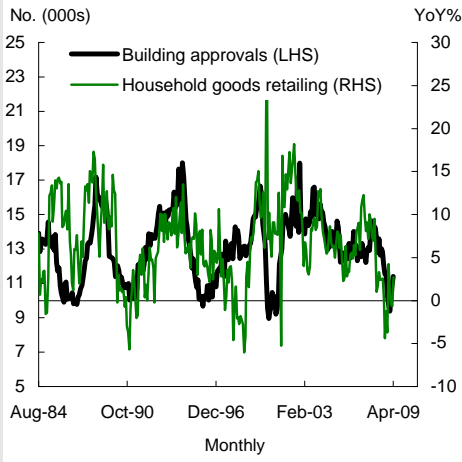




Monday 29 June 2009

Rising building approvals show the way



Source: ABS, Macquarie Research, June 2009

Key upcoming events

US: ISM, June
 US: Non-farm payrolls, June
 US: Independence Day Holiday

Key developments last week

OECD and IMF upgrade Australian growth forecasts, NZ GDP shrinks 1% in Q1

Key forecasts

	26 Jun 09	Sep-09	Dec-09
Australia			
Cash (%)	3.00	2.50	2.50
90-day (%)	3.24	3.00	2.75
10 year (%)	5.71	5.00	5.00
10 yr sprd to US (bps)	213	175	175
A\$/US\$	0.81	0.82	0.80
ASX 200	3904		4382*
New Zealand			
Cash (%)	2.50	2.00	2.00
90-day (%)	2.84	2.75	2.50
10 year (%)	6.05	5.25	5.25
NZ\$/US\$	0.64	0.64	0.62
NZSE 50	2771	3050	3300

Source: Reuters, Macquarie Research, June 2009

*12 month forecast for ASX 200

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The Macquarie Weekly

People get ready...

Event

- Building approvals, retail trade and international trade will be released in Australia this week, while in NZ, building permits and business confidence will be the highlights.

Impact

- Even the perennial pessimists have been forced to grudgingly concede that the housing market is improving, although they are quick to add that it is simply an artificial recovery driven by first-home buyers coming back into the market. What this fails to acknowledge, of course, is that housing recoveries are always built on the back of increased demand from first home buyers.
- This week we should start to see evidence of how the recovery in housing lending will spill over into stronger GDP growth, with building approvals set to rise, and the possibility that retail sales might also get a boost from increased household activity.

Analysis

- As surely as night follows day, a pick-up in housing finance will eventually flow through to a strong rise in building approvals. And recent data suggest that we are just at the start of this process. This is important for three reasons.
- First, stronger dwelling investment will add directly to GDP growth. Second, housing construction is very labour intensive, and so a turnaround in dwelling investment is very good news for the employment outlook. Third, as new homes are built, furniture and whitegoods must be bought to fill them.
- The pessimists argue that this is really not good news at all, as it is simply being driven by first-home buyers, who can't really afford to enter the market. This ignores the fact that those potential first-home buyers must live somewhere, and in many cases it is now cheaper to buy a house than remain in the rental market.
- The second point is that Australia's record population growth means that there are many more potential first-home buyers that have been desperately waiting for their chance to get into the housing market. And with business investment falling sharply, policymakers shouldn't have any concerns now about a strong pick-up in residential construction boosting inflation in the next few years.
- A more legitimate concern is the inability of property developers to access finance, which means that medium-density construction may lag in this cycle. But this simply means that with supply less responsive, prices could rise more strongly, which is likely to encourage investors to come back into the market.

