so far subsiding at the pace of past downturns. Housing lending is quite strong, and after a prolonged decline, private sector house approvals have turned up. February retail sales fell back from the record level of January, but turnover remained much higher than it was through most of last year. After falling for several months, exports increased in February. We assume business investment is weakening fast, though there is so much in the pipeline it may well be the second half before the investment decline really hits overall output growth.

The numbers henceforward will be choppy and that may be evident this week in March retail sales, building approvals, exports and employment. We expect to see a 0.5% increase in March retail sales. It is difficult to predict the deflator the Statistician will apply, but if it is close to the CPI for the quarter real retail sales will be up around 3% compared to a gain of 0.8% in the previous quarter. That may mean a markedly stronger consumption contribution to GDP. We expect to see a small gain in exports and imports in March for a trade surplus much the same as the previous month. Again, it is difficult to predict the Statistician's deflators but there is a reasonable chance there will be a net exports contribution of around 0.75% to GDP in the first quarter. Depending on whether inventories continued to fall in the March quarter or instead began to stabilise after the big fall in the previous quarter, there is even a chance that Australia may (like Korea) record a small, surprising GDP gain in the March quarter. The first quarter numbers will not be out for another month. For Australia to discover itself not to be in recession would be confusing, but pleasantly so.

Aggressive RBNZ move works

We now expect a floor of 2% in cash

RBNZ Governor Alan Bollard should be well pleased by the impact of his decision last week to not only cut cash by 50bp to 2.5%, but also to keep cash low until the latter part of next year and perhaps take it lower still. We now assume he will, with 25 basis points cuts on June 11 and July 30. In the wake of last week's announcement, three and five-year swaps came off between 30 and 40 basis points and the New Zealand dollar was a touch weaker, satisfying both aims of Dr Bollard's aggressive response to higher term yields and a higher currency over the last few months. Even so, monetary policy remains crushed between the overwhelming household preference for fixed rate mortgages, and the big global influence on yields beyond a year or so. Those swap yields are down from their recent highs, but still above where they were at the beginning of the year. In our view, they are likely to creep up again as the global recession eases and the weight of corporate and sovereign issuance continues to increase. So, too, while the New Zealand dollar has come off a little, it hasn't come off much. Meanwhile, the numbers for New Zealand remain difficult. Business confidence has picked up and March exports were up firmly on a year ago. But residential building approvals for March were down 4.6% month on month, to a level of just over 1000 applications.

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Weekly calendar

Events & economic releases

Week commencing Monday, 4 May 2009

Country/ region	Event or economic release		Period	HSBC	Market consensus	Actual previous
Monday, 4 May						
AU	House Price Index (11:30)	QoQ	1Q	-0.20%		-0.80%
AU	ANZ Job Advertisements (11:30)	MoM	Apr			-8.5%
Tuesday 5 May						
AU	Building Approvals (11:30)	MoM	Mar	2.00%		7.80%
NZ	ANZ Commodity Price (13:00)		Apr			1.00%
AU	RBA Cash Target (14:30)		May 05	3.00%		3.00%
Wednesday 6 May						
AU	Retail Sales (11:30)	QoQ	1Q	3.00%		0.80%
AU	Retail Sales s.a. (11:30)	MoM	Mar	0.50%		-2.00%
AU	Trade Balance (11:30)		Mar	\$2107m		\$2109m
NZ	Private Wages Exc Overtime (13:00)	QoQ	1Q	0.65%		0.70%
Thursday 7 May						
NZ	Unemployment Rate (08:45)		1Q	4.90%		4.70%
NZ	Employment Change (08:45)	QoQ	1Q	-0.40%		0.90%
NZ	Participation Rate (08:45)	QoQ	1Q	69.00%		69.20%
AU	Employment Change (11:30)		Apr	-\$25k		-\$34.7k
AU	Unemployment Rate (11:30)		Apr	5.90%		5.70%
AU	Participation Rate		Apr	65.30%		65.50%
Friday 8 May						
AU	Reserve Bank Quarterly Monetary Policy Statement		May 08			

During the week

Notes:- p= preliminary, r = revised, nf = not forecast, nsa = not seasonally adjusted, ann = annualised, bn = billion, m = million
Source: Dow Jones, Reuters, Bloomberg

Monthly Calendar

Events & economic releases

Month commencing Monday, 4 May 2009

Monday 11 May	Tuesday 12 May	Wednesday 13 May	Thursday 14 May	Friday 15 May
	AU NAB Business Confidence APR AU Home Loans MAR AU NAB Business Conditions APR AU Commonwealth Budget May-12	AU Westpac Consumer Confidence MAY AU Wage Cost Index QoQ 1Q		NZ Retail Sales (MoM) MAR NZ Retail Sales Ex-Auto (MoM) MAR NZ Retail Sales Ex Inflation (QoQ) 1Q
Monday 18 May	Tuesday 19 May	Wednesday 20 May	Thursday 21 May	Friday 22 May
NZ Producer Prices – Inputs QoQ 1Q NZ Producer Prices- Outputs QoQ 1Q	AU RBA Governor Stevens Speaks in Sydney MAY 19	AU Wage Cost Index YoY 1Q		
Monday 25 May	Tuesday 26 May	Wednesday 27 May	Thursday 28 May	Friday 29 May
	NZ Trade Balance APR	NZ Annual Budget MAY 27	AU RBA Deputy Governor Battellino Speaks in Sydney MAY 28 AU Private Capital Expenditure 1Q NZ NBNZ Business Confidence MAY	NZ Building Permits MoM APR AU Private Sector Credit MoM% APR
Monday 1 June	Tuesday 2 June	Wednesday 3 June	Thursday 4 June	Friday 5 June
AU Company Operating Profit QoQ 1Q AU Retail Sales s.a. MoM Apr AU Inventories 1Q	AU Building Approvals MoM Apr AU Current Account Balance 1Q AU RBA Cash Target Jun 02	AU Gross Domestic Product QoQ AU Gross Domestic Product YoY	AU Trade Balance Apr NZ ANZ Commodity Price May	

Disclosure appendix

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