Key releases

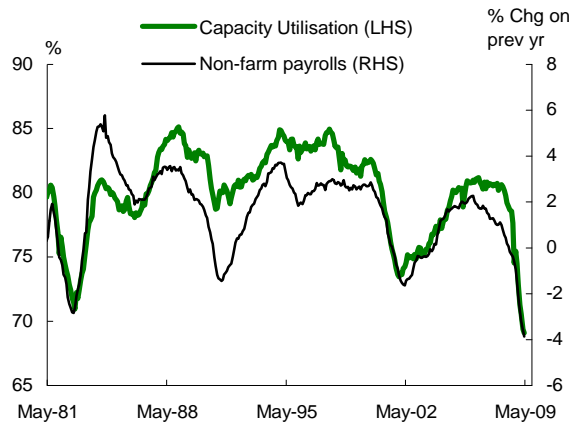
Day	Release	Previous	Macquarie	Market	Mkt Range
Mon	NZ Building permits, May	% 11.2	~	~	~
	NZ Trade balance, May	NZ\$m 276	-50	350	-50/612
Tue	RBA credit growth, May	% 0.1	0.2	0.2	0.0/0.5
	NBNZ business confidence, Jun	1.9	~	~	~
Wed	Retail sales, May	% 0.3	0.2	0.5	-2.0/1.5
	Building approvals, May	% 5.1	5.5	3.3	-2.5/7.0
Thu	Trade balance, May	A\$m -91	-200	-125	-1000/1000

Source: Reuters, Bloomberg, Dow Jones, Macquarie Research, June 2009



Catalyst corner

Bounce in inventories can create more demand



- There is increasing evidence that after the huge cuts in manufacturing output all over the world, industrial production is set to bounce. While demand is undoubtedly weak, production is too weak given the level of sales.
- While it will be a welcome respite for growth, many investors may be concerned that a bounce in inventories will not provide a long lasting boost to output. That is, once inventory levels are under control, overall activity may continue to slide along with final demand.
- But a boost in production of itself can directly support final demand. For example, idle production that has to be brought back on line will need more workers. A greater utilisation of productive capacity will need more employment. This should, in turn, bolster consumption activity and the overall economy.
- The current large degree of economic slack doesn't suggest that a recovery in employment is imminent. But excess capacity could very quickly diminish if production starts to surge, with the ISM statistics giving us an idea of how quickly this may occur this week.
- Another factor to consider is that US business investment has also been poor since the downturn in 2001, as firms found they had too much productive capacity even when GDP started growing again. But this time around, an extended period of underinvestment by firms may have changed this dynamic.

Source: ISM, BLS, Macquarie Research, June 2009

Market movers

		Importance/ Market Sensitivity	Last/ Mkt Forecast	Risks	Comment
Mon	NZ Trade balance, May	Medium	NZ\$276m/ NZ\$350m	➔	The trade balance should show continued signs of improvement given very weak imports.
	Building permits, May	Medium	11.2%/nf	↗	Building permits should continue to bounce from their lowest levels on record.
Tue	Aus Private sector credit, May	Medium	0.1%/0.2%	➔	Steady improvement in housing credit growth was likely offset by continued weakness in business and personal lending in May.
	US Consumer confidence, Jun	Medium	54.9/55.2	➔	Consumer confidence likely recorded a slight gain in June. Moderating employment declines should have supported sentiment, though higher oil prices and rising mortgage rates are expected to have weighed on consumers.
	NZ NBNZ Business confidence, Jun	Medium	1.9/nf	↗	Business confidence should continue to improve, although the gains may be smaller given a much stronger NZ\$
Wed	Aus Retail sales, May	Medium	0.3%/0.5%	➔	Retail sales have recorded significant strength in response to generous fiscal and monetary policy stimulus measures. And anecdotal evidence suggests that strong retail activity persisted throughout May.
	Building approvals, May	Medium	5.1%/3.3%	↗	Building approvals likely recorded further strong improvements in May, given the recent surge in housing finance applications for the construction of new dwellings.
	US ISM Manufacturing, Jun	Medium	42.8/44.0	↗	The manufacturing ISM survey is expected to have improved in June as global destocking continues to ease.



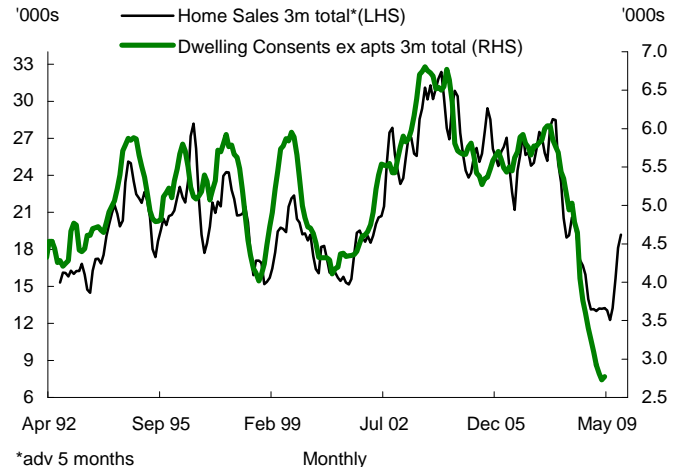
		Importance/ Market Sensitivity	Last/ Mkt Forecast	Risks	Comment
Wed	Pending home sales, May	Medium	6.7%/1.1%	➔	Pending home sales are expected to have risen more modestly in May, as rising mortgage rates unwound some of the recent improvements in affordability.
Thu	Aus Trade balance, May	Medium	-\$91.0m/	➔	Falling commodity prices saw the trade balance plummet back into the red in April. With the treatment of commodity prices a large swing factor for exports, it is likely that the trade deficit widened in May, despite imports falling in the month.
	US Non-farm payrolls, Jun Unemployment rate, Jun	High	-345k/-370k 9.4%/9.6%	➡	Employment is expected to have recorded another sizeable fall in June. However, industry surveys and high frequency indicators suggest the rate of deterioration has eased from its previous highs, in line with signs that the economy is stabilising.
	Factory orders, May	Medium	0.7%/0.2%	➔	Industry surveys and a sharp rise in durable goods orders point to an increase in factory orders during May.

Sources: Macquarie Research, Reuters, Bloomberg, June 2009

nf = no market forecast, na = not yet available

Aus: Building approvals are set to soar

NZ: The only way is up for NZ dwelling consents



Source: ABS, Macquarie Research, June 2009

Source: Stats NZ, REINZ, Macquarie Research, June 2009

Macquarie Research economics forecasts

	Australia				New Zealand				US		
	GDP	CPI	Cash Rate	AUD/USD	GDP	CPI	OCR	NZD/USD	GDP	CPI	Fed Funds Rate
Latest	1.6	3.9	3.00	0.79	-1.0	3.9	2.50	0.63	-0.1	2.7	0-0.25
2Q09	0.9	3.1	3.00	0.80	-1.8	3.3	2.50	0.64	-1.5	1.4	0-0.25
3Q09	0.4	2.0	2.50	0.82	-2.2	2.1	2.00	0.64	-2.3	-0.6	0-0.25
4Q09	0.5	1.4	2.50	0.80	-1.8	1.6	2.00	0.62	-2.2	-0.9	0-0.25
1Q10	0.8	1.3	2.50	0.78	-0.9	1.2	2.00	0.61	-1.2	-0.6	0-0.25
2Q10	1.2	1.5	2.50	0.77	0.4	1.2	2.50	0.61	0.2	0.0	0.50
Key issue	Can a housing market recovery be sustained?				Will unemployment steamroll housing improvement?				Will the green shoots take hold?		

Sources: Macquarie Research, Reuters, Bloomberg, June 2009

*GDP and CPI annual average, policy rate and currency period end



Month Ahead – June/July 2009

MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY
<p>29</p> <p>NZ TRADE BALANCE, MAY (2245, SUN) Apr: NZ\$276m BUILDING PERMITS, MAY (2245, SUN) Apr: 11.2%</p>	<p>30</p> <p>AUS PRIVATE SECTOR CREDIT, MAY (0130) Apr: 0.1%</p> <p>US CONSUMER CONFIDENCE, JUN (1400) May: 54.9</p> <p>NZ NBZN BUSINESS CONFIDENCE, JUN (0300) May: 1.9</p>	<p>1</p> <p>AUS RETAIL SALES, MAY (0130) Apr: 0.3% BUILDING APPROVALS, MAY (0130) Apr: 5.1%</p> <p>US ISM MANUFACTURING, JUN (1400) May: 42.8 CONSTRUCTION SPENDING, MAY (1400) Apr: 0.8% PENDING HOME SALES, MAY (1400) Apr: 6.7%</p>	<p>2</p> <p>AUS TRADE BALANCE, MAY (0130) Apr: -A\$91.0m</p> <p>US NON-FARM PAYROLLS, JUN (1230) May: -345k UNEMPLOYMENT RATE, JUN (1230) May: 9.4% AVERAGE HOURLY EARNINGS, JUN (1230) May: 0.1% FACTORY ORDERS, MAY (1400) Apr: 0.7%</p>	<p>3</p> <p>US INDEPENDENCE DAY – MARKET HOLIDAY</p>
<p>6</p> <p>AUS ANZ JOB ADVERTISEMENTS, JUN (0130) May: -0.2%</p> <p>US ISM NON-MANUFACTURING, JUN (1400) May: 44.0</p>	<p>7</p> <p>AUS RBA ANNOUNCEMENT ON INTEREST RATES, JUL (0430) Jun: 3.00%</p> <p>NZ NZIER QUARTERLY SURVEY OF BUSINESS OPINION, JUN QTR (2200, MON) Mar qtr: -65.0</p>	<p>8</p> <p>AUS CONSUMER SENTIMENT, JUL (0100) Jun: 12.7% HOUSING FINANCE, MAY (0130) Apr: 0.9%</p> <p>US CONSUMER CREDIT, MAY (1900) Apr: -US\$15.7b</p>	<p>9</p> <p>AUS EMPLOYMENT, JUN (0130) May: -1.7k UNEMPLOYMENT RATE, JUN (0130) May: 5.7% PARTICIPATION RATE, JUN (0130) May: 65.5%</p>	<p>10</p> <p>US TRADE BALANCE, MAY (1230) Apr: -US\$29.2b IMPORT PRICES, JUN (1230) May: 1.3% EXPORT PRICES, JUN (1230) May: 0.6%</p> <p>NZ REINZ HOUSE SALES, JUN (10TH – 15TH) May: 43.9% y/y</p>
<p>13</p> <p>NZ RETAIL SALES, MAY (2245, SUN) Apr: 0.5%</p>	<p>14</p> <p>AUS NAB MONTHLY BUSINESS SURVEY, JUN (0130)</p> <p>US PPI, JUN (1230) May: 0.2% RETAIL SALES, JUN (1230) May: 0.5% BUSINESS INVENTORIES, MAY (1400) Apr: -1.1%</p>	<p>15</p> <p>AUS NAB QUARTERLY BUSINESS SURVEY, JUN QTR (15TH – 31ST Jul)</p> <p>US FOMC MEETING MINUTES, JUN (1800) CPI, JUN (1230) May: 0.1% INDUSTRIAL PRODUCTION, JUN (1315) May: -1.1% CAPACITY UTILISATION, JUN (1315) May: 68.3%</p>	<p>16</p> <p>AUS RBA BULLETIN, JUL (0130) MERCHANDISE IMPORTS, JUN (0130) May: -5.0%</p> <p>US NET LONG-TERM TIC FLOWS, MAY (1300) Apr: US\$11.2b NAHB HOUSING MARKET INDEX, JUL (1700) Jun: 15</p> <p>NZ CPI, JUN QTR (2245, WED) Mar qtr: 0.3% FOOD PRICES, JUN (2245, WED) May: 0.3%</p>	<p>17</p> <p>AUS IMPORT PRICE INDEX, JUN QTR (0130) Mar qtr: -2.8% EXPORT PRICE INDEX, JUN QTR (0130) Mar qtr: -4.6%</p> <p>US HOUSING STARTS, JUN (1230) May: 532k BUILDING PERMITS, JUN (1230) May: 518k</p>
<p>20</p> <p>US LEADING INDICATORS, JUN (1400) May: 1.2%</p>	<p>21</p> <p>AUS RBA MONETARY POLICY MEETING MINUTES, JUL (0130) NEW MOTOR VEHICLE SALES, JUN (0130) May: 5.4% PPI, JUN QTR (0130) Mar qtr: -0.4%</p> <p>NZ EXTERNAL MIGRATION, JUN (2245, MON) May: 0.2% CREDIT CARD SPENDING, JUN (0300) May: -2.4% y/y</p>	<p>22</p> <p>AUS CPI, JUN QTR (0130) Mar qtr: 0.1%</p> <p>US OFHEO HOUSE PRICE INDEX, MAY (1400) Apr: -0.1%</p>	<p>23</p> <p>US EXISTING HOME SALES, JUN (1400) May: 4.8m</p>	<p>24</p>

*All times are GMT, unless otherwise stated

Sources: Macquarie Research, Reuters, Bloomberg, June 2009



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